



AP 531 - TANGIBLE CAPITAL ASSETS

BACKGROUND

Saskatoon Public Schools will follow a prescribed procedure to record and manage the tangible capital assets (TCA) owned by the school division. The treatment of TCA for accounting purposes is in accordance with Generally Accepted Accounting Principles (GAAP), established by the Public Sector Accounting Board (PSAB) and as published by the Chartered Professional Accountants of Canada (CPA Canada). As well, the accounting treatment incorporates reporting requirements set by the Ministry of Education (School Division Tangible Capital Asset Reporting).

This procedure will provide all areas with information for assessing their physical resources by providing a framework for:

- ensuring that TCA are recorded appropriately and accurately.
- providing accountability over TCA;
- gathering and maintaining information needed to prepare financial statements.

DEFINITIONS

Amortization- is the accounting process of allocating the costs less the residual value of a tangible capital asset to operating periods as an expense over the useful life in a rational and systematic manner appropriate to its nature and use. Amortization expense is an important part of the cost associated with providing educational services, regardless of how the acquisition of TCA is funded. Depreciation accounting is another term commonly used to describe the amortization of TCA.

Betterment – is a material cost incurred to enhance the service potential of an asset and will:

- significantly lower associated operating costs
- extend the useful life

improve building program serviceability

Capital Project – is an activity during which expenditures are incurred that result in the creation of a capital asset.

Component – is a part of an asset with a cost that is significant in relation to the total cost of that asset. Component accounting recognizes that each part might have a different useful life and requires separate accounting for each component that has a different useful life than the whole asset does.

Disposal – refers to the removal of a capital asset from service as a result of a sale, destruction, loss or abandonment.

Fair Market Value – is the amount of the consideration that would be agreed upon in an arm's length transaction between knowledgeable and willing parties (buyer and seller).



Historical Cost – of an asset is the amount of consideration given up to acquire, construct, develop or better an asset and includes all costs directly attributable to acquisition, construction, development or betterment of the asset including installing the asset at the location and in the condition necessary for its intended use.

Impairment – occurs when conditions indicate that a tangible capital asset no longer contributes to the ability to provide goods and services, or that the value of future economic benefits associated with the tangible capital asset is less than its net book value.

Land – is the surface that is used to support structures and purchased or acquired for building sites and other program use but not land held for resale. Land normally has an unlimited life and is not amortized.

Land Improvements – consist of betterments and site preparation that ready land for its intended use such as parking lots, landscaping and fencing and are usually exhaustible and amortized.

Leased Capital Assets - are tangible capital assets leased by the division for use in the delivery of goods and services. Substantially all of the benefits and risks of ownership are transferred to the division without requiring the transfer of legal ownership.

Net Book Value – of a tangible capital asset is its cost, less accumulated amortization and the amount of any write-downs.

Non-financial Assets - include TCA and other assets such as prepaid expenses and inventories of supplies. Non-financial assets are acquired, constructed or developed assets that are normally employed to deliver division services, may be consumed in the normal course of operations and are not for sale in the normal course of operations.

PSAB- Public Sector Accounting Board. School divisions are to be accounted for in accordance with public sector accounting standards and guidance established by PSAB.

Repairs and Maintenance - are reoccurring expenditures, periodically or regularly required as part of the anticipated schedule of works required to ensure that the asset achieves its useful life. It is an expenditure that keeps an asset in a condition that helps maintain or ensure realization of the future economic benefits that are expected from the asset over its initially useful life.

Residual Value – is the estimated net realizable value of a capital asset at the end of its estimated useful life. A related term, salvage value, refers to the realizable value at the end of an asset's life. If the division expects to use a capital asset for its full life, residual and salvage value are the same.

Straight-line Method – is amortization that allocates the costs less estimated residual value of a capital asset over each year of its estimated useful life.

Tangible Capital Assets (TCA) – are non-financial assets having physical substance that are acquired, constructed, or developed and

- are held for use in the production or supply of goods and services, for rental to others, for administrative purposes or for the development, construction, maintenance, or repair of other tangible capital assets.
- have useful lives extending beyond an accounting period (the fiscal year);
- are to be used on a continuing basis; and
- are not intended for sale in the ordinary course of operations.

Threshold – is generally the minimum cost that an individual asset must have before it is to be treated as a tangible capital asset. The threshold amount is to be used as a guide, in addition to professional judgement.



Useful Life – is the estimate of the period over which it is expected to be used as a tangible capital asset.

Work in Progress – is the accumulation of capital costs for partially constructed or developed projects.

Works of Art and Historical Treasures – are property that has cultural, aesthetic, or historical value that is worth preserving perpetually. These assets are not recognized as capital assets as their service potential and expected future benefits are difficult to quantify.

Write-Down – is a reduction in the cost of a capital asset as a result of a decrease in the quality or quantity of its service potential. A write-down should be recorded and expensed in the period the decrease can be measured and is expected to be permanent.

PROCEDURES

CATEGORIZATION OF ASSETS

1. Tangible Capital Assets (TCA)

TCA are non-financial assets with physical substance that are acquired, constructed or developed and:

- 1.1. Held for use in the production or supply of goods and services.
- 1.2. Have useful lives extending beyond a fiscal year.
- 1.3. Are intended to be used on a continuing basis; and
- 1.4. Are not intended for sale in the ordinary course of operations.

Tangible capital assets are a significant economic resource and a key component in the delivery of programs and services. Appropriate recording of tangible capital assets contributes to:

- Maintaining appropriate accountability for division-owned TCA.
- Ensuring accounting consistency across the organization.
- Providing information that will support measuring the cost of programs and services.

2. Elements of Cost

The cost of a tangible capital asset (PSAB 3150.10) is the purchase price to acquire, construct, develop or better a tangible capital asset and includes direct construction or development costs (such as materials and labour) and overhead costs directly attributable to the acquisition, construction or development of the asset. These costs may include but are not limited to:

- 2.1. Amounts paid to vendors.
- 2.2. Transportation/freight charges to the point of initial use.
- 2.3. Handling and storage charges.
- 2.4. Direct design/production costs such as labour, equipment rentals, materials, and supplies.
- 2.5. PST and non-refundable taxes.
- 2.6. Engineering, architectural and other outside services for designs, plans, specifications, and surveys.
- 2.7. Acquisition and preparation costs of buildings and other facilities.
- 2.8. Fixed equipment and related installation costs required for activities in a building or facility.
- 2.9. Direct costs of inspection, supervision and administration of construction contracts and work.



- 2.10. Legal and recording fees and damage claims.
- 2.11. Fair values of land, facilities and equipment donated.
- 2.12. Appraisal costs.
- 2.13. Application fees.
- 2.14. Utility costs.
- 2.15. Site preparation costs.

3. Land

Land normally has an indefinite useful life that exceeds the useful lives of the buildings or structures situated on the land. The cost of acquired land is separated from the other costs of an asset and maintained as a component. The cost of the acquired land is not amortized as land normally maintains its value over time.

4. Furniture, Equipment and Technology (FE&T)

Furniture and equipment include fixed or moveable tangible capital assets to be used for operations, the benefits of which extend beyond one year from the date of receipt and are above the threshold level.

Technology includes computers and consists of hardware and software that can be considered a component of, is typically attached to, or communicates with an information system. The term encompasses such things as: processing units, memory apparatus, input and output devices, connectivity equipment, printer and copiers.

Furniture, equipment and technology will be capitalized as pooled assets in the following situations:

- Construction of a new building.
- Construction of a building addition that includes new FE&T;
- Major renovation of a building in which new FE&T is included to replace the existing items.
 - Hardware and software budgets managed by the chief technology officer (for example technology refresh projects).
 - Major furniture replacement initiatives (for example a system-wide refresh).

5. Work/Construction in Progress

Work or construction in progress is the construction or development of a capital asset that extends over two or more years. Work in progress for assets under development or construction must be recorded on the financial statements for the accounting period. All costs associated with these assets that are in the construction phase are to be capitalized. Work in progress is not amortized. Work in progress balances must be reconciled and the appropriate transfer from work in progress made to completed assets when projects are finished.

For major projects, work in progress should be transferred to a tangible capital asset once the architect, engineer or consultant has issued the certificate of substantial completion; providing evidence that the asset has met engineering and safety standards and is ready to be placed into service or occupied.

Examples of construction in progress are the construction of a new school or a major building renovation which straddles over two or more years.

6. Contributed Assets

A tangible capital asset may be gifted or contributed (PSAB 3150.14) by an external third party with no cash outlay. Where an asset is acquired at no cost or for nominal value, the amount recognized should be equal to



its fair market value as at the acquisition date. Fair market value may be estimated using market or appraised values. When an estimate of fair market value cannot be reasonably estimated, the asset will be recognized at its nominal value.

Works of Art and Historical Treasures

These assets (PSAB 3150.08) are works of art and historical treasures that are considered to have cultural, aesthetic or historical value that is worth preserving. Collections or individual items of significance (i.e. artwork) that are owned by the division and not held for financial gain but rather for public exhibition or education may be considered to be in this category of assets. These assets will not be recognized as tangible capital assets in financial statements, but the existence of such property should be disclosed (PSAB 3150.42(e)).

Capital Leases

Capital leases are a means of financing the acquisition of a capital asset where the lessee carries substantially all of the risks and benefits of ownership. Capital leases are recorded as if the lessee had acquired the asset and assumed liability.

If one or more of the following criteria exists, the lease should be accounted for as a capital lease:

- 6.1. There is reasonable assurance that the division will obtain ownership at the end of the lease;
- 6.2. The lease term is equal to a major portion (75% or more) of the estimated economic life of the leased property
- 6.3. Financing payments substantially cover (90% or more) the fair value cost of the leased property.

A lease which does not meet any of the above criteria should be accounted for as an operating lease.

TANGIBLE CAPITAL ASSET REPORTING

1. Thresholds

Capitalization threshold relates to the minimum dollar threshold that is used to assist in determining which expenditures will be capitalized as assets and amortized and which expenditures will be treated as current year expenses. The capitalization threshold has an impact on the size of the asset inventory and the complexity of managing subsequent acquisitions and disposals. The capitalization threshold levels established and presented are a balance between the accurate presentation of information for decision-making and the cost of acquiring and maintaining such information and are closely aligned with the guidelines provided by the Ministry of Education.

2. Pooled Assets

The pooled assets approach will be used on:

- 2.1. Furnishings and equipment
- 2.2. Computer hardware
- 2.3. Computer software
- 2.4. Vehicles
- 2.5. Portables



Under the pooled cost approach similar tangible capital assets are grouped in one tangible capital asset class as would ordinarily be done under the regular cost approach. The difference arises in that each tangible capital asset class is not tracked individually under the pooling method. Once a tangible capital asset has been added to a pooled capital asset class, it generally remains in the asset class until it is fully amortized. This approach is justified when tangible capital assets are typically held by an organization until the end of their useful lives and when there is no significant advantage of tracking the assets on an individual basis; for example, when the balance of the tangible capital asset class would not be materially different if they were tracked individually.

Under the pooled cost approach, all costs are pooled and capitalized under the applicable tangible capital asset class; costs are not tracked by individual asset.

Tangible capital assets recorded under the pooled cost approach are to be tracked by year of purchase in the applicable tangible capital asset class.

Tangible capital assets recorded using the pooled cost approach will have a deemed disposal at the end of their useful life; individual disposals are not generally recorded.

If an asset is sold or disposed of before the asset has reached the end of its useful life, the proceeds (if any) are to be recorded as revenue.

Even though detailed inventory records may not be required for financial statement purposes; departments within the organization are encouraged to maintain inventory records for management purposes where it makes sense to do so (i.e. IT department maintains equipment inventory, with attention given to repairs and service calls made on individual pieces of equipment).

3. Buildings

There are two methods available for the capitalization and amortization of buildings. There is the whole asset approach and the component approach.

The whole asset approach considers an asset to be an assembly of connected parts. Cost of all parts would be capitalized and amortized as a single asset by year of acquisition. For example, a building may be considered as a single asset.

Under the component approach different components are individually capitalized and amortized. For buildings, the roof, foundation, HVAC and framing may be components. The choice of method will be determined by the usefulness of the resulting financial information to the organization and the cost versus benefit of collecting and maintaining it.

The division will use the whole asset approach and record each of its buildings as single assets.

4. Useful Life

Useful life (PSAB 3150.28) is the estimate of the period over which the tangible capital asset is used and is established in section 10 of this procedure.

In order to simplify data analysis for the Ministry of Education school divisions are required to adopt a standard set of asset classes and estimate of useful life. The recommended standards are reasonably reflective of the division's asset usage and will be adopted by the school division.



5. Betterment

Betterments (PSAB 3150.19) are considered to be capital asset additions for the assets to which they relate and should be recorded as part of the main asset. Betterments which meet the threshold of the applicable capital asset category are capitalized; under the threshold they are expensed.

Betterments are enhancements to the service potential of a capital asset, such as:

- 1.1. A substantial reduction in associated operating costs.
 - 1.2. An extension of useful life
- An improvement in the building program serviceability

Some examples of betterments are as follows:

- Additions are made to an existing asset to extend, enlarge, or expand the existing asset including adding an extra wing or rooms to a building (i.e. increase in square footage).
- Upgrades involving increasing the overall efficiency, quality or extending the expected useful life of an asset. For example, replacing existing lighting with energy saving lighting reducing future operating costs, converting a section of a school to a childcare centre.

Where betterment enhances the service potential of a capital asset without increasing its estimated useful life, the amortization period should remain the same. If however, the betterment increases the estimated useful life of a capital asset, its useful life for amortization should also change.

For implementation purposes, change to useful life will be recognized only when there is a major addition to the facility or a comprehensive refresh of the building.

6. Repairs and Maintenance

Repairs and Maintenance (PSAB 3150.21 (a)) expenditures are costs to keep the condition of an asset at its expected operating standard. These expenditures are usually incurred on a more or less continuous basis. For example, regular maintenance activities prescribed by the manufacturer of a new heating, ventilation and air conditioning system (HVAC) would normally be required to ensure that the asset is able to provide service at a level and quality as originally intended by the manufacturer. The costs of regular maintenance will be expensed.

They include:

- 6.1 Repairs to restore assets damaged by fire, flood, accident or similar events, to the condition just prior to the event. Any money received from insurance is to be used to offset the unexpected cost; and
- 6.2 Routine maintenance and expenditures, such as repainting, cleaning and replacing minor parts.
- 6.3 Replacing or flooring
- 6.4 Roof repair and replacement
- 6.5 HVAC systems, boiler replacements, painting, electrical upgrades.

Typically, Preventive Maintenance and Renewal (PMR) expenditures will be considered Repairs and Maintenance.



Trade-in

A trade in occurs when a vehicle or computer equipment is disposed of and replaced with a new asset through the same supplier in the same transaction. This transaction should be accounted for as two separate entries. Because vehicles and computer equipment are recorded as pooled assets; the full trade-in value is to be recorded as revenue. The new asset acquired is recorded at its full cost; trade in value for the old asset does not affect the cost of the new asset.

Disposal

Tangible capital assets recorded using the pooled approach (furniture and equipment, computer hardware, computer software and vehicles) will have a deemed disposal at the end of their useful life; individual disposals are not generally recorded.

This deemed disposition takes place the year following the final year in which amortization is posted for the asset pool. On disposal of an asset, the historical cost and accumulated amortization must be removed from the books.

Buildings are recorded as single assets and their disposal treatment is different than that used for pooled assets. When buildings are disposed of as a result of sale, destruction or abandonment; the cost and the accumulated amortization should be removed from the accounting records and any gain or loss is recorded at that time. Costs that are associated with the disposal should be expensed.

A gain or loss on disposal is the difference between the net proceeds received and the net book value of the building and should be accounted for as a revenue or expense, respectively, in the period the disposal occurs.

2. Write Down/Off

In accordance with PSAB 3150.31-34, a capital asset should be written down when an asset no longer contributes to providing services and the reduction is expected to be permanent. The cost of the tangible capital assets should be reduced to reflect the decline in the asset's value. Write downs of capital assets should be accounted for as an expense in the current period. Annual amortization of an asset that has been written down should be calculated using the net book value after the write down and the remaining estimated useful life. Conditions that indicate a write down is necessary may include:

2.1 Change in the manner or extent to which the asset is used.

- 2.1.1. Removal of the asset from service.
- 2.1.2. Physical damage.
- 2.1.3. Significant technological developments
- 2.1.4. A decline in, or cessation of the need for the service provided by the asset.
- 2.1.5. A decision to halt construction of the asset before it is complete or in a useable or saleable condition; or
- 2.1.6. A change in the law or environment affecting the extent to which the asset can be used.



AMORTIZATION

1. Amortization

Different methods of amortizing a tangible capital asset result in different patterns of cost recognition. The objective is to provide a systematic, sustainable and rationale basis for allocating the cost of a tangible capital asset, less any residual value, over its useful life.

2. Amortization of Pooled Assets

The school division holds the following groups of capital assets to the end of their useful lives: furnishings and equipment, computer hardware and software, vehicles, and portables.

All of these asset classes are reported on a pooled cost approach. Therefore, all asset purchases of a particular class in a given year will be pooled and traced as a group by year of purchase.

The division will amortize these classes of assets on a straight line basis over the following estimated useful life period:

Furnishings and non-technological equipment	10 years
Computer hardware and audio visual equipment	5 years
Computer software	5 years
Vehicles – passenger	5 years
Other vehicles – heavy	10 years
Portables	20 years

A full year of amortization will be taken in the year of purchase regardless of when this event occurs in the fiscal year.

3. Amortization of Buildings

Buildings are the most significant class of capital assets for the division and will be amortized on a straight line basis over a period of 50 years. Amortization of this class of assets will start once the buildings are put into use. A full year of amortization will be taken on buildings the year they are put into service.

There will be no residual value attached to buildings for amortization purposes. Based on past sales, property has generally sold for the value of the land with nominal value attached to the building.

Fully amortized single asset buildings will remain on the books until such time as the assets are disposed of.

4. Treatment of Land

Land has an unlimited useful life and should not be amortized.



SCHEDULE OF ASSET CLASSIFICATIONS, THRESHOLDS AND USEFUL LIVES

The table below outlines the classification, threshold and estimated useful life application to each asset category. A threshold of “All” means that all capital asset purchases, regardless of cost, are recorded.

Capital Asset Class and Category	Threshold	Tracking Method	Useful Life Years	Amortization
Land and land improvements				
Land	All	By asset	Indefinite	n/a
Land Improvements	\$100,000*	By asset	20 years	Straight-line
Buildings and building betterments				
Buildings	All	By asset	50 years	Straight-line
Building betterments	\$ 750,000	By asset	Balance of useful life of building or extended useful life of building	Straight-line
Building short term (portables, storage sheds, out buildings, garages)	All	Pooled	20 years	Straight-line
Vehicles				
Heavy Vehicles (e.g graders and tractors)	\$ 10,000	Pooled	10 years	Straight-line
Trucks, vans and cars	\$ 10,000	Pooled	5 years	Straight-line
Office and Information Technology				
Computer Hardware				
IS department account lines (system)	\$ 10,000	Pooled	5 years	Straight-line
Annual school account lines	N/A	Expensed	N/A	N/A
Computer Software				
IS department account lines (system)	\$ 10,000	Pooled	5 years	Straight-line
Annual school account lines	N/A	Expensed	N/A	N/A
Furniture and Equipment				
Purchases for new school start up or major renovation/addition	All**	Pooled	10 years	Straight-line
Annual school account lines	N/A	Expensed	N/A	N/A

* Land improvements includes playgrounds (which are typically donation funded). The ministry threshold set for this category is \$25,000. Due to materiality considerations, SPS has set a minimum threshold of \$100,000.

** The minimum threshold set by the Ministry of Education for furniture and equipment and computer hardware and software is \$1,000. SPS has chosen not set a specific threshold on these purchases. Schools are allocated budgets which can be used to supplement or replace existing furniture, equipment, musical instruments, science equipment, AV equipment, computers, sports equipment etc. These purchases would typically be under \$1,000, but from time to time could exceed that threshold. The value of these purchases would not be significant. All such items will be expensed. The centralized departments of the division will also make purchases of furniture and equipment and technology for system-wide refresh initiatives. These purchases will be pooled and capitalized even though the individual items (e.g. a computer) may be below \$1,000 in value.



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