Saskatchewan Rivers
School Division
Excellence for Every Learner

GUIDELINES AND

ADMINISTRATIVE PROCEDURES

GOVERNING

THE IMPLEMENTATION AND ONGOING

ACCOUNTING AND REPORTING REQUIREMENTS

OF

TANGIBLE CAPITAL ASSETS

Revised April 2013

INTRODUCTION

The Board of Education will implement Section 3150 of Public Sector Accounting Board Handbook entitled, *tangible capital assets,* as directed by the provincial Ministry of Education.

ADMINISTRATIVE PROCEDURES

The Superintendent of Business Administration is responsible to the Director of Education for the management of the financial processes involved in accounting for and reporting tangible capital assets in the Division's financial statements. The Superintendent of Business Administration shall prepare a *Guidelines and Procedures Manual* to be used to govern the implementation and ongoing accounting and reporting requirements.

The implementation date for PSAB standard 3150 *tangible capital assets* is September 1, 2008. Opening balances, accumulated amortization and annual amortization will be reported in a supplementary schedule to the financial statements for the fiscal year ending August 31, 2009. Financial statements effective 2009-10 will be fully PSAB compliant.

DEFINITIONS

<u>Tangible capital assets</u> are non-financial assets having physical substance that:

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

<u>Amortization</u> recognizes that a tangible capital asset has a limited life and should be amortized over its useful life in a rational and systematic manner. Amortization is an annual expense.

<u>Useful life</u> estimates the period over which a tangible capital asset is expected to be used. The actual use of a tangible capital asset may exceed its useful life.

ASSET CLASSES & USEFUL LIFE CYCLE

The following capital asset classes and useful life recognition will be implemented:

Class of Asset	Tracking Method	Useful Life	Threshold
Land	By asset	N/A	N/A
Land improvements	By asset	20	$25,000
Buildings	By asset	50	$50,000
Buildings – Short Term	By asset	20	$10,000
Busses	By asset	12	$ 3,000
Other vehicles - passenger	By asset	5	$ 3,000
Other vehicles - heavy	By asset	10	$ 3,000
Furniture & equipment	Pooling	10	$ 3,000
Computer hardware	Pooling	5	$ 3,000
Computer software	Pooling	5	$ 3,000
Leased Capital Assets	By asset	Over lease term	$ 3,000
Assets under construction	By asset	N/A	$ 5,000

Amortization method and estimates of useful life will be reviewed on a regular basis and revised when appropriate. It is recognized that standardization of asset classes and amortization methods within the province is desirable and the Ministry's recommendations of useful life and thresholds will be implemented.

ACQUISITIONS

Capital asset acquisitions are to be purchased in accordance with approved policies and procedures.

Donated capital assets are to be appraised a fair market value and amortized over its useful life.

The Board assumes ownership of assets in its control. Control includes the ability to direct an asset's ongoing use and the assumption of responsibility or risk. This includes, but is not limited to, playground equipment, computer equipment and smartboards purchased through school-based funds and school community councils.

RECORDING NEW TANGIBLE CAPITAL ASSETS

The Division will implement the new *Chart of Accounts* as provided by the Ministry of Education.

Effective September 1, 2009 tangible capital asset purchases will be recorded against the new general ledger accounts under *Tangible Capital Assets: PHYSICAL ASSETS*

Costs of tangible capital assets will include the net price of the assets plus applicable PST and non-rebatable GST.

(a) Decentralized budgets – An equipment purchase or a grouping of similar items (eg desks, computers) which meets the definition of a tangible capital asset and totals $3000 or more shall be designated as a *Tangible Capital Asset* and recorded against *Physical Assets: Furniture and Equipment* and must be processed through the Education Centre. TCA purchased on behalf of the school will be funded from the school's surplus account. Non-capital furniture and equipment may continue to be processed by the schools and funded from decentralized budgets.

(b) School-Based Funds – Equipment over a value of $2500 must be processed by the Education Centre. It will be determined if the desired purchase is a *Tangible Capital Asset* or a *Non-Capital Equipment* purchase by Education Centre staff.

ANNUAL AMORTIZATION

Effective September 1, 2009 annual amortization will be expensed using the straight line method of amortization and in accordance with the applicable tracking method and useful life cycle for the asset class.

Annual amortization will be recorded against the new general ledger accounts under *Tangible Capital Assets: ACCUMULATED AMORTIZATION-TANGIBLE CAPITAL ASSETS.*

ESTABLISHING OPENING BALANCES

Historic information as of August 31, 2008 on facilities is as obtained from Suncorp Valuations. It has been determined using methodology based on estimated replacement values, square footage and construction dates. The current replacement values will then be regressed to original purchase or construction date using a regression index provided by Suncorp Valuations. Historic information on equipment, furniture and computer hardware and software will also be determined by Suncorp using appropriate valuation methods, including past valuation reporting methods. Land improvements will be calculated on actual costs incurred. Purchased or leased vehicles, including busses, will be based on actual costs incurred.

The transition to capitalization of tangible capital assets is intended to produce, for accounting and reporting purposes, calculations as if the capitalization and amortization had started when the respective capital asset was purchased. Accumulated amortization will be calculated using the approved tracking methods and useful life cycles.

TRACKING METHOD

Buildings, land improvements, vehicles and leased capital assets will be tracked individually and reported on a "traditional" approach. Furniture, equipment and computer hardware and software will be tracked under the "pooled" cost approach.

Amortization using the "traditional" approach will calculate accumulated amortization and annual amortization expense by individual asset using the straight-line method. These assets remain in the asset class until disposed.

Amortization using the "pooled" approach will group similar tangible capital assets by tangible capital asset class rather than individually and will calculate the accumulated amortization and the annual amortization expense using the straight-line method. These assets remain in the asset class until fully amortized or disposed.

A full year's amortization is recorded in the year the asset is acquired, constructed or developed and put into use, regardless of when this event occurs in the fiscal year.

BETTERMENTS

Betterments are costs incurred against a tangible capital asset which:

- Enhances its service potential;
- Lowers associated operating costs
- Extends its useful life
- Improves the quality of the output

Betterments costing $5,000 or more will be considered part of the cost of the tangible capital asset and added to the recorded cost of the tangible capital asset.

Betterments are amortized over the remaining useful life of the asset. Betterments may extend the useful life of the asset and a useful life reassignment will occur when the betterment is entered into service.

CAPITAL LEASES:

Capital leases will be capitalized and amortized over the expected use (term) of the asset. When the lease contains terms that allows ownership to pass to the Division or the purchase at a bargain the lease will be amortized over the economic life of the property.

For leases in place prior to September 1, 2009 the amount recorded as a Tangible Capital Asset will equal the final (outright) purchase payment. It will be amortized over the established useful life for the applicable asset class, eg Other Vehicles 5 years, commencing the year of outright purchase.

For leases commenced after September 1, 2009 the total of initial, monthly and final (outright) purchase payments will be recorded as a Tangible Capital Asset and fully amortized commencing the fiscal year the lease started.

DISPOSALS & WRITE-DOWNS

Disposal of tangible capital assets shall be in accordance with Policy *4040: Disposal of Non-Required Materials and Equipment*.

If a TCA is tracked by asset and is permanently removed from service, amortization will cease and its value will be written down against the capital asset account.

If TCAs are tracked by the pooled method, such as computer hardware and software, furniture and equipment, the pools of assets are deemed disposed and written off after fully amortized. The deemed disposal takes place the year following the final year of amortization.

- For historical information effective September 1, 2008, assets tracked using the pooling method have also been deemed disposed after fully amortized.

The proceeds from the sale of a fully amortized TCA with no residual value will be applied against the new revenue account: *Tangible Capital Assets: Gain (loss) on sale of tangible capital assets.* If the TCA is not fully amortized then the gain is equal to the proceeds less the asset's net value.

Should a significant loss occur in a pooled asset account, the pool will be decreased for the known loss equal to the net book value of the asset (purchase cost less accumulated amortization).

If (a) the service potential or (b) the future economic benefit of an asset becomes permanently impaired, it is appropriate to write-down the asset.

The write-down adjusts the cost of the asset. A corresponding adjustment is made to accumulated depreciation and the net adjustment is reported as an expense in the statement of operating. The new cost is then amortized over the remaining useful life of the adjustment.

Testing for impairment is usually event-driven. Its determination rests with the Superintendent of Business Administration.

The gain or loss on a sale of a tangible capital asset will be recorded in the current year's financial statement.

WORK-IN-PROGRESS

Work-in progress will be recorded as an Asset Under Construction in the general ledger until such time as all payments for that project have been recorded. The project will then be recorded in the applicable asset class and subject to amortization.

Assets under construction are not subject to amortization until they are in use.

OTHER ACCOUNTING & REPORTING CONSIDERATIONS

The subsidiary ledger that lists tangible capital assets shall be reviewed periodically for accuracy and efficacy. Appropriate analytical review will be ongoing to ensure the following accounts are deemed reasonable and fairly stated:

- Amortization expense
- Accumulated amortization
- Tangible capital asset accounts

There will be no distinction between new or used purchases. The amortization will commence in the year of purchase.