

North East School Division - Administrative Procedure

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|  AP 709-Tangible | References: The Education Act, 1995, Related: Attachment 1-ASSET TYPES, THRESHOLDS AND | Tracking: Original -September 2013 Revised - February 2020 Revised – June 2023 Amended – Jan 2024 |
| | | Status: APPROVED |

TANGIBLE CAPITAL ASSETS

A Tangible Capital Asset (TCA) administrative procedure provides overall direction for the capitalization of assets, technical guidance in the creation of a tangible capital assets accounting system and addresses areas that may require professional judgement. In addition, a TCA administrative procedure provides a framework in which to make consistent and sound decisions, plan ahead for future needs and provide public confidence in accounting and financial reporting processes.

All tangible property owned by the School Division, either through donation or purchase, and which qualifies as a tangible capital asset is included in the scope of this administrative procedure.

PROCEDURES

1. Definitions

Tangible Capital Assets

According to PSAB Section 3150, tangible capital assets are non-financial assets having physical substance that:

- i. are held for use in the production or supply of goods or 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.

Cost

Is the gross amount of consideration given up to acquire, construct, develop or better a TCA, and includes all costs directly attributable to acquisition, construction, development or betterment of the TCA, including installing the asset at the location and in the condition necessary for its intended use. The cost of a contributed TCA, including a TCA in lieu of a developer charge, is considered to be equal to its fair value at the date of contribution.

Amortization

Most tangible capital assets have limited useful lives. This fact is recognized by amortizing the cost of TCA in a rational and systematic manner over their useful lives.

Fair Value

Is the amount of the consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act. The cost of a contributed asset is

considered equal to its fair value at the date of contribution (using market or appraisal values). If an estimate of fair value cannot be made, the tangible capital asset would be recognized at nominal value.

2. Asset Categories

A category of assets is a grouping of assets of a similar nature or function in the School Division's operations. The following list of categories and sub-categories shall be used:

| CATEGORY | SUB-CATEGORY |
|------------------------------|--|
| Land | N/A |
| Land Improvements | Pavement, playground equipment, fencing, lighting, etc. |
| Buildings | Structure, site elements, interior components, exterior components, mechanical/electrical system, elevator, site services, fire & safety |
| Buildings - short term | Offices, portables, storage sheds, outbuildings, garages |
| School Buses | Licensed and unlicensed school buses, multi-function school activity buses. |
| Other Vehicles - passenger | Cars, vans, half-ton trucks |
| Furniture & Equipment | PAA equipment, appliances, bulk furniture purchases, cabling, miscellaneous equipment & fixtures |
| Computer Hardware & Software | Hardware & peripherals, software, radio equipment, other audio visual equipment |

It is the responsibility of the Director, department manager and staff members to ensure capital assets assigned to his or her custody are maintained and safeguarded.

Costs of betterments are considered to be part of the cost of the tangible capital asset and are added to the recorded cost of the related asset. A betterment is a cost incurred to enhance the service potential (increase in physical output or service capacity) of a tangible capital asset. The cost of the betterment is amortized over the remaining useful life of the related asset. For North East School Division purposes, roof projects, replacing carpeting/flooring, heating and ventilation equipment replacements (HVAC systems), boiler replacement, painting, and electrical upgrades will generally not be considered a betterment. As a result, the cost of the project would be expensed as an operational cost.

3. Capitalization Methods

Individual Asset Approach

Under this approach, TCA purchases are tracked, capitalized, and amortized as an individual asset until the date in which they are disposed of and/or fully amortized. The school division uses this method for land, land improvements, buildings, short-term buildings, school buses and vehicles.

Pooled Cost Approach (Pooling)

Under this approach, similar TCA are grouped into one TCA class and are tracked, capitalized, and amortized as a group until the date in which they are fully amortized. Once a TCA has been added to a pooled TCA class, it generally remains in the class until it is fully amortized. The school division uses this approach for capitalizing assets for furniture and equipment, computer hardware and audio visual equipment, and computer software.

4. Capitalization Thresholds

Capitalization thresholds are established to determine whether expenditures are to be capitalized as assets and amortized or treated as current year expenditures. Refer to ATTACHMENT I for the asset category threshold levels.

The School Division's capitalization thresholds are set based on guidelines from the Ministry of Education, information gathered from various industry sources and experts combined with the consideration of the materiality of the asset category.

Individual items greater than \$1,000 will be posted to similar TCA groupings for pooling purposes. This means that individual items with a cost of \$1,000 or greater will be added to the category pool, tracked and amortized.

There are certain situations where the \$1,000 individual cost of an item will not apply. In these situations, furniture, equipment and technology (FE& T) will be capitalized as pooled assets. The situations include:

- 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.
- Starting September 1, 2024, hardware and software budgets managed by the Manager of Information Technology (for example, technology refresh projects), major furniture replacement initiatives (for example, a system-wide refresh).

5. Amortization

Amortization is a charge to expenditures for the use of a capital asset. Refer to **AP 709-ATTACHMENT I** to determine how the asset categories are amortized.

When a capital asset is tracked by "Asset" or by the "Pooling" method, a full year's amortization is expensed in the year, regardless of when the asset is purchased. Amortization will continue to be expensed evenly over its useful life (i.e., straight-line basis).

Useful life is the estimated period over which the tangible capital asset is expected to be used by the School Division.

6. Write-Downs

When the value of future economic benefits associated with the tangible capital asset is less than the asset's net book value, the cost of the asset should be reduced to reflect the decline in the asset's value.

The write down should be accounted for as an expense in the statement of operations and accumulated surplus. A write down should not be reversed.

7. Disposals

Disposal procedures for capital assets are in accordance with the School Division's Inventory Management Administrative Policy 703.

The difference between the net proceeds on disposal of a tangible capital asset and the net book value of the asset should be accounted for as a revenue (gain) or expense (loss) in the statement of operations and accumulated surplus.

When a capital asset is tracked by "Asset" and sold during the year, any amortization expensed in the year for that particular asset must be reversed, as no amortization is taken in the year of disposal.

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 the asset is sold or disposed of before the end of its useful life, the proceeds are to be recorded as revenue. In exceptional circumstances where there is a significant loss or disposal incurred in a pooled class, the pool would be decreased for the loss of the disposals.

8. Contributed/Donated Capital Assets

The cost of a contributed tangible capital asset is considered to be equal to its fair value at the date of contribution. Fair value would be estimated using market or appraisal values. For contributed materials and services that are normally purchased, fair value would be determined in relation to the purchase of similar materials and services.

Due to the infrequent nature of this type of activity and the resources needed to determine the fair value of the contributed asset, these items will not be recorded unless a determination by the Manager of Financial Services indicates that the individual asset value may be greater than \$1,000.

9. Presentation and Disclosure

The School Division will present and disclose the capital assets by each major category in accordance with PS3150.40, 41 and 42.

ASSET TYPES, THRESHOLDS AND AMORTIZATION

| <u>ASSETTYPE</u> | <u>CAPITALIZATION THRESHOLD</u> | <u>ESTIMATED USEFUL LIFE IN YEARS</u> | <u>TRACKING METHOD</u> | <u>AMORTIZATION METHOD</u> |
|---------------------------------|---------------------------------|---------------------------------------|------------------------|----------------------------|
| Land | \$10,000 | Indefinite | By Asset | Not Amortized |
| Land improvements | \$25,000 | 20 | By Asset | Straight line useful life |
| Buildings | \$50,000 | 50 | By Asset | Straight line useful life |
| Buildings- Short Term | \$10,000 | 20 | By Asset | Straight line useful life |
| School Buses | \$10,000 | 12 | By Asset | Straight line useful life |
| Other Vehicles- Passenger | \$10,000 | 5 | By Asset | Straight line useful life |
| Furniture & Equipment | \$1,000 | 10 | Pooling | Straight line useful life |
| Computer Hardware & Software | \$1,000 | | Pooling | Straight line useful life |
| Hardware & Audio Visual | | 5 | | |
| Software | | 5 | | |
| Communication systems/Equipment | | 10 | | |
| Assets Under Construction | \$5,000 | N/A | By Asset | Not Amortized |