ADMINISTRATIVE PROCEDURE 506
Tangible Capital Asset Management

1.0 PURPOSE

The purpose of this procedure is to establish a framework for the management and control of the Board's tangible capital assets ***(TCA)***. This procedure will ensure that the Board adheres to the accounting and financial reporting standards as set out by the Public Sector Accounting Board (PSAB) PS 3150. PS3150 requires the Board to report tangible capital assets in their financial statements.

2.0 SCOPE

This policy applies to the following assets of the Limestone District School Board: owned tangible capital assets, leased tangible capital assets, and construction projects in progress. Capital assets include such items as land, building, equipment, furniture, computer hardware, computer software, vehicles, etc. Tangible capital assets are identifiable assets that meet the following criteria:

- are held for use in the provision of service, for administration and academic purposes, for the production of goods, or in the maintenance, repair, development or construction of other tangible capital assets;
- have a useful economic life extending beyond ***one year***
- are to be used on a continuing basis;
- are not for sale in the ordinary course of operations.

3.0 PROCEDURE

3.1.0 Responsibilities

1. It is the responsibility of all budget departments, with assistance from the Financial Services Department, to take appropriate and reasonable measures to identify, track and record all capital assets for which they have a budget responsibility.
2. Financial Services is responsible for the implementation of this *Administrative Procedure*, advising on the appropriateness of accounting for individual tangible capital asset practices under generally accepted accounting principles, and for educating and training on all other matters relating to this document and related procedures.
3. Financial Services will be responsible for recording, in accordance with generally accepted accounting principles and this *Administrative Procedure***,** the addition, disposal and amortization of all tangible capital assets.
4. It is the joint responsibility of Financial Services and Facility Services to determine revisions to the remaining service life of all building assets.

3.2.0 Recognition & Measurement

1. Capital assets are recorded at cost. The capitalization cost of an asset includes purchase or acquisition price, freight, installation, taxes (net of rebates) and any other direct costs. Costs that are not to be capitalized include training and/or maintenance.
2. Capital leases shall be recorded at an amount equal to the present value of the minimum lease payments required over the term of the lease.
3. Building, land, land improvement, leased assets, Construction in Progress (CIP) and vehicles shall be tracked by physical location or asset and maintained by Financial Services.
4. All other assets (portables, equipment, furniture, and computer hardware and software) will be tracked using the "Pooled Cost Approach".
5. All capital assets with a limited life shall be amortized in accordance with Ministry of Education directives (see Appendix A).

3.3.0 Building Betterments versus Repair and Maintenance

1. Betterments are costs incurred to enhance the service potential of a tangible capital asset and may or may not extend the useful life of a tangible capital asset.
2. The cost of betterments should be added to the recorded cost of the tangible capital asset to which it relates.
3. Betterments would include upgrades and additions.
4. A betterment must meet one of the following criteria:
   - an increase in the previously assessed service potential;
   - a significant reduction in the operating costs of the tangible asset due to efficiency gains;
   - an extension to the useful life of the tangible capital asset; or
   - an improvement to the quality of the output.
5. Repair & Maintenance expenses are costs spent to keep the condition of an asset at its expected operating standard. It does not extend the useful life of the asset or enhance the functionality of the asset.

3.4.0 Useful Life of Tangible Capital Assets

1. Useful life is the estimate of the period over which a tangible asset is expected to be used by the Board. The physical life of a tangible capital asset may extend beyond the useful life of a tangible capital asset.
2. Estimating useful lives of tangible capital assets is a matter of judgment based on experience and should be applied on a consistent basis. Factors to be considered in estimating the useful life of a tangible capital asset include:
   - expected future usage
   - effects of technological obsolescence
   - expected wear and tear from use or the passage of time
   - the maintenance program
   - studies of similar items that have been retired; and
   - the condition of existing comparable items

3. Certain factors such as significant investments made to a tangible capital asset could significantly improve the service potential that was originally anticipated and may or may not extend the useful life of the asset.
4. The estimated useful life of the remaining unamortized portion of a tangible capital asset will be reviewed every five years for assets that have not had significant investments.
5. Significant events may occur which may indicate a need to review the estimated useful life of a tangible capital asset. These include:
   - A change in the extent which the tangible capital asset is used;
   - A change in the manner which the tangible capital asset is used;
   - Removal of the tangible capital asset from service for an extended period of time;
   - Physical damage;
   - Significant technological development;
   - A change in demand for the services provided through the use of the tangible capital asset; and
   - A change in the law or environment affecting the period of time over which the tangible capital asset is in use.
6. The Board will use this approach for building assets on a regular basis and when significant events occur.
7. The following are to be considered significant events that would require a review of the remaining estimated useful life of building assets:
   - When a major component of a building is replaced;
   - When an addition or retrofit is made to a building;
   - When an investment is made in a building with a remaining service life of 10 years or less;
   - When a school building is closed;
   - When a building has suffered extensive property damage; and
   - When a school building has received approval for Prohibitive to Repair Funding.
8. Factors to consider in reviewing remaining useful life are:
   - Will the replacement of the major component extend the use of the building past its estimated remaining service life? and
   - Has the event that transpired impact negatively on the extent and manner in which the asset will be used?
9. Revisions of estimated useful life should be completed in consultation with the Board’s external auditors and the rationale should be clearly documented.

3.5.0 Retirement and Disposal of Tangible Capital Assets

1. Retirement of an asset can occur due to:
   - Replacement of a building, structure, facility or previously identified component parts;
   - Disposal or demolition of a building, structure, facility or previously identified component parts;
   - Sales or transfer of ownership of a building, structure, facility, property or previously identified component parts to a party outside the Board; or
   - Abandonment of a building structure, facility or previously identified component parts.

2. It is the responsibility of Facility Services to apprise Financial Services in this regard.
3. When a building is replaced, the removal costs of the old building are considered a cost of installation or construction of the new replacement asset. The proceeds of disposition received, if any, for the old asset should not be netted against the removal costs. The cost and accumulated amortization are to be removed from the tangible capital asset accounts.
4. When ***a*** building is disposed of or demolished and not replaced, its cost and accumulated amortization are to be removed from the TCA accounts. The proceeds of disposition received, if any, for the disposed of or demolished building should be netted against any costs incurred to dispose of the building.
5. When a building is sold or transferred, its cost and accumulated amortization are to be removed from the asset accounts. The proceeds on sale, if any should be netted against any cost of sale.
6. When a building is abandoned, its cost and accumulated amortization are to be removed from the TCA accounts. The cost of abandonment should be identified and any resulting loss on retirement recognized as an expense in the year of retirement.
7. The Board may dispose of property consisting of both land and buildings in a single sale or transfer for a lump sum amount. Proceeds of disposition should be allocated to each TCA based on their fair market value relative to the fair value of all the TCA disposed of in the same transaction.
8. Disposal cost are the costs incurred that are incremental in nature and are essential to transact the disposal. Disposal costs include:
    - Direct marketing;
    - Legal;
    - Engineering;
    - Title search;
    - Survey;
    - Appraisal;
    - Brokerage fees; and
    - Commissions.

3.6.0 <u>Tangible Capital Assets Permanently Removed from Service (APRFS)</u>

1. Assets permanently removed from service: include TCA that are permanently removed from service and no longer contribute to the board’s ability to provide service. There is no intent to use this asset in the future. It consists of one sub asset class: APRFS – Buildings
2. If the TCA is permanently removed from service and is not being used by the board, amortization should cease and its carrying value should be written down to its residual value.
3. If the TCA is temporarily removed from service, amortization should continue,
4. It is the responsibility of Facility Services to apprise Financial Services in this regard.

3.7.0 Leased Tangible Capital Assets

1. The cost of a leased TCA will be determined in accordance with Public Sector Guidelines PSG-2 and PSG-5.
2. Financial Services will be responsible to review all lease agreements to determine whether they are capital or operating leases.
3. Operating leases will not be reported in the board's statement of financial position.
4. Capital leases are determined if the benefits and risks of ownership are transferred to the board at the inception of the lease if one or more of the following criteria are met:
    - There is reasonable assurance that the Board will obtain ownership of the leased property by the end of the lease term.
    - The lease term is of such duration that the Board will receive substantially all (75%) of the economic benefits expected to be derived from the use of the leased property over its life span.
    - The Board would be assured of recovering the investment in the leased property and of earning a return on the investment as a result of the lease agreement.
    - Other considerations may apply.

3.8.0 Leasehold Improvements

1. Leasehold improvements to TCA under operating leases must have at least four characteristics:
    a. The modifications must be made to assets that have been leased;
    b. The Board must pay for the improvements;
    c. The leasehold improvements should be durable and should bring benefits to the board for a prolonged period of time; and
    d. The betterment reverts to the lessor at the end of the lease.
2. Betterments made to asset subject to an operating lease shall be classified as a leasehold improvement expense.
3. Betterments made to an asset subject to a capital lease must be capitalized as part of the cost of the TCA and amortized over useful life of asset.

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Appendix A - Estimated Useful Lives and Capitalization Thresholds

Asset Class	Capitalization Threshold By Unit Value	Tracking Method	Amortization Method	Estimated Useful Life
BUILDINGS				
Buildings	$10,000	By Asset	Straight-line	40 years
Portable Structures	$10,000	Pooled	Straight-line	20 years
Other Buildings	$10,000	By Asset	Straight-line	20 years
LAND & LAND IMPROVEMENTS				
Land & Land Improvement with infinite lives	All (initial purchase) $10,000 (betterments)	By Asset	N/A	Infinite
Land Improvements with finite lives	$10,000	By Asset	Straight-line	15 years
FIRST-TIME EQUIPPING				
First-time Equipping-10 years	All	Pooled	Straight-line	10 years
FURNITURE & EQUIPMENT				
Equipment – 5 years	$5,000	Pooled	Straight-line	5 years
Equipment–10 years	$5,000	Pooled	Straight-line	10 years
Equipment-15 years	$5,000	By Asset	Straight-line	15 years
Furniture	$5,000	Pooled	Straight-line	10 years
COMPUTER HARDWARE & SOFTWARE				
Computer Hardware	$5,000	Pooled	Straight-line	5 years
Computer Software	$5,000	Pooled	Straight-line	5 years
VEHICLES				
Vehicles – GYWR less than 10,000 lbs.	$5,000	By Asset	Straight-line	5 years
Vehicles - GYWR equal to or greater than 10,000 lbs.	$5,000	By Asset	Straight-line	10 years
ASSETS PERMANENTLY REMOVED FROM SERVICE				
Assets Permanently Removed from Service-Building	All transferred from building class	By Asset	N/A	N/A
LEASED ASSETS				
Capital Leases-Building	$10,000	By Asset	Straight-line	
Capital Leases - Land	All (initial purchase) $10,000 (betterments)	By Asset	N/A	
Capital Lease – Other	$10,000	By Asset	Straight-line	
Leasehold Improvements – Building	$10,000	By Asset	Straight-line	
Leasehold Improvements – Land	$10,000	By Asset	Straight-line	
Leasehold Improvements- Other	$5,000	By Asset	Straight-line	
CONSTRUCTION IN PROGRESS				
Construction In Progress	$10,000	By Asset	N/A	N/A
Pre-Construction Cost	$10,000	By Asset	N/A	N/A