DISTRICT SCHOOL BOARD
&
SCHOOL AUTHORITY
TANGIBLE CAPITAL ASSETS

PROVINCIAL ACCOUNTING POLICIES & IMPLEMENTATION GUIDE

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General Introduction

.01 Local governments, including school boards, are required to report tangible capital assets in their financial statements in accordance with PSAB handbook section PS 3150.
Note: "PSAB Handbook section" will be hereinafter referred to as "PS" before the referenced handbook section. Where boards see a referenced handbook section without the PS, it is referring to the CPA Canada Handbook-Accounting or CPA Canada Handbook-Assurance. Where boards see "PSG" before a reference, it is referring to the Public Sector Guidelines.

.02 This document provides policies and guidelines for the accounting and reporting of school board and school authority:

- owned tangible capital assets;
- leased tangible capital assets (operating and capital); and,
- construction projects in progress

Note: "School board and school authority" will be hereinafter referred to as "boards" for the remainder of this document.

.03 Please note that this document sets out the **required** approach that boards must follow. If a directive in this guide will cause a material misstatement of a board's financial position please contact the Ministry as any deviation from this guide will require Ministry approval.

.04 As per PS 3150, boards must also include the tangible capital assets of entities controlled by them in their financial statements.

.05 The policy **does not** apply to goodwill or other intangible assets such as copyrights and patents. For guidance on accounting and reporting of Purchased Intangibles, please refer to the Ministry's Purchased Intangibles Accounting Policy and Implementation Guide.

.06 Per PS 3150.08 **works of art and historical treasures** are property that has cultural, aesthetic or historical value that is worth preserving perpetually. Works of art and historical treasures would not be recognized as tangible capital assets in government financial statements because a reasonable estimate of the future benefits associated with such property cannot be made. Nevertheless, the existence of such property should be disclosed (see paragraph .194 (e)).

.07 Unless otherwise stated, this policy **does not** apply to inventories of buildings and land assets, held for resale that are recognized as a financial asset. **Inventories for resale** are recognized as a financial asset if the board owned tangible capital asset has been permanently removed from service and all of the following criteria have been met, per PS 1201.055:

- prior to the date of the financial statements, the government body, management board or an individual with the appropriate level of authority commits the government to selling the asset;
- the asset is in a condition to be sold;
- the asset is publicly seen to be for sale;
- there is an active market for the asset;

- there is a plan in place for selling the asset; and,
- it is reasonably anticipated that the sale to a purchaser external to the government reporting entity will be completed within one year of the reporting date.

.08 Boards are encouraged to obtain a copy of the CPA Canada Handbooks to supplement this guide as this guide may not necessarily cover all of the sections that boards will need to reference. The Handbooks are available electronically or in paper format. A subscription may be ordered by the following means:

On-line at www.castore.ca;
CICA Order Desk at 1-800-268-3793

Approach for Reporting Tangible Capital Assets

.09 There are multiple approaches for reporting tangible capital assets. There is the "traditional" way of reporting assets individually. There also exists a concept that we will refer to as pooling. The pooling concept is discussed in further detail below.

Pooling

.10 "Pooling" refers to the Pooled Cost Approach. Under this approach similar tangible capital assets are grouped into one tangible capital asset class as would ordinarily be done under the regular cost approach. The difference arises in that each tangible capital asset is not reported individually under the pooling method. Once a tangible capital asset has been added to a pooled tangible 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 its useful life and when there is no significant advantage of reporting 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 reported individually.

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

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

.13 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.

.14 In exceptional circumstances where there is a significant loss incurred in a pooled tangible capital asset class, the pool would be decreased for the known loss. For

example, where a board has a school that is broken into and all the computers are stolen from the lab, those computers would be removed from the computer hardware pooled tangible capital asset class. The board would remove from the tangible capital asset class the gross book value of the stolen computers as well as its related accumulated amortization.

.15 Refer to Appendix A for 2 illustrative examples of the pooling approach.

Owned Tangible Capital Assets

Definitions

.16 **Tangible capital assets** are non-financial assets having physical substance that:

- 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 economic lives extending beyond an accounting period;
- are to be used on a continuing basis; and
- are not for sale in the ordinary course of operations. (PS 3150.05 (a))

.17 Tangible capital assets include such items as land, buildings, equipment, furniture, computer hardware, computer software, vehicles, etc.

.18 **Cost** is the gross amount of consideration given up to acquire, construct, develop, or better a tangible capital asset, and includes all costs directly attributable to acquisition, construction, development, or betterment of the tangible capital asset, including installing the asset at the location and in the condition necessary for its intended use. Cost also includes the asset retirement obligations. The cost of a contributed tangible capital asset, including a tangible capital asset in lieu of a developer charge, is considered to be equal to its fair value at the date of contribution. (PS 3150.05 (b))

.19 **Asset Retirement Obligations** - Obligations associated with the retirement of tangible capital assets are accounted for in accordance with PS 3280, Asset Retirement Obligations (PS 3150.21(a)). An asset retirement obligation arises from a legal obligation associated with the retirement of a tangible capital asset. These obligations are predictable, likely to occur and unavoidable. For further guidance on Asset Retirement Obligations, please refer to the Ministry's Asset Retirement Obligations Accounting Policy and Implementation.

.20 **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. (PS 3150.05 (c))

.21 **Net book value** of a tangible capital asset is its cost, less both accumulated amortization and the amount of any write-downs. (PS 3150.05 (d))

.22 **Residual value** is the estimated net realizable value of a tangible capital asset at the end of its useful life to a government. (PS 3150.05 (e))

.23 **Service potential** is the output or service capacity of a tangible capital asset, and is normally determined by reference to attributes such as physical output capacity, quality of output, associated operating costs, and useful life. (PS 3150.05 (f))

.24 **Useful life** is the estimate of either the period over which a tangible capital asset is expected to be used by a government, or the number of production or similar units that can be obtained from the tangible capital asset by a government. The life of a tangible capital asset may extend beyond the useful life of a tangible capital asset to a government. The life of a tangible capital asset, other than land, is finite, and is normally the shortest of the physical, technological, commercial and legal life. (PS 3150.05 (g))

Measurement

.25 Tangible capital assets should be recorded at cost. (PS 3150.09)

.26 For tangible capital assets procured through a Public Private Partnership (P3) arrangement with long term financing, refer to Appendix N for guidance on the initial measurement of the asset.

.27 The source of funding for tangible capital assets does not impact the reporting of the assets on the board's books. If the board owns the asset, they need to report the full cost of the asset (net of HST rebates), irrespective of sources of funding.

Asset Classes

.28 The following tangible capital assets are the minimum tangible capital asset classes that the Ministry expects boards to report on. Should a board want a more detailed asset class composition, it may do so and report only sub-totals to the Ministry in the following asset classes:

BUILDINGS

.29 **Buildings** include structures that have roofs and walls. For a typical listing of tangible capital assets under this class, see Appendix C.

.30 **Building costs** typically include (but are not limited to):

- materials, labour, and overhead costs incurred during construction;
- fees, such as legal fees and architect fees;
- building permits;
- all other costs starting with excavation to completion of the building;
- demolition cost of old building in order to build new building

- actual interest costs incurred during construction until the building is substantially completed and ready for its intended use; and
- fair values of buildings donated to the board.

.31 For purposes of reporting, there are 3 building tangible capital asset classes as follows:
Buildings (40 years)
Portable Structures – RCM, PO, PT (20 years)
Other Buildings (20 years)
They are defined in the following section.

Buildings

.32 The details of this class are as follows:
- Includes building structures that are permanent in nature with a typical useful life of approximately forty years
- The majority of these building structures will be elementary schools, secondary schools and administrative offices
- Also includes gross floor area additions, betterments and retrofits made to the aforementioned building structures
- This tangible capital asset class is amortized as follows:
  - Assets existing as of March 31, 2005 = remaining service life as derived by the book value calculator (BVC) as of March 31, 2005
  - Assets purchased or constructed after April 1, 2005 = 40 years

Portable Structures – RCM, PO, PT

.33 The details of this class are as follows:
- Class is limited to Relocatable Classroom Modules (RCMs), portables (PO) and portapaks (PT)
- **Initial costs** to set up the RCM, PO or PT asset (such as wiring, lighting, etc.) should be capitalized and included in this asset class
- Subsequent moving and reinstallation costs will be expensed as incurred
- This tangible capital asset class is amortized as follows:
  - Purchases prior to April 1, 2005 = the remaining service life as determined by the BVC
  - Purchases since April 1, 2005 = 20 years

Other Buildings

.34 The details of this class are as follows:
- Includes other building structures that have a typical useful life of less than forty years and that do not meet the criteria for inclusion in the Portable Structures – RCM, PO, PT asset class. For a typical listing of tangible capital assets under this class, see Appendix C.
- This tangible capital asset class is amortized as follows:
  - Purchases prior to April 1, 2005 = remaining service life as determined by the BVC
  - Purchases since April 1, 2005 = 20 years

LAND and LAND IMPROVEMENTS

.35 **Land** includes vacant parcel(s) of land as well as land situated under building structures. Land also includes land improvements with infinite lives. For a typical listing, see Appendix C.

.36 **Land costs** typically include (but are not limited to):

- purchase price;
- costs incurred in "closing," such as title to the land and legal fees;
- appraisal costs;
- costs incurred in getting the land in condition for its intended use, such as grading, filling, draining and clearing. When land has been purchased for the purpose of constructing a building, all costs incurred up to the excavation for the new buildings are considered land costs. Example: removal of old buildings, clearing, grading and filling are considered costs of the land because these costs are necessary to get the land in condition for its intended use;
- actual interest costs **directly attributable** to the land purchase or land development projects, incurred during the period the land is made ready for use; any proceeds obtained in the process of getting the land ready for its intended use, such as salvage receipts on the demolition of an old building or the sale of timber that has been cleared, are treated as reductions in the cost of the land;
- assumption of any liens or mortgages or encumbrances (example, back taxes) of the property;
- fair values of land donated to the board; any additional land improvements that have an indefinite life – for example, special assessments for local improvements, such as pavements, street lights, sewers, and drainage systems should be charged to the land account as they are relatively permanent in nature.

.37 **Land improvements** are improvements to land assets with finite lives. For a typical listing, see Appendix C. This asset class is amortized over fifteen years.

FIRST-TIME EQUIPPING

.38 First-time equipping includes most items of an enduring nature to furnish and equip:

a) new building assets – schools, administrative buildings, etc. or
b) existing building assets where gross floor area has been added (e.g., an addition)
c) existing space with a DISTINCT change in purpose and physical appearance of the space

.39 Furnishing and equipping of new schools and school additions are included in the benchmark construction cost for the new pupil places grant allocation calculation.

.40 The benchmark construction cost per square foot represents the estimated cost to design, construct, '*furnish and equip'* new schools amortized over a 25-year period.

.41 Because the furniture and equipment (F&E) may include certain capital items that would otherwise be excluded under the established threshold for asset classes in this guide, the items that are covered through this F&E portion of the grant allocation should be capitalized as part of this tangible capital asset class.

.42 Per the 1979 Capital Grant Plan, the following items qualify as '*furnish and equip'*:

a) All furniture and equipment which is usually factory-manufactured and which in general is portable or intended to be movable and which has no permanent or semi-permanent connection to any plumbing, electrical, gas, etc. service, and

b) All factory-manufactured equipment, apparatus, appliances, machinery, tools and the like, which are provided for instructional use by teachers or pupils whether or not such are portable, movable or connected to any service.

.43 This tangible capital asset class is amortized over a 10-year period.

.44 For a typical listing, see Appendix C.

FURNITURE and EQUIPMENT

.45 The term **equipment** includes delivery equipment, office equipment, machinery, furniture and fixtures, furnishings, school equipment and similar assets.

.46 **Equipment costs** typically include (but are not limited to):

- purchase price;
- freight and handling charges incurred;
- insurance on the equipment while in transit;
- cost of special foundations if required; and,
- assembling and installation costs.

.47 Costs include all expenditures in acquiring the equipment and preparing it for use.

.48 For purposes of board reporting, there are 4 distinct equipment tangible capital asset classes as follows:

Equipment (5 years)
Equipment (10 years)
Equipment (15 years)
Furniture (10 years)

Equipment – 5 years

.49 **Equipment – 5 years** includes equipment that would have an estimated useful life of approximately five years, excluding first time equipping assets. For a typical listing, see Appendix C.

Equipment – 10 years

.50 **Equipment – 10 years** includes equipment that would have an estimated useful life of approximately ten years, excluding first-time equipping assets. For a typical listing, see Appendix C.

Equipment – 15 years

.51 **Equipment – 15 years** includes equipment that would have an estimated useful life of approximately fifteen years. For a typical listing, see Appendix C.

.52 It is expected that this tangible capital asset class will rarely be used due to the operating nature of the boards.

Furniture – 10 years

.53 **Furniture** includes all furniture whether it is at a school, board office or other location with the exception of first-time equipping assets. This tangible capital asset class is amortized over ten years. For a typical listing, see Appendix C.

COMPUTER HARDWARE and SOFTWARE

Computer Hardware

.54 **Computer hardware** comprises of all the physical parts of the computer.

.55 **Computer hardware** costs typically include (but are not limited to):

- purchase price (including the price of any software initially bundled with the computer (e.g., Windows 8)
- peripherals;
- freight and handling charges incurred;
- insurance on the hardware while in transit;
- assembling and installation costs; and
- audio visual equipment

.56 Costs include all expenditures in acquiring the computer hardware and preparing it for use. The computer hardware tangible capital asset class also includes audio visual equipment.

.57 This tangible capital asset class is amortized over three years. For a typical listing, see Appendix C.

Computer Software

.58 **Computer software** includes the programs, routines, and symbolic languages that control the functioning of the hardware and direct its operation. There is often a perception that software is an intangible capital asset as it lacks physical substance. Software is included as a tangible capital asset because it is what permits the computer hardware to operate.

.59 **Computer software** may include "off the shelf" software or customized software along with the costs related to preparing it for use. This tangible capital asset class is amortized over five years. For a typical listing, see Appendix C.

VEHICLES

.60 **Vehicles** are self-propelled wheeled conveyances that do not run on rails.

.61 For purposes of board reporting, there are 2 distinct vehicle tangible capital asset classes based on the manufacturer's gross vehicle weight rating (gvwr) maximum as follows:

Vehicles with gvwr < 10,000 pounds
Vehicles with gvwr = or > 10,000 pounds

Vehicles < 10,000 pounds

.62 This asset class includes vehicles with a gvwr of less than 10,000 pounds. This tangible capital asset class is meant to capture all passenger vehicles (i.e., Cars, minivans) and smaller trucks (i.e., ½ ton, ¾ ton). This tangible capital asset class is amortized over five years. For a typical listing, see Appendix C.

Vehicles = or > 10,000 pounds

.63 This asset class includes vehicles with a gvwr of 10,000 pounds or greater. This tangible capital asset class is amortized over ten years. For a typical listing, see Appendix C.

Pre-Construction Costs and Construction in Progress

.64 Constructed tangible capital assets such as schools may extend over one or more accounting periods and certain pre-construction costs may be incurred prior to commencing construction of the tangible capital asset.

.65 Examples of pre-construction costs include the costs for feasibility studies, engineering specifications, environmental assessments, consulting studies, and site survey directly attributable to a tangible capital asset.

.66 Pre-construction costs should be capitalized to the related tangible asset class once the actual construction of the asset begins and until it is capitalized, it should be accumulated in a pre-construction cost account for ease of tracking.

.67 Costs that cannot be **directly** attributed to the acquisition, development or construction of a specific tangible capital asset must be expensed in the period they are incurred. Examples include:

- general administrative costs
- A full-time engineer employed by a board. The engineer performs a number of duties for the board. One of those duties consists of drawing up specifications on new construction projects. Only the time spent on the specification drawings are considered pre-construction costs as long as they can be attributed to a specific tangible capital asset. Therefore a board would allocate a percentage of this engineer's salary based on the time actually spent on specifications to pre-construction costs. Stated differently, a board should be reporting only the incremental costs associated with the building project for those individuals who are employees of the board.
- Unsuccessful design and bid fees

.68 **Construction in progress** assets refers to **new** tangible capital asset construction projects that are not completed and not ready to be put into service. New school construction, addition of a gym to an existing school and similar expenditures would qualify as construction in progress. Betterments made to an existing building **are not** construction in progress assets.

.69 Construction-in-progress projects are not amortized until construction is completed and the asset is ready to be put into service.

.70 Interest expense related to financing costs **directly attributable** to the building incurred during the time the asset is under construction will be capitalized as part of the construction costs of the building. However, interest costs incurred on the land acquisitions and land development projects during the building construction period are to be expensed for the period as the land is already ready for its intended use. Directly attributable interest costs are the interest costs incurred in connection with the borrowing of funds for the design, construction, development, testing, acquisition, or the betterment of a tangible capital asset.

.71 Assets under construction are to be transferred out to an appropriate tangible asset class (e.g., building) when the construction is **substantially complete** and the asset is **ready for use**.

.72 Capitalization of carrying costs ceases when no construction or development is taking place or when a tangible capital asset is ready for use in producing goods or services. A tangible capital asset is normally ready for productive use when the acquisition, construction or development is substantially complete. (PS 3150.17). The capitalization

of carrying costs on land ceases when no development is taking place on the land. See Appendix L for examples.

.73 For an example of how to record construction in progress assets, see Appendix D.

Ready for Use

.74 Determining when a tangible capital asset, or a portion thereof, is **ready for productive use** requires consideration of the circumstances in which it is to be operated. Normally it would be predetermined by a government by reference to factors such as productive capacity, occupancy level (e.g., whether a school building is ready to be occupied), or passage of time. (PS 3150.18)

.75 For a new tangible capital asset, certification that the asset has met engineering and safety standards and is ready for public use will provide evidence that the tangible capital asset is completed and ready for use. Certification by an architect, issuance of an occupancy permit or engineering certification may provide evidence that a new building or land is ready for use.

.76 In some cases, the acquisition or construction of a tangible capital asset is comprised of distinct, multiple and self-contained phases that will be put into service at different points in time. Capitalization of overhead costs must cease and amortization must begin for individual distinct phases as they are completed.

.77 If construction of the tangible capital asset is terminated or deferred indefinitely before completion, the costs capitalized to-date must be expensed, unless there is an alternative use for the tangible capital asset.

.78 For an example of how to transfer a construction in progress asset to an asset in use, see Appendix D.

Pre-acquisition costs

.79 Pre-acquisition costs are costs incurred prior to the actual acquisition of an asset. For examples refer to paragraph .64 above. If a board incurs pre-acquisition costs they should be treated the same as pre-construction costs as referred to in paragraph .65 above. Take note that in order for expenditures to count as pre-acquisition costs they must be **directly attributable** to a particular asset.

Recognition

.80 The acquisition date of a tangible capital asset is the earliest of the date on which the tangible capital asset being constructed is complete and ready for use; or the date the legal ownership of the tangible capital asset is transferred to the board.

Exchanges of Tangible Capital Assets (Non-monetary Transactions)

.81 A **non-monetary transaction** is an exchange of non-monetary assets, liabilities or services for other non-monetary assets, liabilities or services with little or no monetary consideration involved. (3831.05(f)(i))

.82 **Non-monetary assets and liabilities** are assets and liabilities that are not monetary. A contractual right to receive services in the future is a non-monetary asset and a contractual obligation to perform services in the future is a non-monetary liability. (3831.05(e))

.83 An example of a non-monetary asset would be a building when, for example, Board A has a need for a school in part of its jurisdiction where it does not have a school. Board B happens to have a school in that same jurisdiction that it is not using. As a result, Board A and Board B decide to do an exchange of properties that will suit both of their needs. This would illustrate a non-monetary exchange of tangible capital assets.

.84 An entity should measure an asset exchanged or transferred in a non-monetary transaction at the amount which is more reliably measurable; the fair value of the asset given up and the fair value received (3831.06). There are a few exceptions noted in the handbook where fair value wouldn't apply. However, these situations would be rather rare for boards.

.85 This Handbook Section guided the Ministry of Education in the application of the transfer of assets between boards in 1998 – transfer of assets to French-language boards and English-language boards. Per 3831.14, an entity should measure a non-monetary, non-reciprocal transfer to owners that represents a spin-off or other form of restructuring or liquidation at the **carrying amount** of the non-monetary asset or liability being transferred.

Assets Not Intended for Use

.86 When, at the time of acquisition, a portion of the acquired tangible capital asset is not intended for use, its costs and any costs of disposal, net of any estimated proceeds, are attributed to that portion of the acquired tangible capital asset that is intended for use. For example, the cost of acquired land that includes a building that will be

demolished includes the cost of the acquired property and the cost of demolishing the building. (PS 3150.13)

Measurement Subsequent to Initial Recognition

.87 Subsequent to an acquisition or construction of an asset, the board incurs asset related costs over its useful life. These costs include expenditures on maintenance, repairs, replacements, additions, and improvements. Depending on the nature and materiality of the expenditures, they are classified as either betterments or operating expenses.

Betterments

.88 The **cost of betterments** should be added to the recorded cost of the tangible capital asset to which it relates. Betterments also include upgrades and additions. Please see Appendix E and F for further explanations.

.89 **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.

.90 In general, the service potential of a tangible capital asset may be enhanced when there is:

- an increase in the previously assessed service potential;
- a significant reduction in the operating costs of the tangible capital assets due to efficiency gains;
- the useful life of the tangible capital asset is extended; or
- the quality of the output is improved.

.91 An expenditure has to meet one of the above criteria to be considered a betterment. Otherwise the expenditure is accounted for as a current year expense of maintaining the asset.

.92 The definition and description of the types of costs that are betterments will require additional guidance. Appendix E and F provide additional guidance to assist in the classification of the costs.

Operating Expenses

.93 **Operating expenses** are not capitalized but are expensed as incurred. Operating expenses typically include maintenance, repairs, and replacement of parts or components.

Maintenance

.94 **Maintenance expenses** are incurred to repair or maintain the pre-determined service potential of a tangible capital asset to the end of its original useful life. These expenses do not enhance the functionality, capacity, usability, and efficiency of the tangible capital asset. Such costs should be accounted for as an expense in the fiscal year in which they are incurred.

.95 **Maintenance expenses** are costs spent to keep the condition of an asset at its expected operating standard. These expenditures are usually incurred on a more or less continuous basis.

.96 Costs that do not increase the previously assessed useful life, service capacity or quality of output would be expensed as incurred.

Repairs

.97 **Repairs** are costs to restore a tangible capital asset to its originally designed productive capacity or service potential after damage, accident, or prolonged use.

.98 Restoration of an asset to its originally intended design does not constitute an increase in its service potential. Accordingly, **repair costs** are expensed as incurred.

Replacements

.99 **Replacements** involve removal of component parts and substitution of a new part or component of essentially the same type and performance capabilities.

.100 If the replacement of the component results in an enhancement of the service potential of the property as a whole, the replacement is considered a betterment and the costs are capitalized. Enhancements to service potential only result from replacements which:

- extend the useful life of the property as a whole;
- increase the capacity or usage of the property;
- improve the quality of the property to a higher building class; or,
- improve the overall operating efficiency of the property.

.101 Appendix F provides guidance to assist in the classification of costs on the board's tangible capital assets.

Capitalization of Tangible Capital Assets

.102 Tangible capital assets that meet the criteria for capitalization, and which meet the dollar value thresholds and the estimated useful life set out in Appendix B shall be capitalized

.103 Tangible capital assets that meet the criteria for capitalization but are below the dollar capitalization threshold as set out in Appendix B shall be expensed as incurred (except for certain tangible capital assets as detailed in Appendix C.

.104 When a liability for an asset retirement obligation is recognized, an equivalent amount representing the asset retirement costs will be capitalized by increasing the carrying amount of the associated tangible capital asset. The capitalization threshold established in Appendix B should be used to capitalize the ARO.

.105 Tangible capital assets procured through a P3 arrangement with long term financing, and which meet the requirements set out in Appendix N, shall be capitalized.

.106 Individual betterment costs may be less than the threshold for the tangible capital asset class. However, these costs should be capitalized where these costs form part of or are phases in a betterment project that may extend over more than one fiscal year and the total of these costs exceeds the threshold for capitalization for the tangible capital asset class.

Amortization

General

.107 Amortization is the allocation of the costs of a tangible capital asset less its estimated residual value over the estimated useful life of the tangible capital asset.

.108 In most cases, the residual value of the components that comprise the boards' tangible capital assets will be negligible, as boards are expected, in the ordinary course of operations, to use the tangible capital assets over the assets' estimated useful lives. Where the residual value of the tangible capital asset is expected to be significant, it should be factored into the calculation of amortization.

.109 Amortization should be recognized on a rational and systematic basis appropriate to the nature and use of the tangible capital asset. Amortization should reflect as closely as possible the extent to which the tangible capital asset's service potential is consumed over its useful life.

.110 Amortization should start as soon as a tangible capital asset is completed and ready for use.

.111 At a minimum, the "half year rule" should be applied to all new tangible capital assets acquired in a given fiscal year. Under the half year rule, six months of amortization is recorded for tangible capital assets acquired during a fiscal year. Therefore a 5 year asset will actually be fully amortized over six years as follows:

Year 1 - ½ year
Year 2 - full year
Year 3 - full year
Year 4 - full year

Year 5 - full year
Year 6 - ½ year (remaining from year 1)

.112 In order to gain greater precision, boards may choose to apply amortization to the nearest full month rather than applying it using the half-year rule as noted above.

.113 Capitalized asset retirement costs will be amortized over the remaining useful life of the asset if the related asset is in productive use, but is not yet fully amortized. Capitalized asset retirement costs will be amortized over the revised estimate of the remaining useful life of the asset if the related asset is in productive use and fully amortized.

.114 Land has an unlimited life and is not to be amortized.

.115 Land improvements that are attached to the land and have an infinite life are included as part of the Land asset class and are not amortized.

Amortization Method

.116 A straight-line method of amortization should be used for all asset classes.

.117 A straight-line method reflects a constant charge for the service as a function of time. Amortization is computed by dividing tangible capital asset cost (less any residual value, if applicable) by the number of years it is expected to be used (i.e., estimated useful life).

.118 For the recommended approach on how to calculate amortization expense, please refer to Appendix J. Should boards choose to adopt an approach that is more precise, this is acceptable.

Useful Life of Assets and Changes Therein

.119 **Useful life** is the estimate of the period over which a tangible capital asset is expected to be used by the government. The **physical life** of a tangible capital asset may extend beyond the useful life of a tangible capital asset to a government. (PS 3150.05 (g))

.120 Estimating useful lives of tangible capital assets is a matter of judgement 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 retired; and
- the condition of existing comparable items. (PS 3150.28)

.121 The service potential of a tangible capital asset is normally consumed through usage. However, factors such as obsolescence, excessive wear and tear or other events could significantly diminish the service potential that was originally anticipated from the tangible capital asset. Conversely 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.

.122 Therefore, the estimate of the useful life of the remaining unamortized portion of a tangible capital asset should be **reviewed on a regular basis** and revised when the appropriateness of a change can be clearly demonstrated. (PS 3150.29) As a general practice, the board should review the expected useful lives of tangible capital assets at least once every five years. Please see Appendix K for suggested practices on determining the remaining service life of an asset.

.123 Revisions to remaining estimated useful lives can be positive (remaining service life has been extended) or negative (remaining service life has been decreased).

.124 In addition to reviewing the estimate of the useful life on a regular basis, 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 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 used (PS 3150.30).

.125 Boards are to use the following approach when applying PS 3150.29 to building assets. Boards will review remaining estimated useful lives of buildings:

- On a regular basis; and
- When a significant event occurs (see paragraph .120)

Appendix K provides guidance on methods that can be used to determine the remaining service life of assets.

Positive Changes to Remaining Service Life

.126 The following are to be considered significant events that require boards to review the remaining estimated useful life of building assets:

- When a major component of a building is replaced (roof, windows, HVAC, etc);
- When an addition or retrofit is made to a building;
- When an investment is made in a building with a remaining service life of ten years or less.

.127 The factor to consider in revising the remaining estimated useful life is:

> Will the replacement of the major component, the addition, retrofit or significant investment in the building allow you to use the building past its estimated remaining service life?

Negative Changes to Remaining Service Life

.128 The following are to be considered significant events that require boards to review the remaining estimated useful life of that asset:

- When a school building is closed
- When a building has suffered extensive property damage (ex. Flooding, wind storm)

.129 The factor to consider in revising the estimated remaining service life is:

> Has the event that has transpired – the closing of the school, the property damage or the funding announcement – impacted negatively on the extent and manner in which you will be using the asset?

.130 Revision of the estimated useful life should be completed in consultation with the board's external auditors. The rationale supporting the decision to revise useful life estimates of a tangible capital asset should be clearly documented by the board.

.131 See Appendix G for an illustrative example where a board would revise the useful life of an asset.

Write-downs

.132 **Asset write-down** is the impairment in value of an asset which means that the asset can no longer contribute to the board's ability to provide service at the previously anticipated level and that the impairment is permanent in nature. Conditions that may indicate that the future economic benefits associated with a tangible capital asset have been reduced and a write-down is appropriate include:

- a change in the extent to which the tangible capital asset is used (e.g., being deemed prohibitive to repair);
- a change in the manner in which the tangible capital asset is used;
- significant technological developments;
- physical damage;

- removal of the tangible capital asset from service;
- a decline in, or cessation of, the need for the services provided by the tangible capital asset;
- a decision to halt construction of the tangible capital asset before it is complete or in usable or saleable condition; and
- a change in the law or environment affecting the extent to which the tangible capital asset can be used. (PS 3150.34)

The persistence of such conditions over successive years increases the probability that a write-down is required, unless there is persuasive evidence to the contrary.

If an asset suffers physical damage and the board will no longer be using the building, the cost of the building and its associated accumulated amortization should be taken off the books.

.133 Boards must be able to demonstrate that the impairment of the tangible capital asset's service potential is permanent in nature, and a reasonable estimate of the amount can be made.

.134 For school closures, it is necessary to evaluate whether a school is contributing to board's ability to provide services. In cases where closed schools continue to provide services after closures (e.g., as an administrative building), the asset should remain in the appropriate asset class. In cases where schools are "mothballed" and do not intend to re-open, the asset should be transferred into assets permanently removed from service (APRFS) class, as defined in paragraph .157.

.135 If a tangible capital asset is permanently removed from service and then subsequently returned to service, boards must not "write up" its book value. Only betterments that have been made to bring the asset back into service should be added to the book value.

.136 If a tangible capital asset is temporarily removed from service, amortization should continue. The estimated useful life of the tangible capital asset should not be revised due to the temporary nature of the removal of the tangible capital asset from service. Once the board has made a decision on how the tangible capital asset will be re-deployed, the estimated useful life of the tangible capital asset would be revised and amortization would be based on the new future usage of the tangible capital asset.

.137 An asset write-down should not be reversed and thus should only be recorded, in consultation with the board's external auditors, when the status has been finalized. The rationale supporting the decision to write-down a tangible capital asset should be documented.

.138 See Appendix G for an illustrative example where a board would write down an asset's value.

Retirements and Disposals of Tangible Capital Assets

.139 This section of the guide does not typically apply to assets under the pooled approach.

.140 **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 government reporting entity; or
- abandonment of a building, structure, facility, property or previously identified component parts.

.141 When a tangible capital asset is **replaced**, the removal costs of the old tangible capital asset 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.

.142 When a tangible capital asset is **disposed of or demolished and not replaced**, its cost and accumulated amortization are to be removed from the tangible capital asset accounts. The proceeds of disposition received, if any, for the disposed of demolished tangible capital asset should be netted against any costs incurred to dispose of the tangible capital asset. If there are no proceeds of disposition demolition costs should be expensed.

.143 When a tangible capital asset is **sold or transferred,** it's cost and accumulated amortization are to be removed from the asset accounts. The proceeds on sale, if any should be netted against any costs of sale.

.144 When a tangible capital asset is **abandoned**, its cost and accumulated amortization are to be removed from the tangible capital asset accounts. The costs of abandonment should be identified and any resulting loss on retirement recognized as an expense in the year of retirement.

.145 Boards 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 tangible capital asset based on their fair market value relative to the fair value of all the tangible capital assets disposed of in the same transaction.

.146 Disposal costs are costs incurred that are incremental in nature and are essential to transact the disposal. Disposal costs result directly from the decision to dispose the tangible capital asset. Disposal costs include:

- direct marketing;

- legal;
- engineering;
- title search;
- survey;
- appraisal;
- brokerage fees; and,
- commissions.

.147 Therefore, boards should always net disposal costs against proceeds of disposition received except where a tangible capital asset is replaced as explained in paragraph .137 above.

Tangible Capital Assets Permanently Removed from Service

.148 **Assets permanently removed from service (APRFS)**: include tangible capital assets that are permanently removed from service and no longer contribute to the board's ability to provide services. There is no intent to use this asset in the future. It consists of one sub asset class:

Assets Permanently Removed from Service – Buildings

.149 If the tangible capital asset 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. The write-down reflects the fact that the tangible capital asset no longer contributes to the board's ability to provide services.

.150 If the tangible capital asset is **temporarily** removed from service, amortization should continue. The estimated useful life of the tangible capital asset should not be revised due to the temporary nature of the removal of the asset from service. Once the board has made a decision on how the tangible capital asset will be re-deployed, the estimated useful life of the tangible capital asset would be revised and amortization would be based on the new future usage of the tangible capital asset.

.151 If the tangible capital asset is subsequently returned to service, boards must not "write up" its book value. Only betterments that have been made to bring the asset back into service should be added to the book value.

Tangible Capital Assets Acquired at Nominal Value

.152 A tangible capital asset may be gifted or contributed by an external party. For example, land may be contributed by another board or from a municipality at zero or nominal consideration.

.153 Where a tangible capital asset is acquired at no cost, or for a nominal cost, the amount recognized should be equal to its fair value as at the acquisition date.

- Donations and contributions of land are recorded as revenue at the date of contribution.
- Donations and contributions of tangible capital assets other than land are recorded as deferred capital contributions and amortized into revenue at the same rate the tangible capital asset is amortized into expense.

.154 Fair value may be estimated using market or appraised values. When an estimate of the fair value cannot be reasonably estimated, the tangible capital asset would be recognized at its nominal value.

Acquisition of a Bundle of Tangible Capital Asset as Part of a Single Purchase

.155 The boards may acquire property consisting of both land and buildings in a single purchase for a lump sum amount. The purchase price should be allocated to each tangible capital asset based on its fair value relative to the fair value of all the tangible capital assets acquired in the same transaction at the time of the acquisition.

.156 If at the time of acquisition, a portion of the acquired tangible capital asset is not intended for use, its cost and any costs of disposal, net of any estimated proceeds, should be allocated to the remaining tangible capital asset that is intended for use. For example, a board purchases a property consisting of both land and a building. The board then demolishes the existing building to facilitate the construction of a new building. The purchase price that had been allocated to the building and the related demolition cost would be capitalized and allocated to the cost of the land.

Financial Contributions from Outside Parties

.157 Accounting for the financial contributions made by outside parties towards the costs of the acquisition, development and construction of specific tangible capital assets should

be determined based on the individual circumstances, terms and conditions of the arrangement between the board and the contributing outside party.

.158 Where the board receives outside financial contributions that are intended to cover part or all of the costs for the acquisition, development and construction of specific tangible capital assets owned by the board, the cost of the tangible capital asset would be recorded on a gross basis. Financial contributions cannot be offset against the cost of the asset.

Accounting Policies

.159 **Accounting policies** include the specific accounting principles and methods of applying them in the preparation of a board's financial statements.

.160 Boards will be required to create an accounting policy in relation to the reporting and accounting of tangible capital assets.

.161 This accounting policy **should** be consistent with the policies mandated by the Ministry of Education and outlined in this document unless the adoption of these policies would result in materially misstated information in a board's financial statements.

.162 Per PS 3150.17, carrying costs such as interest costs directly attributable to the acquisition, construction or development activity of a tangible capital asset that is acquired, constructed or developed over time may be capitalized when the government's policy is to capitalize interest costs. In paragraph .71 of this document, the Ministry has decided to capitalize interest costs therefore it will need to be part of your accounting policies.

.163 Where the choice of accounting policy is not specifically mandated by the Ministry of Education, boards must ensure that they develop one.

.164 Where the board's accounting policy varies from the Ministry's directives, the boards must ensure that they apply the accounting policy on a consistent basis from period to period.

.165 Where a board decides to change an accounting policy after having previously applied it, a retroactive adjustment must be calculated. This involves the determination of the effect on income of the prior periods.

.166 The financial statements for all prior periods that are presented for comparative purposes should be restated to reflect the new accounting policy. The board would also have to present a note to the financial statements explaining the impact of the change in accounting policy.

Tangible Capital Asset Management and Internal Controls

.167 Tangible capital assets must be properly recorded in the board's accounting records and adequately safeguarded. This means boards must ensure that tangible capital assets:

- are properly recorded at the time of acquisition,
- are safeguarded and accounted for while being held and used by the board; and,
- are properly recorded at the time of disposal (or deemed disposal).

.168 Boards should have **policies and procedures** to ensure that tangible capital asset accounts (including amounts carried forward from prior years) are fairly stated and represent the tangible capital assets owned by the board and used on a regular basis. The following are policies and procedures that a board may choose to adopt.

Acquisition

.169 Boards should have an authoritative written statement of policy distinguishing between capital and operating expenditures. A dollar minimum will ordinarily be established for capitalization; any expenditures of a lesser amount should automatically be classified as charges against current revenue.

.170 Boards should establish cut-off procedures in relation to tangible capital assets. These procedures should translate into accurate and up-to date balances in all tangible capital asset classes and construction in progress balances as of the end of the period.

.171 Boards should have a policy requiring all purchases of tangible capital assets to be handled through the purchasing department (where there is one), another designated department where a purchasing department does not exist and subjected to standard routines for receiving, inspection and payment.

.172 Purchases of tangible capital assets should require approvals by an appropriate level of authority to ensure accurate accounting treatment.

Safeguarding

.173 Boards' accounting records should closely reflect the physical count of the tangible capital assets (for those assets tracked individually); periodic tangible capital asset inventory counts may provide the necessary assurance.

.174 Where boards are not tracking assets individually (i.e., furniture, equipment 5 and 10 years, computer hardware and software) boards will need to ensure that the physical access to tangible capital assets should be controlled by authorized personnel and governed by policies and procedures to manage the risks of loss.

Disposals

.175 Boards should have policies and procedures governing the disposal of tangible capital assets to ensure that the appropriate entries are recorded in the board's accounting records.

.176 Boards must ensure they record the "deemed" disposal for tangible capital assets being recorded under the "pooled" approach.

.177 Boards should have policies and procedures to identify any material loss relating to tangible capital assets and to ensure that the appropriate entries are recorded in the boards' accounting records. Where the loss is material and involves tangible capital assets that are tracked using the "pooled" approach, adjustments to the gross book value and accumulated amortization of the pool may be required in order to ensure the records of the board are not materially misstated.

Accounting and Audit Considerations

.178 Boards can prepare themselves by ensuring that all mechanisms are in place in order that the audit on tangible capital assets goes smoothly: These would include:

- appropriate internal controls over tangible capital assets:
    - special attention to the recording of additions, disposals, and amortization;
    - separation of the accounting function from the custody of the related assets; and,
    - a system of authorizations in place requiring advance approval of all tangible capital asset acquisitions, whether by purchase, lease or construction.
- appropriate procedures to ensure that **additions** to tangible capital assets and new capital leases are properly recorded in the accounts:
    - boards should ensure that they have a subsidiary ledger consisting of a separate record for each asset in the following asset classes (those tracked individually):
        - all building classes except portable structures,
        - land assets,
        - land improvement assets
        - all vehicle classes
        - equipment – 15 years
    - boards should ensure that they have accurate data on year by year additions, deemed disposals and any other accounting adjustments for all other asset classes being tracked using the pooling method.
- appropriate procedures to ensure that **retirements and disposals** of tangible capital assets during the year have been properly recorded in the accounts of tangible capital assets and accumulated amortization;
- appropriate procedures to ensure that **amortization expense** for the year has been accurately computed by acceptable methods consistent with those used in the preceding year;

- appropriate analytical review procedures to ensure that the total amortization expense for the year is reasonable in comparison with prior years and with total operating costs;
- appropriate analytical review procedures to ensure that related expense accounts are reasonable and do not contain amounts that should be capitalized;
- appropriate procedures to ensure that tangible capital asset accounts (including amounts carried forward from prior years) are fairly stated and represent the tangible capital assets owned by the board and used on a regular basis; and,
- appropriate procedures to ensure that amounts of accumulated amortization are reasonable compared to the estimated remaining lives of the tangible capital assets.

Financial Statement Presentation and Note Disclosure

.179 When a change in accounting policy is made to conform to new Public Sector Accounting Standards or to adopt Public Sector Accounting Recommendations for the first time, the new Standards may be applied retroactively or prospectively (PS 2120.13).

.180 When a change in an accounting policy is applied retroactively, the financial statements of all prior periods presented for comparative purposes should be restated to give effect to the new accounting policy, except in those circumstances when the effect of the new accounting policy is not reasonably determinable for individual prior periods. In such circumstances, an adjustment should be made to the opening balance of the accumulated surplus/deficit of the current period, or such earlier period as is appropriate, to reflect the cumulative effect of the change on prior periods (PS 2120.17).

.181 For each change in an accounting policy in the current period, the following information should be disclosed:

a) a description of the change;
b) the effect of the change on the financial statements of the current period; and
c) the reason for the change (PS 2120.18).

.182 When a change in an accounting policy has been applied retroactively and prior periods have been restated, the fact that the financial statements of prior periods that are presented have been restated and the effect of the change on those periods should be disclosed (PS 2120.19).

.183 Per PS 3150.40, board financial statements should disclose for each major category of tangible capital assets and in total:

a) cost at the beginning and end of the period;
b) additions in the period;
c) disposals in the period;
d) the amount of any write-downs in the period;
e) the amount of amortization of the costs of tangible capital assets for the period;
f) accumulated amortization at the beginning and end of the period; and

g) net carrying amount at the beginning and end of the period.

.184 Per PS 3150.42, board financial statements should also disclose the following information about tangible capital assets:

a) the amortization method used, including the amortization period or rate for each major category of tangible capital asset;
b) the net book value of tangible capital assets not being amortized because they are under construction or development or have been removed from service;
c) the nature and amount of contributed tangible capital assets received in the period and recognized in the financial statements;
d) the nature and use of tangible capital assets recognized at nominal value;
e) the nature of the works of art and historical treasurers held by the government; and
f) the amount of interest capitalized in the period.

.185 For an example of what note disclosure could look like after full implementation of PS 3150, see Appendix H.

Tangible Capital Asset Management Software

.186 Boards may choose tangible capital asset management software that will satisfy their requirements for the effective and efficient reporting of tangible capital assets. The software may be as elaborate as a tangible capital asset module incorporated into their current accounting system, to an off the shelf tangible capital asset management tool, to an excel spreadsheet.

.187 For those boards who choose to utilize a computerized tangible capital asset software application, it will be desirable for the software application to be able to calculate amortization expense at multiple times throughout the year. As a minimum, amortization will have to be calculated twice per year at March 31st and August 31st.

Leased Tangible Capital Assets

Definitions

.188 **Lease** is the conveyance, by a lessor to a lessee, of the right to use a tangible capital asset, usually for a specified period of time in return for rent (PSG-2, Glossary).

.189 **Lessee** is the board leasing the asset from the owner.

.190 **Lessor** is the board leasing the asset to the other board, also known as the owner.

.191 **Operating lease** is a type of lease in which the lessor retains substantially all the benefits and risks incident to ownership of property**.** Leases that do not meet the definition of a capital lease are operating leases for accounting purposes**.**

.192 **Capital lease** is a non-financial asset that has physical substance and a useful life extending beyond an accounting period, and is held under lease by a board for use, on a continuing basis, in the production or supply of goods and services. Under the terms and conditions of the lease, substantially all of the benefits and risks incident to ownership are, in substance, transferred to the board without necessarily transferring legal ownership

.193 **Economic life of the leased property** is the estimated remaining period during which the property is expected to be economically usable, with normal repairs and maintenance, for the purpose for which it was intended at the inception of the lease and without limitation by the lease term (PSG-2, Glossary).

.194 **Bargain purchase option** is a provision allowing the lessee, at its option, to purchase the leased property for a price which is sufficiently lower than the expected fair value of the property, at the date the option becomes exercisable. That exercise of the option appears, at the inception of the lease, to be reasonably assured (i.e., the "buyout" price stipulated in the bargain purchase option is so attractive that it is unlikely that the lessee would not exercise the buyout option).

.195 **Inception of the lease** is the earlier of the date of the lease agreement and the date of a commitment which is signed by the parties to the lease transaction and includes the principal terms of the lease (i.e., the effective date used for classification of the lease) (PSG-2, Glossary).

.196 **Incremental rate of borrowing** at the inception of the lease represents the borrowing rate the board would have to incur if it were to borrow the necessary funds, over a term similar to the lease, to purchase the leased asset.

.197 **The interest rate implicit in the lease** is the discount rate that, at the inception of the lease, causes the aggregate present value of:

- the minimum lease payments, from the standpoint of the lessor, excluding the portion of the payments representing executory costs to be paid by the lessor and any profit on such costs; and
- the unguaranteed residual value accruing to the benefit of the lessor;

to be equal to the fair value of the leased property to the lessor at the inception of the lease (PSG-2, Glossary). This implicit rate may not be known to the lessee. In such case, the incremental borrowing rate may be used.

.198 **Minimum lease payments** are payments the lessee is obligated to make or can be required to make in connection with the leased property.

.199 **Executory costs** are costs related to the operation of the leased tangible capital asset (e.g., insurance, maintenance cost and property taxes) (PSG-2, Glossary). If the lessor retains responsibility for the payment of these "ownership type costs", a portion of each lease payment that represents executory costs should be excluded in computing the present value of the minimum lease payments. In most cases, however,

lease agreements specify that these costs be assumed by the lessee and no adjustment for executory costs is necessary in the present value calculation.

.200 **Fair value** is the amount of consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act (PSG-2, Glossary).

.201 **Residual value** is the estimated fair value of the leased property at the end of the lease term. The lessor often transfers to the lessee the risk of loss through a guaranteed residual value. The amount of the guaranteed residual value is:

- the determinable amount which the lessor has the right to require the lessee to purchase the asset for; or
- the amount the lessee guarantees will be realized

.202 **Leasehold improvements** (land or building) are betterments made to leased properties. Betterments are costs incurred related to the alteration or modernization of an asset that appreciably prolong the asset's period of usefulness or improve its functionality.

Leased Tangible Asset Classes

.203 **Capital Leases – Buildings** includes buildings as well as betterments to buildings under capital leases with a capitalization threshold of $10,000 or greater.

.204 **Capital Leases – Land** includes land tangible capital assets as well as betterments to land tangible capital assets under capital leases with a capitalization threshold of $10,000 or greater. (Note: this asset class is rare. An example is a lease to perpetuity).

.205 **Capital Leases – Machinery and Equipment** includes machinery and equipment under capital leases with a capitalization threshold of $5,000 or greater.

.206 **Capital Leases – Information Technology** includes information technology (IT) under capital leases with a capitalization threshold of $5,000 or greater.

.207 **Capital Leases – Other** includes other tangible capital assets under capital leases with a capitalization threshold of $5,000 or greater. An example is vehicles.

.208 **Leasehold Improvements – Buildings** includes betterments made to building operating leases that have enduring nature (more than one year) where the improvement is $10,000 or greater.

.209 **Leasehold Improvements – Land** includes betterments made to land operating leases that have enduring nature (more than one year) where the improvement is $10,000 or greater.

.210 **Leasehold Improvements – Other** includes betterments made to operating leases (other than buildings and land) that have an enduring nature (more than one year) where the improvement is $5,000 or greater.

Application

.211 The cost of a leased tangible capital asset is determined in accordance with Public Sector Guideline PSG-2, Leased Tangible Capital Assets as well as PSG-5, Sale-Leaseback Transactions.

.212 If a leased tangible capital asset meets the P3 definition and asset recognition criteria set out in Appendix N, and the private sector partner is also obligated to operate and/or maintain the asset, then the leased asset should be recognized and measured in accordance with the guidance provided in Appendix N.

.213 All lease agreements should be reviewed to determine whether they are capital or operating leases.

Operating Leases

.214 Assets under operating leases are <u>not</u> reported in a board's statement of financial position. The lease payments are expensed when incurred (e.g., board enters into an operating lease to provide continuing education or ESL classes).

Capital Leases

.215 Under the terms and conditions of the lease, substantially all of the benefits and risks incident to ownership are transferred to the board.

.216 It is necessary to look at the overall substance of the transaction in determining when substantially all the benefits and risks of ownership have been transferred to the board. From the point of view of a board, the **benefits and risks of ownership** would be transferred to the board when, at inception of the lease, 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 (PSG-2) (when the terms of the lease would result in ownership being transferred to the board by the end of the lease term or when the lease provides for a bargain purchase option).
- the lease term is of such duration that the board will receive substantially all of the economic benefits expected to be derived from the use of the leased property over its life span (PSG-2). The board would normally be expected to receive substantially all of the economic benefits related to the leased property if the lease term is equal to a major portion (usually 75% or more) of the economic life of the leased property.
- the lessor 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. This

condition would exist if the present value, at the beginning of the lease term, of the minimum lease payments is equal to substantially all (usually 90% or more) of the fair value of the leased property, at the inception of the lease (PSG-2).

.217 In determining the classification of a lease, the numerical tests above should not be applied in a mechanistic way. Also, other terms of the lease should also be examined and considered in determining whether substantial benefits and risks of ownership are being transferred to the lessee.

.218 Other qualitative considerations include:

- is there an alternative use for the leased property;
- will the leased property be used to provide an essential service;
- will the board contribute significant financial assistance towards the acquisition and construction of the leased property;
- will the board have a significant degree of control over the idle capacity of the leased property;
- will the board have residual risk or benefit of ownership of the leased property;
- will the board be responsible for performance, availability or maintenance of the leased property;
- does the lease agreement contain provisions for significant future cost increases to be passed on to the board;
- will the board bear the cost and time overrun risk of construction of the leased property;
- will the board be obliged to pay for the output or capacity of the leased property whether or not it is needed; and,
- will the board bear the risk of obsolescence, environmental liability, and uninsured damage of the leased property.

.219 Once a lease has been determined to be a capital type lease, an amount equal to the present value of the minimum lease payments required over the term of the lease should be recorded as a tangible capital asset.

.220 If the lease contains a bargain purchase option, only the minimum rental payments over the lease term and the payment called for by the bargain purchase option should be included in the minimum lease payments. Otherwise, minimum lease payments include:

- the minimum rental payments called for by the lease over the lease term;
- any guarantee by the board of the residual value of the leased property at the end of the lease term;
- any penalty required to be paid by the board for failure to renew or extend the lease at the end of the lease term; and
- additional rentals that can be reasonably estimated at inception of the lease term (e.g., those that relate to a minimum estimable amount of usage).

.221 The **interest rate** used in discounting the value of lease payments and calculating future interest costs is the lower of the incremental rate of borrowing at the inception of the lease and the interest rate implicit in the lease.

.222 Tangible capital assets acquired through capital leases would be amortized over their estimated useful life of the leased capital asset in the same manner as purchased or constructed tangible capital assets.

Leasehold Improvements

.223 Leasehold improvements are betterments made to tangible capital assets under operating leases.

.224 To be considered a leasehold improvement, the modification must have at least four characteristics:

a) the modifications must be made to assets that have been leased;
b) the lessee board must pay for the improvements. If the expenses are the responsibility of the lessor then it will account for the expenses in their own records;
c) the leasehold improvements should be durable, and should bring benefits to the board for a prolonged period of time (e.g., at least one year); and
d) the betterment reverts to the lessor at the end of the lease (i.e., cannot be detached from the leased property).

.225 Examples of leasehold improvements that should be reported include significant upgrades to the electrical system to meet the needs of computer systems and the installation of walls and doors to create permanent offices. Examples of modifications that would not be capitalized would include remodeling costs such as painting and carpeting.

.226 **Betterments made to an asset subject to an operating lease** where ownership does not transfer to the lessee (i.e., Lease does not contain a bargain purchase option or provide for transfer of ownership of the asset) should be classified as a leasehold improvement.

.227 **Betterments made to an asset subject to a capital lease** where ownership is expected to transfer to the lessee, should be classified as betterments. The cost of betterments must be capitalized as part of the cost of the tangible capital asset and amortized over the useful life of the asset.

Financial Statement Presentation and Note Disclosure

.228 Per PSG-2, the following information should be disclosed with respect to a government's leased tangible capital assets:

a) The gross amount of leased tangible capital assets and related accumulated amortization should be disclosed. Disclosure of leased tangible capital assets and accumulated amortization by major category may be desirable.
b) Liabilities related to leased tangible capital assets should be shown separately from other liabilities. Particulars of liabilities related to leased tangible capital assets, including interest rates and expiry dates, should be shown separately from other long-term liabilities. Significant conditions of the lease agreement should be disclosed, including future contractual obligations, purchase options,

terms of renewal and contingencies, and circumstances that require or result in the government's continuing involvement in the contractual arrangement.

c) The amount of amortization of leased tangible capital assets included in the determination of the government's surplus or deficit should be disclosed separately or as part of amortization expense for tangible capital assets. Disclosure should also be made of methods and rates of amortization.
d) Interest expenditure/expense related to lease liabilities should be disclosed separately, or as part of interest on long-term debt.

.229 PSG-2 also notes that the level of detail disclosed by the government should reflect the highly aggregated nature of summary financial statements. In deciding on the level of detail to disclose, governments should consider the usefulness of the information to the reader in assessing the nature of, and the costs associated with the leased tangible capital assets. The level of disclosure would also consider the sensitivity of the information to the government's financial position.

.230 For an example of what note disclosure could look like, see Appendix I.

APPENDICES

Appendix A – Pooled Cost Approach: Illustrative Example #1 – Equipment 5 Years

A.01 Purpose

To illustrate how the pooling method works and the related journal entries that would be posted by boards.

A.02 Example Details

The information used in this example does not relate to any other appendices. The following has been assumed:

- Between year 1 and year 5, the board has made a yearly investment in this 5-year equipment class of differing amounts which is reflected in the gross book value (investment) column.
- In year 6, the board spends $100,000 on new equipment belonging to this class.

A.03 Application of the Pooling Concept

Because the assets deemed to be purchased in 2009-10 are fully amortized at the end of the year they are deemed to be disposed of and both the Gross Book Value and the Accumulated Amortization are adjusted.

Pooled Cost Approach - Illustrative Example - Equipment 5 yrs. Asset Class

	Gross Book Value (Investment)	Year 1	Year 2	Year 3	Year 4	Year 5	Amortization Expense Year 6	Accumulated Amortization at Year End Year 6	NBV
Year 1	60,000	(6,000)	(12,000)	(12,000)	(12,000)	(12,000)	(6,000)	(60,000)	-
Year 2	50,000		(5,000)	(10,000)	(10,000)	(10,000)	(10,000)	(45,000)	5,000
Year 3	75,000			(7,500)	(15,000)	(15,000)	(15,000)	(52,500)	22,500
Year 4	85,000				(8,500)	(17,000)	(17,000)	(42,500)	42,500
Year 5	85,000					(8,500)	(17,000)	(25,500)	59,500
Year 6	100,000						(10,000)	(10,000)	90,000
Deemed Disposal**	(60,000)							60,000	
As at Aug 31, 2015	**395,000**						**(75,000)**	**(175,500)**	**219,500**

* Amortization in the year of purchase is based on the 1/2 year rule.

** Items purchased 5 years ago in year 1 are now fully amortized and therefore are deemed to be disposed of.

A.04 Journal Entries for year 6

The journal entry to record the purchase of assets is:

DR Equipment (5 years)	100,000	
CR Cash		100,000

The journal entry to record the amortization is:

DR Amortization Expense	75,000	
CR Accumulated Amortization – Equipment (5 years)		75,000

The journal entry to record the deemed disposal is:

DR Accumulated Amortization – Equipment (5 years)	60,000	
CR Equipment (5 years)		60,000

Pooled Cost Approach: Illustrative Example #2 – Portable Structures

A. 05 Purpose

To illustrate the pooling method for portable structures for one board.

A.06 Background

Portable structures information has been collected by the Ministry on an asset by asset basis up to March 31, 2006. The summary data below represents the portable structures of one board.

The data was sorted by years of remaining service life as of March 31, 2006 and the gross book values and accumulated amortization were summed by year and are shown in the table below.

SUMMARY DATA AS AT MARCH 31, 2006

Remaing Service Life	Gross Book Value	Accumulated Amortization	Net Book Value
0	326,900	326,900	-
1	490,500	468,900	21,600
2	1,851,000	1,684,000	167,000
3	3,811,200	3,282,525	528,675
4	7,400,900	5,980,740	1,420,160
5	4,844,400	3,704,733	1,139,667
6	1,281,500	905,643	375,857
7	658,700	434,875	223,825
8	1,747,100	1,061,856	685,244
9	-		-
10	183,300	91,573	91,727
11	-		-
12	483,600	195,600	288,000
13	-	-	-
14	-	-	-
15	-	-	-
16	-	-	-
17	-	-	-
18	-	-	-
19	-	-	-
20	-	-	-
TOTAL	23,079,100	18,137,345	4,941,755

A.07 The amortization per year for existing assets was calculated based on the remaining service life as derived by the BVC. The following table represents the amortization to be taken each year on portable structures **existing as of March 31, 2006**.

	For the year ending the 31st																				
RSL	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	
NBV	21,600	167,000	528,675	1,420,160	1,139,667	375,857	223,825	685,244	-	91,727	-	288,000	-	-	-	-	-	-	-	-	Total
Aug-06	21,600	83,500	176,225	355,040	227,933	62,643	31,975	85,656		9,173		24,000									1,077,745
Aug-07		83,500	176,225	355,040	227,933	62,643	31,975	85,656		9,173		24,000									1,056,145
Aug-08			176,225	355,040	227,933	62,643	31,975	85,656		9,173		24,000									972,645
Aug-09				355,040	227,933	62,643	31,975	85,656		9,173		24,000									796,420
Aug-10					227,935	62,643	31,975	85,656		9,173		24,000									441,382
Aug-11						62,642	31,975	85,656		9,173		24,000									213,446
Aug-12							31,975	85,656		9,173		24,000									150,804
Aug-13								85,652		9,173		24,000									118,825
Aug-14										9,173		24,000									33,173
Aug-15										9,170		24,000									33,170
Aug-16												24,000									24,000
Aug-17												24,000									24,000
TOTAL	21,600	167,000	528,675	1,420,160	1,139,667	375,857	223,825	685,244	-	91,727	-	288,000	-	-	-	-	-	-	-	-	4,941,755

RSL = Remaining service life
NBV = Net Book Value

A.08 To illustrate how to record new portable structure purchases and disposals of portable structures, we are assuming the following activities took place:

- Portable purchases in June 2007 (5 month period) for $40,000
- Portable purchases in Sept 2007 (7 month period) for $60,000
- Portable disposals in January 2009 (7 month period) for $5,000

Investments		**40,000**	**60,000**	
For the period ending:	Existing assets			Total amortization for the period
Aug-15	1,077,745			1,077,745
Aug-16	1,056,145	1,000		1,057,145
Aug-17	972,645	2,000	1,500	976,145
Aug-18	796,420	2,000	3,000	801,420
Aug-19	441,382	2,000	3,000	446,382
Aug-20	213,446	2,000	3,000	218,446
Aug-21	150,804	2,000	3,000	155,804
Aug-22	118,825	2,000	3,000	123,825
Aug-23	33,173	2,000	3,000	38,173
Aug-24	33,170	2,000	3,000	38,170
Aug-25	24,000	2,000	3,000	29,000
Aug-26	24,000	2,000	3,000	29,000
Aug-27		2,000	3,000	5,000
Aug-28		2,000	3,000	5,000
Aug-29		2,000	3,000	5,000
Aug-30		2,000	3,000	5,000
Aug-31		2,000	3,000	5,000
Aug-32		2,000	3,000	5,000
Aug-33		2,000	3,000	5,000
Aug-34		2,000	3,000	5,000
Aug-35		2,000	3,000	5,000
Aug-36		1,000	3,000	4,000
Aug-37			1,500	1,500

A.09 Following through with our example, this is what the continuity schedule would look like for portable structures for our sample board given the following assumptions:

Continuity schedule was built based on a 20 year life cycle starting with Mar 31, 2006
Portable structure purchases in 2007 for $40,000
Portable structure purchases in 2008 for $60,000
Disposal incurred in 2009 was not removed in asset class as we will apply the "deemed disposal" rule. It will be recorded as revenue of $5,000. See A.10 below.

Portables - Pooled Approach Example
CONTINUITY SCHEDULE

		GROSS BOOK VALUE				ACCUMULATED AMORTIZATION				
Years	Period Ending	Opening Balance	Additions	Deemed Disposals	Ending Balance	Opening Balance	Amortization Expense	Deemed Disposals	Closing Balance	**NBV**
1	August 31, 2015	23,079,100		(326,900)	22,752,200	18,137,345	1,077,745	(326,900)	18,888,190	3,864,010
2	August 31, 2016	22,752,200	40,000	(490,500)	22,301,700	18,888,190	1,057,145	(490,500)	19,454,835	2,846,865
3	August 31, 2017	22,301,700	60,000	(1,851,000)	20,510,700	19,454,835	976,145	(1,851,000)	18,579,980	1,930,720
4	August 31, 2018	20,510,700		(3,811,200)	16,699,500	18,579,980	801,420	(3,811,200)	15,570,200	1,129,300
5	August 31, 2019	16,699,500		(7,400,900)	9,298,600	15,570,200	446,382	(7,400,900)	8,615,682	682,918
6	August 31, 2020	9,298,600		(4,844,400)	4,454,200	8,615,682	218,446	(4,844,400)	3,989,728	464,472
7	August 31, 2021	4,454,200		(1,281,500)	3,172,700	3,989,728	155,804	(1,281,500)	2,864,032	308,668
8	August 31, 2022	3,172,700		(658,700)	2,514,000	2,864,032	123,825	(658,700)	2,329,157	184,843
9	August 31, 2023	2,514,000		(1,747,100)	766,900	2,329,157	38,173	(1,747,100)	620,230	146,670
10	August 31, 2024	766,900		0	766,900	620,230	38,170	0	658,400	108,500
11	August 31, 2025	766,900		(183,300)	583,600	658,400	29,000	(183,300)	504,100	79,500
12	August 31, 2026	583,600		0	583,600	504,100	29,000	0	533,100	50,500
13	August 31, 2027	583,600		(483,600)	100,000	533,100	5,000	(483,600)	54,500	45,500
14	August 31, 2028	100,000		0	100,000	54,500	5,000	0	59,500	40,500
15	August 31, 2029	100,000		0	100,000	59,500	5,000	0	64,500	35,500
16	August 31, 2030	100,000		0	100,000	64,500	5,000	0	69,500	30,500
17	August 31, 2031	100,000		0	100,000	69,500	5,000	0	74,500	25,500
18	August 31, 2032	100,000		0	100,000	74,500	5,000	0	79,500	20,500
19	August 31, 2033	100,000		0	100,000	79,500	5,000	0	84,500	15,500
20	August 31, 2034	100,000		0	100,000	84,500	5,000	0	89,500	10,500
21	August 31, 2035	100,000		0	100,000	89,500	5,000	0	94,500	5,500
22	August 31, 2036	100,000		(40,000)	60,000	94,500	4,000	(40,000)	58,500	1,500
23	August 31, 2037	60,000		(60,000)	-	58,500	1,500	(60,000)	-	-

A. 10 The $5000 received due to the disposal of a portable structure in 2009 is recorded as revenue (Gain on Disposal) as all portable structures are assumed to be held to the end of their useful life and then disposed.

Appendix B – Estimated Useful Lives and Capitalization Thresholds

B. 01 Tangible capital assets with a dollar value as set out below or greater shall be capitalized.

Asset Class	Capitalization Threshold By Unit Value[6]	Tracking Method[1]	Amortization Method	Estimated Useful Life
BUILDINGS				
Buildings	$10,000[5]	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 and LAND IMPROVEMENTS				
Land and 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

Asset Class	Capitalization Threshold By Unit Value[6]	Tracking Method[1]	Amortization Method	Estimated Useful Life
FURNITURE and 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 and SOFTWARE				
Computer Hardware	$5,000[3]	Pooled	Straight-line	3 years
Computer Software	$5,000	Pooled	Straight-line	5 years
VEHICLES				
Vehicles – gvwr less than 10,000 pounds	$5,000[2]	By asset	Straight-line	5 years
Vehicles – gvwr equal to or greater than 10,000 pounds	$5,000[2]	By asset	Straight-line	10 years
ASSETS PERMANENTLY REMOVED FROM SERVICE				
Assets Permanently Removed from Service – Buildings	All transferred from building class	By asset	N/A	N/A

Asset Class	Capitalization Threshold By Unit Value[6]	Tracking Method[1]	Amortization Method	Estimated Useful Life
LEASED ASSETS				
Capital Leases – Building	$10,000	By asset	Straight-line	Over the lease term. If bargain purchase option exists, over the economic life of the asset.
Capital Leases – Land	All (initial purchase) $10,000 (betterments)	By asset	N/A	Infinite
Capital Leases - Other	$5,000	By asset	Straight-line	Over the lease term. If bargain purchase option exists, over the economic life of the asset.
Leasehold Improvements – Buildings	$10,000	By asset	Straight-line	Over the lease term
Leasehold Improvements - Land	$10,000	By asset	Straight-line	Over the lease term
Leasehold Improvements -Other	$5,000	By asset	Straight-line	Over the lease term
CONSTRUCTION IN PROGRESS				
Construction In Progress	$10,000[4]	By Asset	N/A	N/A

[1] The tracking method listing is a recommendation only. Boards are given the flexibility to determine the accounting treatment based on their particular circumstances as well as in conjunction with their external auditors.

[2] Betterments are not anticipated to these asset classes

[3] Per unit capitalization threshold does not apply where the invoices or purchase orders exceed $25,000.

[4] Represents value of entire project

[5] Per unit capitalization threshold does not apply when the value of a project is greater than $10,000 and it increases the life, service potential, and/or efficiency of a building. In this case, the cost of the entire project should be considered when determining whether capitalization should take place. For instance, if the board is

installing an energy efficient furnace costing $8,000 and the cost to install the furnace is $3,000, the total cost of the furnace including installation ($11,000), should be capitalized as the cost of the project as a whole is greater than $10,000.

[6] The capitalization threshold for ARO capitalization will be consistent with the amounts used for the corresponding asset classes.

B.02 Estimated useful life depends on the asset class to which the tangible capital asset belongs. Please work with your IT department and/or auditors to determine if the life expectancy of the tangible capital asset meets the estimated useful life of its asset category.

B.03 If the tangible capital asset 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.

B.04 A leased tangible capital asset is amortized over the period of expected use of the asset, on a basis that is consistent with the board's amortization policy for other similar tangible capital assets. If the lease contains terms that allow ownership to pass to the board or a bargain purchase option, the period of amortization would be the economic life of the property. Otherwise, the property would be amortized over the lease term.

Appendix C – Tangible Capital Asset Listing

C.01 The following is a list of tangible capital assets that would **typically** fall under each category based on the selected capitalization threshold. If your board frequently purchases items other than those appearing on the list that exceed the capitalization threshold, please let Ministry of Education staff know so that it can be added for future reference.

Buildings (capitalization threshold $10,000)

- Elementary schools
- Secondary schools
- Board office buildings

Portable Structures (capitalization threshold $10,000)

- Portables
- Portapaks
- Relocatable classroom modules
- Initial set up costs on portables and portapaks

Other Buildings (capitalization threshold $10,000)

- Domes
- Bus barns
- Salt and sand storage buildings
- Residential homes
- Teacherages

Land (capitalization threshold nil for new land assets, and $10,000 for betterments)

- Vacant land
- Land under buildings
- Land improvements with infinite lives (such as ponds, grading, drainage, trees)

Land Improvements with finite lives (capitalization threshold $10,000)

- Driveways
- Walkways
- Fences
- Light posts
- Landscaping (such as retaining brick walls)
- Parking lots

- Electric vehicle charge stations
- Playground equipment
- Sun shelters
- Garbage enclosures
- Signs

First time equipping: 10 years (capitalization threshold nil, unless otherwise stated)

- Desks, tables, chairs, seating
- Computer hardware and software
- Tote boxes and racks
- Drapes and blinds
- Musical instruments
- Pottery kilns, carts
- Laboratory glassware and apparatus, trolleys, trays
- Family studies dining or sewing tables, cooking stoves, refrigerators, food preparation equipment, cooking utensils, etc.
- Tools, hand and power-driven, fixed and portable, workbenches, forge, welding equipment and booths
- Library furnishings, including study-carrels, card catalogues, magazine racks, charging desks, book-trucks, wall mounted and free standing book shelving
- Library resource materials
- Cafeteria furniture and equipment including portable food preparation equipment, cooking utensils, crockery and cutlery
- Physical education equipment, fixed or movable, including games and major athletic equipment, basketball backstops, and scoreboards
- Administration and staff furnishings, office furniture, office machinery, demountable metal storage units
- Caretaking and maintenance equipment and tools
- Regular classroom or library to an Early Learning space
- Classroom to a lab
- Cribs, evacuation frames and gliders for Child Care Centers
- Toys for Child Care Centers

First-time equipping costs that do NOT get captured by this category and should be included as part of building costs (provided the capitalization criteria of $10,000 has been met) are:

- Carpeting, tiling
- Fixed chalkboards, whiteboards, etc.
- Fixed projection screens
- Lockers
- Cafeteria, kitchen, laboratory worktops
- Built-in storage units
- PA system
- Security system (if the security equipment is attached to the building)

- Kindergarten classroom to an Early Learning space

First-time equipping costs should NOT include the following:

- Consumables
- Rented goods
- Clothing, uniforms
- Books, other than those allowed under Library Resource Materials

Furniture: 10 years (capitalization threshold $5,000)

- Bleachers
- Drapes and blinds
- Library shelving
- Learning structures for primary classes (i.e., indoor slides)

Equipment: 5 years (capitalization threshold $5,000)

- Secondary school gym equipment exceeding $5,000 per unit value
- Photocopier
- Uninterrupted power supply (UPS)

Equipment: 10 years (capitalization threshold $5,000)

- Telephone system and equipment, security system (if it can be easily moved to another site), snow blowers, shop equipment, hoists, musical instruments
- Multi-port patch panels

Notes:

Special education equipment (formerly ISA equipment) is specifically excluded from capitalization as the equipment is purchased by board on behalf of the student – essentially ownership belongs to the student due to its portability feature

We have provided a typical listing of equipment included in the 5 year and 10 year class based on the assumption that those assets have useful lives of approximately five years or ten years. When making this classification decision, the board should look to the useful life of the piece of equipment and place it in the class that best reflects the useful life of the asset as similar assets may differ substantially in quality and, hence, in their useful lives, because of differences in materials, designs and workmanship.

CAT5/CAT5E/CAT6 cable, ethernet cable and wall plates (LAN outlets) can be capitalized and added to different categories of assets, based on the nature of the projects, for example, computer hardware with 3 years of service life or equipment with 10 years of service life.

Equipment: 15 years (capitalization threshold $5,000)

- Forklift
- Warehouse platform trucks
- Tractor and attachments
- Backhoe
- Other heavy construction equipment

Note:
This listing is based on the assumption that these types of equipment have useful lives of fifteen years. Where a board determines that their useful lives do not approximate fifteen years, they should be placed in other asset classes that reflect their useful lives.

Computer Hardware: 3 years (capitalization threshold $5,000/unit, or bulk purchase order/invoice exceeds $25,000)

- Computer workstation including, laptops, monitors, central processing units, keyboards and other peripherals, scanners and printers
- Tablets (e.g., iPads) and smart boards
- Computer software initially purchased with the computer (e.g. Windows)
- Audio visual equipment
- Wireless infrastructure (e.g routers, Wi-Fi access points, servers and switches)
- Voice over IP (VoIP) phone

Note:
Cellular phones should be treated as operating expenses.

Computer Software: 5 years (capitalization threshold $5,000)

- Computer software with unit value exceeding $5,000 for example, student information system software
- License for the use or distribution of software where the license unit value exceeds $5,000 – this should be amortized over the term of the license if less than five years
- Consulting costs to customize a software application
- One-time fees for web-based applications
- On-line registration / attendance systems

Note:
Cloud computing may fall into the categories of computer hardware or software where the definition of a tangible capital asset and capitalization criteria is met. Otherwise, it should be expensed as a service fee. For details on cloud computing, see Appendix M.

Vehicles with gvwr < 10,000 pounds: 5 years (capitalization threshold $5,000)

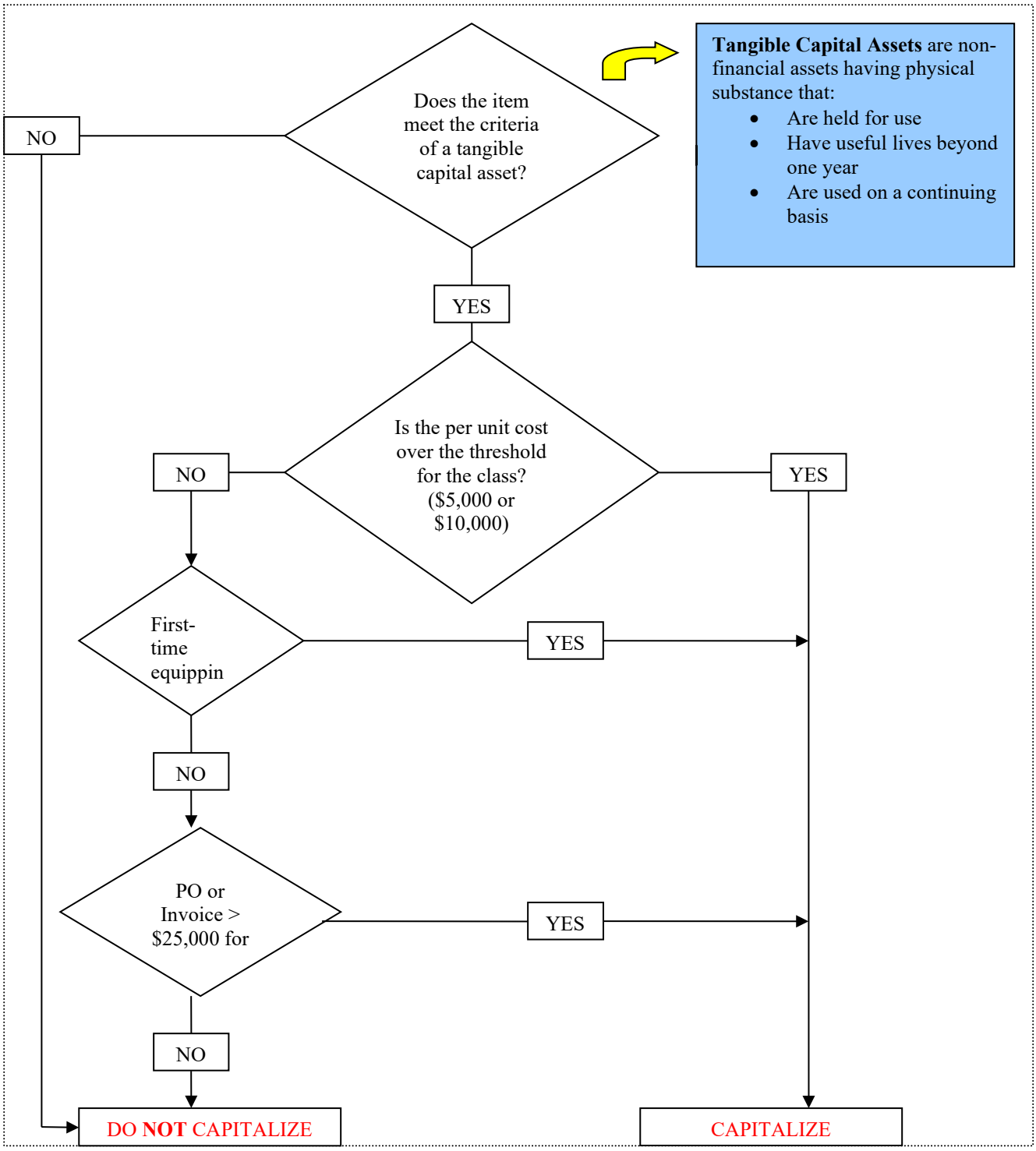
- Passenger vehicles such as cars, vans or minivans
- Trucks – ¼ ton, ½ ton, ¾ ton

Vehicles with gvwr > 10,000 pounds: 10years (capitalization threshold $5,000)

- Trucks – 1 ton or greater
- Cube vans
- Vans
- School buses

When should a tangible capital asset be capitalized?

C.02 The Ministry of Education has created a capitalization decision tree to guide boards in the process of deciding when a tangible capital asset should be capitalized.



Appendix D – Construction In Progress: Illustrative Example

D.01 Scenario

It is March 2013 and the board is planning the construction of a new school. In April the board incurred feasibility study costs of $226,850 relating to the potential construction of the school. The board decided to go ahead with the construction plans and actual construction started in October 2013. The school is slated for opening in September 2015.

The board incurs the following costs on the new school:

Pre-construction Costs:	
2012-13	$ 226,850
Actual construction Costs:	
2013-14	4,025,566
2014-15	2,100,040
Total Costs	$ 6,352,456

The school is substantially complete as of August 31, 2015.

During the 2015-16 school year the board incurs a further $129,510 related to invoices that were not billed to the board at the end of August 31, 2015.

This scenario is ignoring any effects of amortization.

D.02 Journal Entries

In 2012-13:
No tangible capital asset entries to be posted. However, as the board is contemplating the construction of a school and has incurred costs related to that school project that can be specifically attributable to that project, it can record those costs.

DR Pre-acquisition Cost	226,850	
CR Cash		226,850

If the project was subsequently cancelled, the board would expense these costs at the time the project was cancelled with the following entry:

DR Other Expense	226,850	
CR Pre-acquisition Cost		226,850

In 2013-14:

The board would transfer the Pre-acquisition Cost to Construction in Progress in October 2013 when the board decided to go ahead with the project.

DR Construction in Progress	226,850	
CR Pre-acquisition Cost		226,850

The board will record the investment in the project for the year.

DR Construction in Progress	4,025,566	
CR Cash		4,025,566

In 2014-15:

The board will record the investment in the project for the year.

DR Construction in Progress	2,100,040	
CR Cash		2,100,040

As the project is substantially complete at the end of the year, the board will record the transfer of the project to its appropriate asset class.

DR Buildings	6,352,456	
CR Construction in Progress		6,352,456

In 2015/16:

The board will record the additional costs incurred related to this school.

DR Buildings	129,510	
CR Cash		129,510

Appendix E – Betterment versus Operating Expense

Overview

E.01 To ensure a consistent and appropriate application of the board's tangible capital asset accounting policy, this Appendix provides guidance on the distinction between betterments and operating expenses.

Betterments

E.02 Betterments include such things as additions, upgrades and rearrangements.

Additions

E.03 Additions are made to an existing tangible capital asset to extend, enlarge or expand the existing tangible capital asset. Examples include adding an extra wing or room to a building.

E.04 As additions increase service capacity or physical output of a property, they are betterments. Accordingly, the costs of additions meet the definition of a betterment and therefore should be capitalized. The key consideration is increase of quantity of service or output.

Upgrades

E.05 Upgrades involve the removal of a major part or component of a tangible capital asset and the substitution of a different component having significantly improved performance capabilities beyond the property's original design standard.

E.06 Upgrades increase the overall efficiency (e.g., increasing utilization, lowering operating costs, increasing output of service), quality (i.e., transforms the asset into a higher class property) or expected service life of a tangible capital asset. The costs of upgrades are capitalized.

E.07 The following examples would have characteristics of an upgrade:

- Installing air conditioning in a building that was previously not-air conditioned. This increases the service quality of the property;
- Replacing existing lighting with energy saving lighting which reduces future operating costs;
- Substituting a tile roof for wooden shingles which increases the expected useful life of the building beyond its current estimated life;
- Replacing an elevator with a new high-speed elevator thereby improving the building class of the overall property; or,

- Replacing a furnace with a high-efficiency furnace which decreases future operating costs.

Rearrangements

E.08 Rearrangements are the reinstallation, rerouting, or rearrangement of asset components to achieve greater service efficiency or effectiveness of the tangible capital asset. It is a change in the internal arrangement or other physical characteristics of an existing tangible capital asset so that it may be effectively used.

E.09 Examples include (but are not limited to):
- increasing the number of partitions in an office area to increase office space (i.e., better utilization of office space);
- re-routing the wires in a building to increase the number of computer workstation connections

E.10 Rearrangements of the tangible capital asset that increase service capacity or physical output meet the definition of betterment and should be capitalized as part of the asset, unless specified otherwise in other parts of this guide.

Operating Expenses

E.11 Operating expenses include such things as maintenance, repairs and component replacements.

Maintenance

E.12 Examples of costs that would be categorized as maintenance expenses would typically include (but are not limited to):
- Replacement of individual units or parts of a tangible capital asset due to age, “wear-and-tear” and damage in order to maintain the tangible capital asset in an operating condition without significantly enhancing the functionality, capacity, usability, and efficiency of the tangible capital asset;
- Costs incurred to service or maintain the tangible capital asset until the end of its estimated useful life;
- Repairs, including emergency repairs, due to equipment failure;
- Routine cleaning and servicing of equipment;
- Repairs to restore assets damaged by fire, flood or similar events, to a condition just prior to the event. This assumes that the board is not writing down the original cost of the building and its associated accumulated amortization; and,
- Costs that must be incurred in order to realize the benefits originally projected from the tangible capital asset.

Repairs

E.13 Examples include (but are not limited to):

- repairing shingles on a roof
- repairing a faulty HVAC or boiler with new parts
- repairing a broken window
- fixing the electrical system
- repairing the carpet

Replacements

E.14 Replacement of individual units or parts of a tangible capital asset due to age, “wear-and-tear” and damage may be required from time to time. Expenditures that bring the asset back to its original standard should be expensed as incurred; in cases where the replacement enhances the service potential of the asset, may qualify as a betterment and thus, may be capitalized.

Appendix F – Betterments versus Operating Expenses: Illustrative Examples

F.01 Subsequent to an acquisition or construction of a school building or other type of building, the board incurs related costs over the buildings' useful lives. These projects must be flagged as either operating projects or capital projects (betterments). The expenditures are generally classified by the following types: maintenance, repairs, replacements, upgrades and rearrangements.

OPERATING	**CAPITAL**
Operating projects are recorded as expenditures in the year the work is performed.	*The value of a capital project is added to the building's book value and amortized over the remaining useful life of the building.*
Maintenance costs keep the condition of the asset at its expected operating standard. Examples include duct cleaning, painting, infrared scans, etc.	A project has to meet one of the following criteria: • increase previously assessed physical output; • increase previously assessed capacity; • reduce operating costs or energy consumption; • may extend the useful life of the building when combined with other capital projects
Repairs are costs to restore the asset to its originally designed service potential after damage, accident, or prolonged use.	**Upgrades** involve the removal of a major part or component and the substitution of a different component having significantly improved performance capabilities beyond the property's original design standard.
Replacements involve the removal of component parts and substitution with a new part of essentially the same type of performance capabilities.	**Rearrangements** of the building that increase service capacity or physical output. Examples include increasing the number of partitions in an office area to increase office space or re-routing the wires in the building to increase the number of workstations.

F.02 To determine whether an expenditure is a capital (betterment) or an operating expenditure take the following steps:

1. All expenditures under $10,000 are to be treated as operating expenses (unless they are part of a project that extends beyond one year that is assessed as a betterment).

2. All expenditures over $10,000 should be assessed to determine whether they are capital (betterment) or operating expenditures.

F.03 Generally, the description of the project will assist in the determination of whether a project is a capital (betterment) or an operating expenditure. Words such as “upgrade” and “replacement” usually represent a capital expenditure while such words as “service”, “maintenance”, “repairs”, “emergency repairs” and “remove” generally describe operating and maintenance expenditures and are not capital in nature. Likewise, the replacement of the whole item is likely to be a capital expenditure and the replacement of components is likely to be an operating expenditure.

F.04 The following are examples of typical expenses and depending on the nature could be a capital or operating expenditure. Professional judgment should be used at all times and decisions will vary based on specific circumstances. Where an expenditure is classified as a betterment, it should be capitalized. Where an expenditure is not classified as a betterment, it should be expensed as incurred.

Examples of Expenditures	**Capitalized Expenditures (betterments)**	**Operating Expenditures (expensed as incurred)**
Asbestos removal	A project(s) to replace asbestos insulation with non-asbestos material.	Small area of asbestos insulation is patched with non-asbestos materials.
Boilers	A project(s) to upgrade the boiler or replace it with a more energy efficient model[1].	Routine repairs such as pumps, expansion tanks, or water treatment on the existing boiler.
Carpets	A project(s) to replace all or a significant portion of the carpets of a building.[1]	Re-carpeting a small area.
Change of use of building	Expenditures necessary to enable change of use of building. For example: • Classroom to lab • Storage room to office	Expenditures under $10,000.

Examples of Expenditures	Capitalized Expenditures (betterments)	Operating Expenditures (expensed as incurred)
Cleaning		Regular operating and maintenance.
Electrical	A project(s) to upgrade or re-wire the whole building and install new electrical panels. A project(s) to install new panels and wiring as a result of an extension or creation of a new building space.	Repairing or occasional replacement of individual units such as panels, switches or outlets.
Elevators and escalators	Modernization of the elevators or escalators and may include items such as: • Voice communicators • Buttons	Replacement of individual parts and repairs including routine services and emergency repairs. A project to replace components like light bulbs.
Environmental cleanups	A project(s) to clean up an oil or chemical contamination to rebuild another building.	Clean up a minor oil or chemical spill. Clean up after a previous use of land, such as a landfill, to restore the land back to its original condition with no further development.
Exterior doors	A project(s) to replace all the exterior doors of the building[1].	Repair or occasional replacement of a single or a small number of the exterior doors or emergency repairs such as broken door jams or locks.
Fire alarm and PA systems	A project(s) to update the fire alarm and PA systems including critical components.	Replacement and repairs. This includes routine service and emergency repairs.

Examples of Expenditures	Capitalized Expenditures (betterments)	Operating Expenditures (expensed as incurred)
Floors	A project(s) to replace all or a significant portion of the floors of a building[1].	Repairs or patching of a small area of the floors.
HVAC	A project(s) to install or upgrade: • Chillers • Cooling Towers • Air Handling Units • VAV boxes • Pneumatic Controls • Cooling coils • Humidifier / Thermostats	Replacement of parts and components and repairs including routine services and emergency repairs.
Interior painting	A renovation or construction project (s) that includes painting.	Repainting walls as part of the maintenance program.
Lighting	A project(s) to upgrade the internal and external lighting systems such as upgrading from T12 to T8 light fixtures and upgrading of light fixtures (fixture body, ballast and light bulb).	Occasional replacement of individual parts and repairs to light fixtures including replacement of light bulbs.
Parking lots	Extension of parking lot or resurfacing of entire parking lot. This includes lampposts and entry / exit barriers.	Maintaining and covering occasional potholes. Resurfacing or repainting part of the parking lot. Repairs and occasional replacement of lampposts and light bulbs.
Plumbing	A project(s) to install or upgrade the majority or entire plumbing of a building including sewage systems and sump pumps.	Repairing or occasional replacement of individual units or emergency repairs.
Power generators	A project(s) to install or upgrade: • Back up and emergency generators • UPS batteries • Transformers	Replacement of individual parts and repairs including routine services, testing and emergency repairs.

Examples of Expenditures	Capitalized Expenditures (betterments)	Operating Expenditures (expensed as incurred)
Roofs	A project(s) to replace or upgrade the roof[1].	Maintaining and patching small areas due to blistering or leaks.
Security systems	A project(s) to upgrade the security systems including critical components such as: • Card readers • Security Cameras	Replacement of individual components and repairs. This includes routine services and emergency repairs.
Sprinklers	A project(s) to upgrade all or a majority of the sprinkler units and systems: • Fire hoses • Sprinkler heads • Hydrants	Replacement of individual parts and repairs. This includes routine services and emergency repairs such as leaks.
Telecommunications	A project(s) to upgrade the communication of a building such as installing a fiber optic cable.	Repairs or extensions to individual lines.
Windows	A project(s) to replace all the windows of a building or an entire wing of a building[1]. This includes a project(s) to replace the caulking of the windows.	Repairing or occasional replacement of a single or small number of the windows due to damage (broken, leaks, etc).
Energy Efficient Occupancy Sensors	A project to install occupancy sensors that are attached to the school building.	A replacement project to replace or fix a part of the sensor system that is not working or the costs incurred are below the capitalization threshold.
Software on a cloud	A one-time fee to access software on a cloud for period of over 1 year.	A yearly license to access software on a cloud.

[1]This is assuming that the project has enhanced the building's service potential by one of the following means:

a) increased previously assessed physical output
b) increased previously assessed capacity

c) reduced operating costs or energy consumption
d) may have extended the useful life of the building either by itself or by combining it with other capital projects.

Appendix G – Revision of Useful Life / Write-Down: Illustrative Example 1

G.01 Scenario

On April 2, 2013 a media person at a board is reading the news as he does every morning. An article on the town of Winchester catches his attention. Winchester is a small town where one of their schools is located – Winchester Elementary School. The school has an enrolment of 100 pupils and is located beside the cheese factory. The article details the closing of the only factory in Winchester that employs 2/3 of the town's population. The article goes on to state that it will devastate the poor community and will likely turn it into a ghost town. The closure is slated to take place April 30, 2014. However, the existing owners are looking for other owners to purchase the factory. The media person informs the manager of finance of the article.

The board has Winchester Elementary School on their books at August 31, 2012 at the following values:

Land:	$150,000
Building – Gross Book Value:	$250,000
Building – Accumulated Amort.:	$100,000
Remaining Service Life	10 years

In January 2014, a buyer has come to Winchester and will keep the factory open. This is great news for that community. In August 2014, another article resurfaces in the news indicating that a tornado has swept the area and the east wing of school building has been badly damaged. The board has hired a professional and he determined that the east wing is no longer functional. In light of this situation, the school decided to permanently close down the east wing. The net carrying value of the east wing is estimated to be around $30,000.

G.02 Actions to be taken

<u>2012/13 Year-End:</u>

The board would examine the particular circumstances to determine if this news meets the criteria for revising the useful life of Winchester Elementary School or require a write-down to its value. These criteria are listed in paragraphs .120 and .128 of the guide.

This scenario does not meet any of the criteria of paragraphs .128 but it does seem to possibly fit within the list of paragraph .120. This paragraph indicates that a significant event that may indicate a need to revise the estimated useful life of a tangible capital asset includes a change in the extent which the tangible capital asset is used. As this factory employs 2/3 of the town's population, if the factory closes, there is a possibility that they will move away and the school will close.

The revision to useful life is an exercise in professional judgment. However, the facts in this case are as follows:

- There is no degree of certainty given to the factory closing;
- The factory has not yet closed as of August 2013 (year-end date);
- A prospective buyer is being searched for to purchase the factory.

Given those facts, it is difficult to assess the likelihood of the factory closing and the population moving, therefore no change in useful life or write-down is required.

Therefore the only action taken by the board is to record amortization expense on the building:

DR	Amortization Expense: Building		15,000	
	CR	Accumulated Amortization: Building		15,000

2013/14 Year End:

Once again, the board would examine the particular circumstances to determine if the new information on the building damage meets the criteria for revising the useful life of Winchester Elementary School or if a write-down to its value is required. The new facts indicate that significant physical damage has occurred to the school building and a part of the building is out of commission. The fact that the east wing of the building is no longer be in use as a result of the hurricane indicates a change in the service potential of the asset as the value of its future economic value. Therefore the carrying value of the asset should be written down to its net realizable value.

Journal entry to be recorded:

DR	Other – Amortization and Write Down		30,000	
	CR	Accumulated Amortization: Buildings		30,000

Revision of Useful Life / Write-Down: Illustrative Example 2

G.03 Scenario

In 2012, a board purchased equipment for its shop classes. The equipment cost $1,000,000, had an expected life of ten years, and no estimated salvage value. Two years later, with the emergence of new shop lifts that are faster and of higher quality, it became apparent to the board that its equipment had suffered an impairment in value. In early 2014, when the net book value of the equipment was $800,000, the board determined the following:

(1) its net recoverable value was only $300,000
(2) the life should be reduced from 8 to 2 remaining years

G.04 Journal Entry to be posted in 2014

DR Loss due to Equipment Obsolescence	$500,000	
CR Accumulated Amortization – Equipment (10 years)		$500,000

($800,000 - $300,000)

G.05 Journal Entry to be posted in 2015 and 2016

DR Amortization Expense	$150,000	
CR Accumulated Amortization – Equipment (10 years)		$150,000

(amortization charges will be $150,000 a year based on the new carrying value of $300,000 and a remaining life of two years)

Appendix H – Financial Statement Note Disclosure

H.01 Note disclosure required on information for all tangible capital assets.

H.02 Sample note disclosure may look like this:

Summary of Significant Accounting Policies - Tangible Capital Assets

Purchased tangible capital assets are recorded at cost. Contributed tangible capital assets are recorded at fair market value at the date of contribution. Amortization is provided on a straight-line basis over the estimated useful life of the assets.

Note (x) Tangible Capital Assets:

The board has $1,100,000 in tangible capital assets not being amortized: $1,000,000 as they are under construction and $100,000 as they are permanently removed from service. Of the tangible capital assets permanently removed from service, these represent land and building assets that the board is attempting to sell and are currently used as storage areas.

The board maintains a collection of art that was insured for $1,000,000 at August 31, 2014. At August 31, 2014, these assets were not included as part of the tangible capital asset balance. During 2014/15, the board acquired 20 paintings. Of these, 16 were donated with a total appraised value of $275,000.

Amortization rates are generally as follows:

Land Improvements (limited life)	15 years
Buildings	40 years
Portable Structures	20 years
Other Buildings	20 years
First time Equipping	10 years
Furniture	10 years
Equipment	5 – 15 years
Computer Hardware	3 years
Computer Software	5 years
Vehicles	5 – 10 years

	COST (in 000's)				ACCUMULATED AMORTIZATION (in 000's)				Net Book Value
	Opening	+	-	Closing	Opening	+	-	Closing	
Land	$ 200	$ 200	$ 100	$ 300	n/a	-	-	n/a	$ 300
Land Improvements	100	40	-	140	50	6	-	56	84
Buildings (40 years)	950	400	375	975	600	30	50	580	395
Portable Structures	85	15	4	96	12	14	4	22	74
Other Buildings (20 years)	11	-	-	11	5	2	-	7	4
First-time Equipping	6	-	-	6	1	1	-	2	4
Furniture	2	1	-	3	1	1	-	2	1
Equipment	4	-	1	3	2	1	-	3	-
Computer Hardware	1	-	-	1	1	-	-	1	-
Computer Software	6	1	-	7	4	1	-	5	2
Vehicles	9	2	5	6	3	2	1	4	2
TOTAL	**$ 1,374**	**$ 659**	**$ 485**	**$ 1,548**	**$ 679**	**$ 58**	**$55**	**$ 682**	**$ 866**

H.03 The presented notes contain suggested wording. In consultation with your auditors, please revise these notes as prescribed by the PSAB Handbook for circumstances unique to your board.

Appendix I – Tangible Capital Assets Under Leases

I.01 Purpose

To illustrate the note disclosure of tangible capital assets under leases, where the board is the lessee.

I.02 Summary of Significant Accounting Policies - Capital Leases

Leases that, from the point of view of the lessee, transfer substantially all the benefits and risks incident to ownership of property to the Board are considered capital leases. These are accounted for as an asset and an obligation.

I.03 Capital Leases

Note x – Capital Leases
The board has obligations under capital leases for buildings, computer hardware and equipment. Property under capital leases is as follows:

	COST (in 000's)				ACCUMULATED AMORTIZATION (in 000's)				Net Book Value
	Opening	+	-	Closing	Opening	+	-	Closing	
Buildings (40 years)	121	-	-	121	75	2	-	77	44
Computer Hardware	25	1	-	26	14	1	-	15	11
Equipment	17	-	1	16	9	1	1	9	7
TOTAL	**$ 163**	**$ 1**	**$ 1**	**$ 163**	**$ 98**	**$ 4**	**$ 1**	**$ 101**	**$ 62**

The interest rates implicit in the leases are from 6 to 8% and the leases expire as follows:

Buildings	2036
Computer Hardware	2015
Equipment	2018

The leases contain no renewable options and the assets revert to the lessor company at the termination of the leases.

I.04 Note disclosure for operating leases:

Note x - Minimum Lease Payments under Operating Leases

The board's minimum lease payments under operating leases are as follows:

Years ending August 31	
2009	$7,057
2010	4,500
2011	3,822
2012	5,522
2013	799
Afterwards	4,063
	$25,763

I.05 These are simply suggested wording. In consultation with your auditors, please revise these notes as prescribed by the PSAB Handbook for circumstances unique to your board.

Appendix J – Amortization Expense Calculation

J.01 Purpose

To illustrate the recommended approach to calculate amortization expense.

J.02 Elements of amortization expense calculation

1. Existing assets with opening remaining service life (RSL) from prior year files.
2. New assets entered with Opening RSL of 40 year
3. Amortization on existing assets = (GBV – AA) / Opening RSL
4. Amortization on 5 month additions = (Additions / Opening RSL) * ½
   ► additions, missed additions and CIP transferred in the 5-month period
5. Amortization on 7 Month Additions = (Additions / Opening RSL) * ½
   ► additions, missed additions, and CIP transferred in the 7-month period
6. Closing RSL for existing assets = Opening RSL - 1
7. Closing RSL for new assets = Opening RSL - .5

Acronyms:
RSL = remaining service life
GBV = gross book value
AA = accumulated amortization
CIP = construction in progress

Appendix K – Remaining Service Life (RSL)

Introduction

Tangible capital assets are recorded at cost and are amortized on a whole asset basis over the useful life of the asset. Over time boards will invest in betterments to the asset or may have other types of significant events that will impact the remaining service life of the asset. These significant events could have a positive or negative impact on the RSL.

This appendix provides some context to the requirements of paragraph .118 of the Tangible Capital Asset Guide. Also, some practices and processes for review of the remaining service life on a regular basis are suggested.

Changing and/or estimating the RSL of tangible capital assets requires significant professional judgement and is dependent on the unique situations which the board faces. As a result, the examples provided below are only guidelines and examples of approaches and processes. Boards should tailor these examples and make adjustments as necessary to meet the conditions that exist within their environments and methods that are acceptable to their auditors.

Suggest best practices:

To meet the requirements of the TCA guide to review remaining service life on a regular basis the following is a suggested process:

On a yearly basis, boards can adjust the RSL for significant events that occurred based solely on the existing financial information and known changes to the remaining service life. Example 1 provides an example of a method that can be used by Finance staff to conduct an update of the RSL as a result of a significant event.

As well, the asset inventory should have a detailed review of RSL every five years based on a comprehensive analysis and review by knowledgeable staff responsible for the facility. This may be managed by doing 20% of the asset inventory each year. Although not a requirement, boards may enlist the help of external appraisers or other professionals. Example 2 provides an example of a method that can be used by board staff to conduct this five year review.

Significant events may or may not have had an expenditure associated with the event. The chart below provides some examples of significant events and how they would impact the asset.

SIGIFICANT EVENTS:

The guide requires boards to review the RSL of a tangible capital asset when a significant event occurs.

Significant Event	Description	Action
Major Component Replaced	All the windows of a school are replaced.	Please see Example 1 below for a sample calculation.
Addition or Retrofit	A new wing is added to a school.	Please see Example 1 below for a sample calculation.
Investment made in a building with a RSL of ten years or less	Renovations are done to a school.	Please see Example 1 below for a sample calculation.
School building is closed	School is closed as it has been condemned.	If a building with a five year RSL or less is slated to be closed at the end of the school year, the RSL of the building should be adjusted down to 0 years.
Building suffered extensive property damage	It is likely that insurance proceeds will be provided to the board to repair the damage suffered. The change in RSL can be calculated to the extent that betterments were made with the proceeds.	Please see Example 1 below for a sample calculation.
Prohibitive to repair school	School is closed as it has been classified as prohibitive to repair.	If a building with a 10 year RSL is designated as PTR and will be replaced or demolished in three years, the RSL should be written down to three years. If the building is being sold, an adjustment to RSL may not be required while it is in the process of being sold. Boards may instead wish to classify this school as Permanently Removed from Service (PRFS).

Example 1:

This example uses the 2017-18 construction costs to adjust the RSL of the building for new expenditures on betterments.

The construction cost rates in 2017-18 were:

Elementary (E) $2,039.07/square meter or $189/square foot
Secondary (S) $2,224.46/square meter or $207/square foot
Child Care and Child and Family Support (C) $2,039.07/square meter or $189/square foot

Prepare a table, similar to below in which additions to gross book value (betterments) are available per building, using the most current Ministry construction costs, to determine what the current value would be to construct the facility using actual square meters of the building. Determine the increase in useful life. For the updated multi-year construction benchmarks, please refer to the table below called “Multi-Year Construction Benchmarks”.

		A	B	C	D	E	F = A - B	G = E * cost/sq m	H = G/40	I = D/H	J = C+I
Asset Name	Type	Gross Book Value at August 31, 2018	Accumulated Amortization at August 31, 2018	Remaining Service Life at August 31, 2018	$ Additions to Gross Book Value	Square Meters	Net Book Value at August 31, 2018	2017-18 Cost to Construct	2017-18 Cost / Year Useful Life	Inc in RSL	2018 Adjusted Useful Life
School A	E	3,500,000	798,222	17	985,675	5,282	2,701,778	10,770,368	269,259	3.7	20.7
School B	S	7,200,000	1,567,296	29	1,563,333	17,999	5,632,704	40,038,055	1,000,951	1.6	30.6
School C	C	5,000,000	1,342,303	21	1,300,000	12,000	3,657,697	24,468,840	611,721	2.1	23.1

For School A the board should increase the RSL 3.7 years to 20.7. Boards should develop internal policies to determine how fractional increases will be dealt with. Boards may wish to round up or down instead of working with fractional changes.
For School B the board should increase the RSL 1.6 years to 30.6.
For School C the board should increase the RSL 2.1 years to 23.1

The revised RSL should never exceed the maximum of the asset's useful life (40 years or 20 years for buildings).

Multi-Year Construction Benchmarks

$/m²

	Original Benchmark	2013-14 and 2014-15 School Years	2015-16 School Year	2016-17 School Year	2017-18, 2018-19 School Years	2019-20, 2020-21 School Years	2021-22 School Year	2022-23 School Year
Elementary	1847.53	1921.46	1959.89	1999.09	2039.07	2,120.63	2247.87	2,585.05
Secondary	2015.5	2096.16	2138.08	2180.84	2224.46	2,313.44	2452.25	2,820.08
Child Care	1847.53	1921.46	1959.89	1999.09	2039.07	2,120.63	2247.87	2,585.05
Child and family support	1847.53	1921.46	1959.89	1999.09	2039.07	2,120.63	2247.87	2,585.05

FIVE YEAR REVIEW:

The guide requires boards to review the RSL of a tangible capital asset on a regular basis. The methodology presented in Example 1 is an excellent way to capture the impact of significant events in the year they occur; but, it does not replace a more comprehensive review analysis of the RSL. It is recommended that the RSL should have a comprehensive analysis and review at least once every five years and must be done by staff knowledgeable about the facility in co-operation with finance staff.

A method that can be used is a walk through by facility staff to determine that the RSL of the building is reasonable based on a review of major components.

On consultation with facility management, it was identified that within many of the board's asset management functions the staff maintain a Facility Condition Index (FCI) rating for the asset that is broken down by major component. Boards are strongly encouraged to leverage any existing information and systems in determining adjustments to RSL for accounting purposes. However, it is important to note that costs capitalized to an asset for accounting purposes may be different than the information in the asset management system. Facilities staff should work collaboratively with finance staff and the external auditors to develop a methodology that is efficient and acceptable and meets the requirements of the tangible capital guide.

Example 2 and 3 are additional methods that can be followed by boards to establish whether the RSL on the books is reflective of the significant investments made to the building.

Example 2:

This method uses the RS Means proportion to estimate the RSL of a building.

The "RS Means Square Foot Costs 30th Annual Edition: 2009" provides a standard to estimate the proportion of useful life of each component contributing to the remaining service life of the whole asset.

The following is the build-up of the useful life of an asset used by a board.

Elementary School

	RS Means	Max Est. Useful
	Proportion	Life
Substructure	12.10%	90
Shell - Roof	6.50%	20
Shell - Other	17.90%	50
Interior	21.00%	40
Conveying	0.00%	25
Plumbing	9.80%	25
HVAC	17.90%	25
Fire Protection	2.20%	25
Electrical	12.40%	25
Equip & Furnish	0.20%	15
	100.00%	40.145

High School, 2-3 Story

	RS Means	Max Est. Useful
	Proportion	Life
Substructure	4.20%	90
Shell - Roof	4.90%	20
Shell - Other	31.50%	50
Interior	21.00%	40
Conveying	0.50%	25
Plumbing	5.20%	25
HVAC	16.20%	25
Fire Protection	1.70%	25
Electrical	12.80%	25
Equip & Furnish.	2.00%	15
	100.00%	38.31

Jr. High School, 2-3 Story

	RS Means	Max Est. Useful
	Proportion	Life
Substructure	4.00%	90
Shell - Roof	4.80%	20
Shell - Other	32.40%	50
Interior	23.60%	40
Conveying	0.60%	25
Plumbing	4.20%	25
HVAC	15.00%	25
Fire Protection	0.30%	25
Electrical	12.60%	25
Equip & Furnish	2.50%	15
	100.00%	38.75

For a new building for which the board has all historical information, boards may wish to begin with the proportions presented above or adjust proportions to meet the standards of their buildings. For instance, if the board's building does not have a HVAC device, the other components can be adjusted proportionately. See below for a modified 2-3 story high school.

	RS Means	Max Est. Useful
	Proportion	Life
Substructure	6.00%	90
Shell - Roof	6.70%	20
Shell - Other	33.30%	50
Interior	22.80%	40
Conveying	2.30%	25
Plumbing	7.00%	25
HVAC	0%	25
Fire Protection	3.50%	25
Electrical	14.60%	25
Equip & Furnish	3.80%	15
	100.00%	39.93

			A	B	C	D	E = (A+C)/11,200,000	F = B + D	G = B-F
		Useful	Component		Roof	Increase in	Max New Proportion	New	Increase in
	Proportion	Life	Value	RSL	Betterment	RSL		Component RSL	RSL
Substructure	12.1%	90	1,210,000	65			10.8%	65	
Shell - Roof	6.5%	20	650,000	2	1,200,000	17	16.5%	19.0	
Shell - Other	17.9%	50	1,790,000	25			16.0%	25	
Interior	21.0%	40	2,100,000	15			18.8%	15	
Conveying	0.0%	25	-	20			0.0%	20	
Plumbing	9.8%	25	980,000	22			8.8%	22	
HVAC	17.9%	25	1,790,000	11			16.0%	11	
Fire Protection	2.2%	25	220,000	15			2.0%	15	
Electrical	12.4%	25	1,240,000	20			11.1%	20	
Equip & Furnishings	0.2%	15	20,000	12			0.2%	12	
	100.0%	40.145	10,000,000	22.579	1,200,000	17	100.0%	23.182	0.603

This is the original proportion for the building.

This is the original useful life of the building.

This is the original component value of the building.

This is the RSL at the time that the roof betterment was done. This will have to be estimated by board staff.

This is the cost of the roof betterment.

This is the increase in RSL as a result of the roof betterment. This will have to be estimated by board staff.

See calculation above.

See calculation above. The 23.425 was arrived at by applying the new proportion to each component.

See calculation above.

The board should begin with the original proportions and useful lives presented previously. The historical cost of the asset can then be allocated in column A based on these proportions.

At the time of the review, if the board has an existing building for which the board does not have historical information, the board will have to establish the Estimated RSL based on estimates by facilities staff or manufacturer's standards. This information will have to be entered into Column B.

The board can now enter betterments done to each of the components in the last five years (Column C). Next the board will have to determine how much this new component will increase RSL (Column D). This can be estimated based on manufacturer's specifications or using the professional judgment of facilities staff. The new proportion and RSL can then be

calculated in Columns E and F using the formulae provided in the chart above.

The 23.182 in Column F, is calculated by applying the new proportion in Column E to each of the new Component RSL's in Column F. The 23.182 can be compared to the RSL on the boards' books (Column B) to determine whether an adjustment to RSL is required. In this example, an adjustment of 1 year would be made to RSL (23.2 – 22.6) if the difference is rounded up.

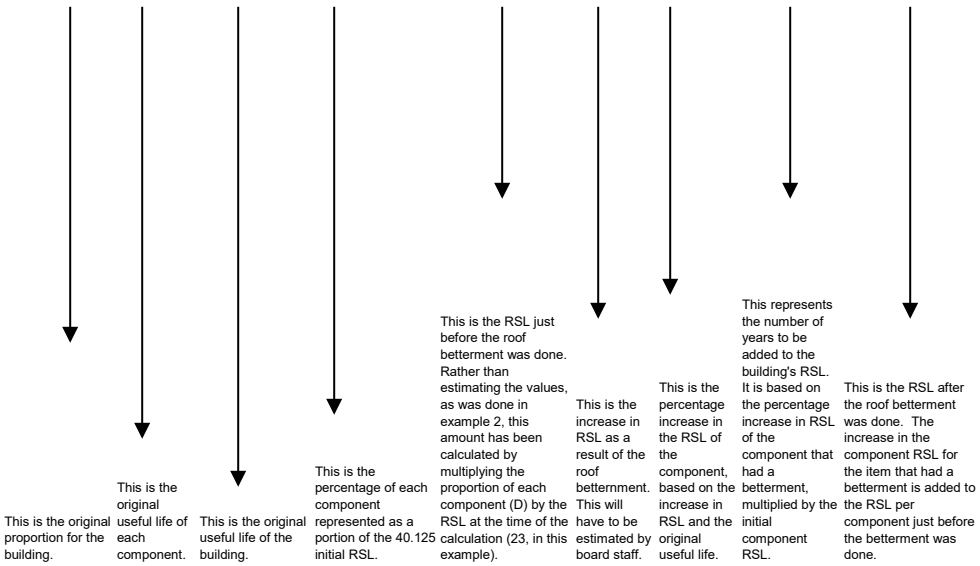
Example 3:

As an alternative to Example 2, Example 3 can be used to estimate the incremental addition to the building RSL as a result of a component betterment.

There are two main differences between the two methods. The first is that Example 3 does not utilize the component dollar values. It uses the percentage of each component relative to the total RSL of the building (Column D). Secondly, the RSL of each component just before a betterment is not estimated by board staff; it is calculated (Column E).

This is useful when the finance staff needs to calculate RSL, but the facilities staff cannot provide this information. If the facilities staff is able to provide the information in Column E, then Example 2 could be used. Aside from these two exceptions, the methodology of Example 3 is the same as Example 2.

	A	B	C = A x B	D = C/40.125	E = D/23	F	G = F/B	H = C x G	I = E + H
	Proportion	Useful Life	RSL per Component	Proportion of RSL Relative to 40.125 Years	RSL per Component at 23 Years RSL (before betterment)	Increase in RSL	Increase in RSL	Increase in RSL per Component	RSL per Component at 23 Years RSL (after betterment)
	(%)	(years)	(years)	(%)	(years)	(years)	(%)	(years)	(years)
Substructure	12.1%	90	10.9	27.1%	6.2				6.24
Shell - Roof	6.5%	20	1.3	3.2%	0.7	15	75.0%	0.975	1.72
Shell - Other	17.9%	50	9.0	22.3%	5.1				5.13
Interior	21.0%	40	8.4	20.9%	4.8				4.81
Conveying	0.0%	25	0.0	0.0%	0.0				0.00
Pulmbing	9.8%	25	2.5	6.1%	1.4				1.40
HVAC	17.9%	25	4.5	11.1%	2.6				2.56
Fire Protection	2.2%	25	0.6	1.4%	0.3				0.32
Electrical	12.4%	25	3.1	7.7%	1.8				1.78
Equip & Furnishings	0.2%	15	0.0	0.1%	0.0				0.02
	100.0%		**40.145**	**100.0%**	**23**			**0.975**	**23.975**



Appendix L – Interest Costs on Land: Illustrative Examples

L.01 School Board ABC bought a piece of land for $500,000 on January 1 and immediately began construction of a $2 million building. The land was paid for in cash, and a $2 million construction loan at 8% was obtained for the building. At December 31, the project was substantially complete at a total cost of $2,500,000. The total interest incurred on the construction loan was $160,000.

Land cost capitalized $500,000
Building cost capitalized $2,660,000 = $2,500,000 + $160,000

L.02 A School Board DEF purchased land for $1,750,000 using a loan on April 3. A development project on the land began immediately and the total cost was $850,000 as of Dec 31st. The interest incurred on the land acquisition was $105,000 and $51,000 on the development costs.

Land costs capitalized = $1,750,000 + $850,000 + $105,000 + $51,000
= $2,756,000

L.03 School Board GHI purchased land by taking a loan for $2,000,000 with an annual interest rate of 8%. The land is considered ready for use with no further developments required on it. Annual interest incurred on the land acquisition is $160,000. Building construction begins after three years and takes one year for completion. Another 8% loan was taken to finance the building construction and the total cost of the school building amounts to $4,500,000; the interest incurred on the construction costs is $360,000. At the end of the year of construction, the building is considered substantially complete and ready for use.

Initial cost of land capitalized $2,000,000
Annual interest cost expensed during the first three years $160,000
Building costs capitalized on year 4 = $4,500,000 + $360,000 = $4,860,000
Interest costs expensed in year 4 $160,000
Capitalized as additional land costs on year 4 $0
Interest costs expensed as of year 5 = $160,000 + $360,000 = $520,000

L.04 A School Board JKL obtains a loan at an interest rate of 8% to purchase a piece of land that costs $3,000,000 that is not ready for use. The land is left idle for three years, after which development work starts to get it ready for construction. The grading and leveling project of the land takes 12 months to complete (during year 4) after which time building construction begins (year 5). The land development project costs incurred totals $1,000,000 (year 4) and the construction cost of the building is $6,000,000 (year 5). The interest costs incurred on the land development and building costs amounts to $80,000 and $480,000 per year respectively.

Initial cost of land capitalized $3,000,000
Annual interest cost expensed during first three years $240,000 (=$3,000,000 x 8%)

Land costs capitalized in year 4 = $1,000,000 + $240,000 + $80,000 = $1,320,000
Building costs capitalized during year of construction (year 5) = $6,000,000 + $480,000 = $6,480,000
Land interest costs expenses during year of building construction (year 5) = $240,000 + $80,000 = $320,000
Additional Land costs capitalized during year of building construction (year 5) = $0
Interest costs expensed after building substantially complete (year 6 onwards) = $240,000 + $80,000 + $480,000 = $800,000 per year

Appendix M – Cloud Computing

Cloud computing is a model for enabling convenient, on-demand, access to a shared pool of configurable computing resources (e.g., networks, servers, storage, applications, and services) that can be rapidly provisioned and released with minimal management effort or service provider interaction.

Cloud computing can generally be classified using the following cloud service models:

Infrastructure as a service (IaaS): a model where virtualized computing resources are provided over the internet. The third-party provider hosts the hardware, software, servers, storage and other components on behalf of its customers.

Platform as a service (PaaS): a model where the cloud provider delivers integrated hardware and operating software needed for a business application to run. The provider hosts the platform such that the customer does not take responsibility for the platform hardware and software. The customer is responsible for any business or user applications they host on the platform including administration.

Software as a service (SaaS): a software distribution model where applications are hosted by the service provider and the purchaser has access to the software through a network. The customer may retain responsibility for any customization work that the application architecture allows which may represent an asset.

The structure and terminology of cloud computing service offerings can be very different across vendors and products. The contract and other key service agreements must be evaluated to assess whether a tangible capital asset should be recognized.

In order to decide whether the investment in cloud computing meets the definition of a tangible capital asset, or whether to expense payments as incurred, as per PSG-2 Leased Tangible Capital Assets, aspects of the contract should be considered and assessed, such as:

- Terms of the contract, service level agreements, etc. should be considered to assess if there has been an effective transfer of risk to the service provider.
- The degree in which the product and/or services are “off the shelf” or customized?
- How integrated or customized is the expenditure to the service provider on changing the provider’s standard cloud computing service offering (differentiation between configuration and custom asset development)?
- Is the contract for the cloud “service” significant with respect to the purchase cost or useful life of the hardware and software included in the contract? Is the nature of the relationship closer to a financing arrangement or to a purchase of generic IT services?
- To what extent is the service and/or asset in a shared environment and how does this impact the assessment of control of the asset when determining if the investment represents a tangible capital asset?
- Does the school board maintain control over the software license (i.e., being able to run the software itself, or through a third party)?
- Does the organization have a clear right-to-use the software if it is moved to a different provider?

- Are the licenses in the name of the service provider or the school board?
- Does the cloud computing services contract provide enough control to the school board to meet the definition of an asset?

Note:
The content of the Appendix M is primarily from the Provincial Tangible Capital Asset Best Practice, with some modifications.

Appendix N – Public Private Partnerships

N01. Public private partnerships (P3) are an alternative finance and procurement model where the school board uses a private sector partner to design, build, acquire or better (i.e., procure) infrastructure.

N02. P3s are those where the private sector partner is obligated to:

(a) Design, build, acquire or better (i.e., procure) infrastructure (including TCA) and,

(b) Finance the transaction past the point where the infrastructure is ready for use (i.e., long term financing). The private sector partner can be compensated for financing the infrastructure by provision of cash or other financial assets, as well as by granting of rights to earn revenue from end users. For further guidance on the accounting of the P3 liability, please refer to the Ministry's Public Private Partnership Accounting Policy and Implementation Guide.

N03. The province is implementing a broader approach for its consolidated entities where the operating and maintenance of the infrastructure by the private partner is not a requirement as it is under PS 3160. This is to ensure consistency on the accounting and reporting of all long-term financing contracts.

Recognition

N04. Infrastructure procured through a P3 arrangement will be recognized as an asset when all of the following criteria are met:

(a) It is expected that future economic benefits and risks related to the infrastructure will be realized over its useful life.

(b) The public sector entity has control over:

i. The purpose and use of the infrastructure, (PS3160.06 (a))

ii. Access to the future economic benefits and exposure to risks of the infrastructure asset, and (PS3160.06 (b))

iii. Significant residual interest in the infrastructure, if any, at the end of the public private partnership's term. (PS3160.06 (c))

(c) The past event that gives rise to the asset, meaning that the public private partnership contract has been signed and executed, has occurred.

N05. A P3 arrangement would normally result in the recognition criteria being met over the

construction period. When this occurs, the P3 asset should be capitalized over the period of construction as a CIP asset based on percentage of completion. However, if control of the asset is not obtained over the construction period, the P3 asset would be recognized at substantial completion.

Measurement

N06. P3 assets will be measured at cost. Cost is the amount determinable and verifiable from the P3 procurement process or contractual agreement, which represents fair value.

- **Determinable** means that costs are available in the contractual agreement or procurement process.

- **Verifiable** means that these costs available are appropriate and agree with the underlying transaction with a reasonable degree of precision. Professional judgement is needed to determine whether these costs reflect the fair value of the P3 asset.

- **Fair value** is the amount of consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act, for an equivalent infrastructure asset with the same service potential and risk profile.

N07. The asset cost capitalized will include only costs directly attributable to construction of the asset, in accordance with PS 3150, Tangible Capital Assets.

N08. Notwithstanding, if the total cost is not determinable or verifiable from the procurement process and agreement, the asset will be measured at its estimated fair value on the date of recognition. Acceptable estimation techniques to determine the fair value of the P3 asset include:

- Independent market appraisals
- Estimates generated using past data and transactions
- Quotes from other bidders with comparative bids

N09. Costs to compensate the private sector partner for operating and maintaining the infrastructure are expensed in a rational and systematic manner that best correspond to the benefit received.

N10. The P3 asset must be subsequently measured in accordance with the District School Board & School Authority Tangible Capital Assets Provincial Accounting Policies and Implementation Guide (TCA Guide).

N11. Costs paid that meet the criteria for capitalization as a betterment per the TCA Guide must be capitalized.