

**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 for the fiscal years commencing on or after January 1, 2009 in accordance with PSAB handbook section PS 3150. Earlier adoption is encouraged.

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 Accounting or Assurance CICA Handbook sections. 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
- to assist the boards in implementing PS 3150. This document replaces the draft document issued March 2006.

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 Boards can also seek further documentation on the implementation of tangible capital asset by using the Guide to Accounting and Reporting for Tangible Capital Assets issued by the CICA in April 2007. This guide is available at http://www.psab-ccsp.ca/index.cfm/ci_id/225/la_id/1.htm
- .05 Upon full implementation of PS 3150, boards must also include the tangible capital assets of entities controlled by them in their financial statements.
- .06 This policy **does not** apply to goodwill or other intangible assets such as copyrights and patents.
- .07 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)).

- .08 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 1200.051:
- 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.
- .09 Until full adoption of PS 3150, boards are guided by:
- the transitional provisions in PS 3150;
 - PSG-2 Leased Tangible Capital Assets;
 - PSG-5 Sale-Leaseback Transactions; and
 - PSG-7 Tangible Capital Assets of Local Governments.
- .10 Boards are encouraged to obtain a copy of the CICA 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.knotia.ca;
 - CICA Order Desk at 1-800-268-3793

If ordering a paper copy be sure to order the current binder contents, a binder and tabs as well as asking for a subscription to updates.

Implementation Timeframe

- .11 As noted in paragraph .01 above, boards are required to adopt PS 3150 at the latest for fiscal years commencing on or after January 1, 2009. As earlier adoption is encouraged, and to limit the period of time where the Ministry of Education must collect tangible capital asset data on behalf of boards, the Ministry of Education will require adoption by the boards beginning with the school year of **September 1, 2008 to August 31, 2009**. This timeframe is applicable for **ALL** tangible capital asset classes.
- .12 Although PSAB permits prospective or retroactive application upon a change in accounting policy, PSAB has placed an expectation that most local governments will adopt the new accounting standards in PS3150 retroactively, with a corresponding restatement of the presented prior period for comparative purposes. This means that

boards will not only present the cost, accumulated amortization, net book value and amortization expense of their tangible capital assets on their 2008-09 financial statements for the current year but also for the presented prior year (2007-08). For further details see the section on Financial Statement Presentation and Note Disclosure starting at paragraph .188.

- .13 Up until full adoption of PS 3150, boards will continue to report tangible capital asset data (**land and buildings only**) to the Ministry of Education in 5-month and 7-month capital activities reports up to and including the following time periods:
- September 1, 06 to March 31, 07*
 - April 1, 07 to August 31, 07
 - September 1, 07 to March 31, 08
 - April 1, 08 to August 31, 08
- * *Currently underway*
- .14 Boards will also start disclosing information on tangible capital assets in the notes to their financial statements. This requirement is outlined in PSG 7 which is effective for fiscal years beginning on or after January 1, 2007 (the September 1, 2007 to August 31, 2008 school year).
- .15 This transitional provision indicates that when a local government has information on some but not all categories of its tangible capital assets, the local government would disclose in their financial statements the information that it has, in addition, those categories excluded from that disclosure until the relevant information about the complete stock of tangible capital assets can be provided.
- .16 The boards will not have any tangible capital asset data as of August 31, 2008 as the Ministry will be collecting this information for them up until August 31, 2008 (see par .13 above). Therefore, the Ministry will provide the boards with information on tangible capital assets (land and buildings only) as of March 31, 2008 and the boards can report these balances in the notes to their financial statements as the best information available. Boards will also have to note that they do not yet have any information on their other tangible capital asset classes **unless** they have undertaken the necessary steps to establish opening balances for these asset classes.
- .17 For an example of what the note disclosure could look like during the transition period, see Appendix H.
- .18 Following full implementation of PS 3150, boards will be required to continue reporting certain information on their tangible capital assets to the Ministry. The reporting requirements will be significantly reduced from the current reporting activities; however, it will continue to be collected twice per year:
- for the 7-month period covering September 1st to March 31st of each year
 - for the 5-month period covering April 1st to August 31st each year.

The details of this data collection exercise will be discussed with boards as a reporting mechanism and approach is finalized by the Ministry of Education.

Approach for Reporting Tangible Capital Assets

- .19 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

- .20 “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.
- .21 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.
- .22 Tangible capital assets recorded under the pooled cost approach are to be reported by year of purchase in the applicable tangible capital asset class.
- .23 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.
- .24 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 computers are stolen from the labs, 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.
- .25 Refer to Appendix A for 2 illustrative examples of the pooling approach.

Owned Tangible Capital Assets

Definitions

- .26 **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))
- .27 Tangible capital assets include such items as land, buildings, equipment, furniture, computer hardware, computer software, vehicles, etc.
- .28 **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. 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))
- .29 **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))
- .30 **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))
- .31 **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))
- .32 **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))
- .33 **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. 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

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

Asset Classes

.35 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

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

.37 **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;
- 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.

.38 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

.39 The details of this class are as follows:

- Includes building structures that are permanent in nature with a typical useful life of approximately 40 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

.40 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 since April 1, 2005 = 20 years
 - Purchases prior to April 1, 2005 = the remaining service life as determined by the BVC

Other Buildings

.41 The details of this class are as follows:

- Includes other building structures that have a typical useful life of less than 40 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 since April 1, 2005 = 20 years
 - Purchases prior to April 1, 2005 = remaining service life as determined by the BVC

LAND & LAND IMPROVEMENTS

.42 **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.

.43 **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;
- 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.

.44 **Land improvements** are improvements to land assets with finite lives. For a typical listing, see Appendix C.

This asset class is amortized over 15 years.

FURNITURE & 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 5 years. 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 10 years. 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 15 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

- .53 **Furniture** includes all furniture whether it is at a school, board office or other location. This tangible capital asset class will be amortized over 10 years. For a typical listing, see Appendix C.

COMPUTER HARDWARE & 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 XP)
 - 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 5 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 as well as all the related costs in preparing it for use. This tangible capital asset class is amortized over 5 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 (½ ton, ¾ ton). This tangible capital asset class is amortized over 5 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 10 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 assessment, 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 construction in progress / work in progress account for ease of tracking.
- .67 Until PS 3150 takes effect, boards should have a mechanism in place to keep track of the pre-construction costs. For purposes of reporting to the Ministry until the implementation of PS 3150, the Ministry is instructing boards to note separately on the 5-month and 7-month reporting excel packages where pre-construction costs were incurred and they will be capitalized once the actual construction begins.
- .68 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 is 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.

- .69 **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.
- .70 Construction-in-progress projects are not amortized until construction is completed and the asset is ready to be put into service.
- .71 Interest expense related to financing costs incurred during the time the asset is under construction will be capitalized as part of the construction costs.
- .72 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**.
- .73 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)
- .74 For an example of how to record construction in progress assets, see Appendix D.

Ready for Use

- .75 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)
- .76 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.
- .77 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.

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

Pre-acquisition costs

- .80 Pre-acquisition costs are costs incurred prior to the actual acquisition of an asset. For examples refer to paragraph .65 above. If a board incurs pre-acquisition costs they should be treated the same as pre-construction costs as referred to in paragraph .66 above. Take note that in order for expenditures to count as pre-acquisition costs they must be **directly attributable** to a particular asset.

Recognition

- .81 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 of legal ownership of the tangible capital asset is transferred to the board.

Exchanges of Tangible Capital Assets (Non-monetary Transactions)

- .82 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))
- .83 **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))
- .84 An example of a non-monetary asset would be a building. 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 consist of a non-monetary exchange of tangible capital assets.

- .85 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.
- .86 This Handbook Section guided the Ministry of Education in the application of 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

- .87 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

- .88 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

- .89 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.

- .90 **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.
- .91 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.
- .92 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.
- .93 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

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

Maintenance

- .95 **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.
- .96 **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.
- .97 Costs that do not increase the previously assessed useful life, service capacity or quality of output would be expensed as incurred.

Repairs

- .98 **Repairs** are costs to restore a tangible capital asset to its originally designed productive capacity or service potential after damage, accident, or prolonged use.
- .99 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

- .100 **Replacements** involve removal of component parts and substitution of a new part or component of essentially the same type and performance capabilities.
- .101 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.
- .102 Appendix F provides guidance to assist in the classification of costs on the board's tangible capital assets.

Capitalization of Tangible Capital Assets

- .103 Tangible capital assets that meet the criteria for capitalization with a dollar value as set out in Appendix B or greater shall be capitalized.
- .104 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).
- .105 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 to more than one fiscal year and the total of these costs exceeds the threshold for capitalization for the tangible capital asset class.

Amortization

General

- .106 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.
- .107 In most cases, the residual value of the components that comprise 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.

- .108 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.
- .109 Amortization should start as soon as a tangible capital asset is completed and ready for use.
- .110 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 6 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)
- .111 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.
- .112 Land has an unlimited life and is not to be amortized.
- .113 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

- .114 A straight-line method of amortization should be used for all asset classes.
- .115 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).

Useful Life of Assets & Changes Therein

- .116 **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))

- .117 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)
- .118 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.
- .119 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.
- .120 Revisions to remaining estimated useful lives can either be positive (remaining service life has been extended) or negative (remaining service life has been decreased).
- .121 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).
- .122 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 .121)

Positive Changes to Remaining Service Life

- .123 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 10 years or less.
- .124 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

- .125 The following are to be considered significant events that requires 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)
- .126 The factor to consider in revising the estimated remaining service life is:

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

- .127 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.
- .128 See Appendix G for an illustrative example where a board would revise the useful life of an asset.

Write-downs

- .129 **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;
 - 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.

- .130 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.
- .131 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.
- .132 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.
- .133 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.
- .134 An asset write-down should not be reversed 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.

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

Establishing Opening Balances

- .136 In making the transition to the capitalization of tangible capital assets, an important step is the establishment of opening balances at the time of implementation. PS3150.46 instructs governments that they need to record tangible capital assets in their accounting system in accordance to PS 3150, meaning the actual or estimated original cost of the tangible capital assets, their estimated useful lives and the related estimated accumulated amortization.
- .137 Paragraph .47 of the same section of the handbook states that when a government does not have historical cost accounting records for its tangible capital assets, it will need to use other methods to estimate the cost and accumulated amortization of the assets. A government would apply a consistent method of estimating the cost of the tangible capital assets for which it does not have historical cost records, except in circumstances where it can be demonstrated that a different method would provide a more accurate estimate of the cost of a particular type of tangible capital asset.
- .138 The Ministry has begun assisting the boards with this element for land and building assets. The Ministry has used a tool called the Book Value Calculator and has established gross book values, accumulated amortization, remaining service lives for board owned land and building assets as at March 31, 2005. The Ministry will maintain a continuity schedule for these assets until the boards implement capitalization for all of their tangible capital assets.
- .139 For the other asset classes, the boards will have to review their prior years' financial statement filings as well as other supporting documentation to determine the amount of purchases made per school year that should have been capitalized. The balances will be required for the date of September 1, 2008.
- .140 Appendix J offers various methods for boards to establish these opening balances. Boards may have more efficient ways of determining opening balances based on their own board practices or particular situations. The Ministry encourages boards to review their method of determining opening balances with their external auditors to make sure they will be satisfied with the steps followed.
- .141 Boards should ensure that they maintain the supporting documentation used in establishing these opening balances for purposes of the external audit.

- .142 The establishment of opening balances requires that boards make adjustments to certain accounts.
- .143 The objective is to have the capital accounts of the boards reflect the tangible capital assets as if capitalization and amortization had started when the respective capital asset was acquired.
- .144 The underlying premise of amortization is to allocate the cost of respective capital assets over the estimated useful life of such assets. Therefore, the useful lives and rates as stated further in this document should be applied to the respective tangible capital asset classes.
- .145 Accordingly, it is necessary to know the date of acquisition. A calculation is then made of the amortization from that date to the current date and this amount is identified as accumulated amortization. The amount is then shown in the asset section on the Statement of Financial Position as a deduction from the cost value of the respective tangible capital asset. PSAB Handbook section PS 3150 requires that such disclosure be made by major category of tangible capital asset of this information.
- .146 On the Statement of Financial Activities the current year's amortization expense will be disclosed in the expense section.
- .147 See Appendix J for an example of how to establish the opening balances for the furniture asset class.

Retirements and Disposals of Tangible Capital Assets

- .148 This section of the guide does not typically apply to assets under the pooled approach.
- .149 **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.
- .150 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.

- .151 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.
- .152 When a tangible capital asset is **sold or transferred**, its cost and accumulated amortization are to be removed from the asset accounts. The proceeds on sale, if any should be netted against any costs of sale.
- .153 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.
- .154 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.
- .155 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.
- .156 Therefore, boards should always net disposal costs against proceeds of disposition received except where a tangible capital asset is replaced as explained in paragraph .150 above.

Tangible Capital Assets Permanently Removed from Service

- .157 **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:

APRFS – Buildings

- .158 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.
- .159 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.
- .160 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

- .161 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.
- .162 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.
- .163 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

- .164 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.
- .165 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

- .166 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.
- .167 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

- .168 **Accounting policies** include the specific accounting principles and methods of applying them in the preparation of a board's financial statements.
- .169 Boards will be required to create an accounting policy in relation to the reporting and accounting of tangible capital assets.

- .170 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.
- .171 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.
- .172 Where the choice of accounting policy is not specifically mandated by the Ministry of Education, boards must ensure that they develop one.
- .173 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.
- .174 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.
- .175 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 & Internal Controls

- .176 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).
- .177 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

- .178 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.
- .179 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.
- .180 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.
- .181 Purchases of tangible capital assets should require approvals by an appropriate level of authority to ensure accurate accounting treatment.

Safeguarding

- .182 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.
- .183 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

- .184 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.
- .185 Boards must ensure they record the "deemed" disposal for tangible capital assets being recorded under the "pooled" approach.
- .186 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 & Audit Considerations

- .187 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 tangible capital assets.

Financial Statement Presentation and Note Disclosure

- .188 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).
- .189 It is expected that most local governments will adopt the new accounting standards in PS3150 retroactively, with a corresponding restatement of all prior periods presented for comparative purposes (Guide to Accounting and Reporting Tangible Capital Assets, Public Sector Accounting Group of the CICA, April 2007).
- .190 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).
- .191 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).
- .192 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).
- .193 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.
- .194 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 treasures held by the government; and
 - f) the amount of interest capitalized in the period.
- .195 Boards will be capitalizing tangible capital assets on their books starting with their 2008/09 fiscal year. Therefore the two preceding paragraphs are applicable starting with the boards September 2008 to August 2009 fiscal year.
- .196 As PSG-7 is effective for the 2007-08 fiscal year and the Ministry is not requiring boards to early adopt PSG-7, there is no disclosure required for the 2006-07 school year.
- .197 For an example of what note disclosure could look like after full implementation of PS 3150, see Appendix I.

Tangible Capital Asset Management Software

- .198 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.
- .199 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

- .200 **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).
- .201 **Lessee** is the board leasing the asset from the owner.

- .202 **Lessor** is the board leasing the asset to the other board, also known as the owner.
- .203 **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.
- .204 **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
- .205 **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).
- .206 **Bargain purchase option** is a provision allowing the lessee, at its option, to purchase the lease 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).
- .207 **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).
- .208 **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.
- .209 **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.
- . 210 **Minimum lease payments** are payments the lessee is obligated to make or can be required to make in connection with the leased property.
- .211 **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.

- .212 **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).
- .213 **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; or
 - the amount the lessee guarantees will be realized
- .214 **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

- .215 **Capital Leases – Buildings** includes buildings as well as betterments to buildings under capital leases with a capitalization threshold of \$10,000 or greater.
- .216 **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).
- .217 **Capital Leases – Other** includes other tangible capital assets under capital leases with a capitalization threshold of \$5,000 or greater. Examples would include photocopiers, vehicles, etc.
- .218 **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.
- .219 **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.
- .220 **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

- .221 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.
- .222 All lease agreements should be reviewed to determine whether they are capital or operating leases.

Operating Leases

- .223 Assets under operating leases are not 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

- .224 Under the terms and conditions of the lease, substantially all of the benefits and risks incident to ownership are transferred to the board.
- .225 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).
- .226 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.

- .227 Other qualitative considerations include:
- is there an alternative use of 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 overruns 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.
- .228 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.
- .229 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).
- .230 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.
- .231 Tangible capital assets acquired through capital leases would be amortized to expense over their estimated useful lives in the same manner as purchased or constructed tangible capital assets.

Leasehold Improvements

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

- .233 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).
- .234 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.
- .235 **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.
- .236 **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 lease term.

Financial Statement Presentation and Note Disclosure

- .237 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.

- .238 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 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, leased tangible capital assets. The level of disclosure would also consider the sensitivity of the information to the government's financial position.
- .239 For an example of what note disclosure could look like, see Appendix K.

APPENDICES

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

A.01 Purpose

To illustrate how the pooling method works and the related journal entries that would be posted by boards started in 2008-09.

A.02 Example Details

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

- Between 2003-04 and 2007-08, 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 2008-09, 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 2003-04 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						Amortization Expense 2008-09	Accumulated Amortization at Aug 2009		NBV
	(Investment)	2003-04	2004-05	2005-06	2006-07	2007-08				
2003-04	60,000	(6,000)	(12,000)	(12,000)	(12,000)	(12,000)	(6,000)	(60,000)	-	
2004-05	50,000		(5,000)	(10,000)	(10,000)	(10,000)	(10,000)	(45,000)	5,000	
2005-06	75,000			(7,500)	(15,000)	(15,000)	(15,000)	(52,500)	22,500	
2006-07	85,000				(8,500)	(17,000)	(17,000)	(42,500)	42,500	
2007-08	85,000					(8,500)	(17,000)	(25,500)	59,500	
2008-09	100,000						(10,000)	(10,000)	90,000	
Deemed Disposal**	(60,000)							60,000		
As at Aug 31, 2009	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 2003-04 are now fully amortized and therefore are deemed to be disposed of.

A.04 Journal Entries for 2008-09

The journal entry to record the purchase of assets is:

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

The journal entry to record the amortization is:

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

The journal entry to record the deemed disposal is:

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

Pooled Cost Approach: Illustrative Example #2 – Portable Structures

A.05 Purpose

To illustrate the pooling method for portable structures for 1 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 1 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.

SUMMARIZED DATA AS OF MARCH 31, 2006

Remaining 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	Total
NBV	21,600	167,000	528,675	1,420,160	1,139,667	375,857	223,825	685,244	-	91,727	-	288,000	-	-	-	-	-	-	-	-	
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

Amortization calculation for the period

Investments		40,000	60,000	
For the period ending:	Existing assets			Total amortization for the period
Aug-06	1,077,745			1,077,745
Aug-07	1,056,145	1,000		1,057,145
Aug-08	972,645	2,000	1,500	976,145
Aug-09	796,420	2,000	3,000	801,420
Aug-10	441,382	2,000	3,000	446,382
Aug-11	213,446	2,000	3,000	218,446
Aug-12	150,804	2,000	3,000	155,804
Aug-13	118,825	2,000	3,000	123,825
Aug-14	33,173	2,000	3,000	38,173
Aug-15	33,170	2,000	3,000	38,170
Aug-16	24,000	2,000	3,000	29,000
Aug-17	24,000	2,000	3,000	29,000
Aug-18		2,000	3,000	5,000
Aug-19		2,000	3,000	5,000
Aug-20		2,000	3,000	5,000
Aug-21		2,000	3,000	5,000
Aug-22		2,000	3,000	5,000
Aug-23		2,000	3,000	5,000
Aug-24		2,000	3,000	5,000
Aug-25		2,000	3,000	5,000
Aug-26		2,000	3,000	5,000
Aug-27		1,000	3,000	4,000
Aug-28			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 - Exemple of deemed disposals
 Continuity Schedule**

Years	Period ending	GROSS BOOK VALUE				ACCUMULATED AMORTIZATION				NBV
		Opening Balance	Additions	Deemed Disposals	Closing Balance	Opening Balance	Amortization Expense	Deemed Disposals	Closing Balance	
1	August 31 2006	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 2007	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 2008	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 2009	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 2010	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 2011	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 2012	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 2013	3,172,700		(658,700)	2,514,000	2,864,032	123,825	(658,700)	2,329,157	184,843
9	August 31 2014	2,514,000		(1,747,100)	766,900	2,329,157	38,173	(1,747,100)	620,230	146,670
10	August 31 2015	766,900		0	766,900	620,230	38,170	0	658,400	108,500
11	August 31 2016	766,900		(183,300)	583,600	658,400	29,000	(183,300)	504,100	79,500
12	August 31 2017	583,600		0	583,600	504,100	29,000	0	533,100	50,500
13	August 31 2018	583,600		(483,600)	100,000	533,100	5,000	(483,600)	54,500	45,500
14	August 31 2019	100,000		0	100,000	54,500	5,000	0	59,500	40,500
15	August 31 2020	100,000		0	100,000	59,500	5,000	0	64,500	35,500
16	August 31 2021	100,000		0	100,000	64,500	5,000	0	69,500	30,500
17	August 31 2022	100,000		0	100,000	69,500	5,000	0	74,500	25,500
18	August 31 2023	100,000		0	100,000	74,500	5,000	0	79,500	20,500
19	August 31 2024	100,000		0	100,000	79,500	5,000	0	84,500	15,500
20	August 31 2025	100,000		0	100,000	84,500	5,000	0	89,500	10,500
21	August 31 2026	100,000		0	100,000	89,500	5,000	0	94,500	5,500
22	August 31 2027	100,000		(40,000)	60,000	94,500	4,000	(40,000)	58,500	1,500
23	August 31 2028	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 of.

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	Tracking Method ¹	Amortization Method	Estimated Useful Life
BUILDINGS				
Buildings	\$10,000	By Asset	Straight-line	Existing at March 31, 05: Remaining service life (as per BVC) April 1, 05 onwards: 40 years
Portable Structures	\$10,000	Pooled	Straight-line	Existing at March 31, 05: Remaining service life (as per BVC) April 1, 05 onwards: 20 years
Other Buildings	\$10,000	By Asset	Straight-line	20 years
LAND & LAND IMPROVEMENTS				
Land & Land Improvement with Infinite Lives	All (initial purchase) \$10,000 (betterments)	By asset	N/A	Infinite
Land Improvements with finite lives	\$10,000	By asset	Straight-line	15 years

Asset Class	Capitalization Threshold by Unit Value	Tracking Method¹	Amortization Method	Estimated Useful Life
FURNITURE & EQUIPMENT				
Equipment – 5 years	\$5,000 ³	Pooled	Straight-line	5 years
Equipment – 10 years	\$5,000 ³	Pooled	Straight-line	10 years
Equipment – 15 years	\$5,000	By asset	Straight-line	15 years
Furniture	\$5,000 ³	Pooled	Straight-line	10 years
COMPUTER HARDWARE & SOFTWARE				
Computer Hardware	\$5,000 ⁴	Pooled	Straight-line	5 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	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	\$10,000	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 ⁵	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 to first-time equipping at a new school or where additional gross floor area is added

⁴ *Per unit capitalization threshold does not apply where the invoices or purchase orders exceed \$25,000.*

⁵ *Represents value of entire project*

- B.02 Estimated useful life depends on the asset class to which the tangible capital asset belongs.
- 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 & 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
- Playground Equipment
- Sun Shelters
- Garbage enclosures
- Signs

Furniture (capitalization threshold \$5,000)

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

Exception:

First-time furniture equipping of a new school or where new gross floor area is added should be capitalized irrespective of the \$5,000 per unit threshold.

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

- Secondary school gym equipment exceeding \$5,000 per unit value
- Photocopier

Exception:

- First-time equipping costs for a new school or where new gross floor area is added (fax machines, calculators, science equipment, gym equipment, hand tools, photocopiers, etc) should be capitalized irrespective of the \$5,000 per unit threshold.

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

- No typical items

Exception:

- First-time equipping at a new school or where new gross floor area is added (appliances, telephone system & equipment, PA system & equipment, snow blower, library security detecting unit, burnishing floor machine, vacuums, auto scrubber floor machines, floor polisher, power tools, shop equipment, hoists, scope analytical machine for cars, tool cabinets, security cameras, fire extinguishers, eye wash stations, gym scoreboards, safes, chapel equipment, cafeteria appliances and equipment, storage racks, musical instruments, etc) should be capitalized irrespective of the \$5,000 per unit threshold.

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 5 years or 10 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.

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

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

NOTE:

This listing is based on the assumption that these types of equipment have useful lives of 15 years. Where a board determines that their useful lives do not approximate 15 years, they should be placed in other asset classes that reflect their useful lives.

Computer Hardware (capitalization threshold \$5,000)

- Computer workstation including, laptops, monitors, central processing units, keyboards, disk drives, servers, scanners, printers
- Computer software initially purchased with the computer (e.g. Windows XP)
- Audio visual equipment

Exception:

- Computers purchased where the invoice or the purchase order exceeds \$25,000 should be capitalized irrespective of the \$5,000 capitalization threshold

Computer Software (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
- Consulting costs to customize a software application

Vehicles with gvwr < 10,000 pounds (capitalization threshold of \$5,000)

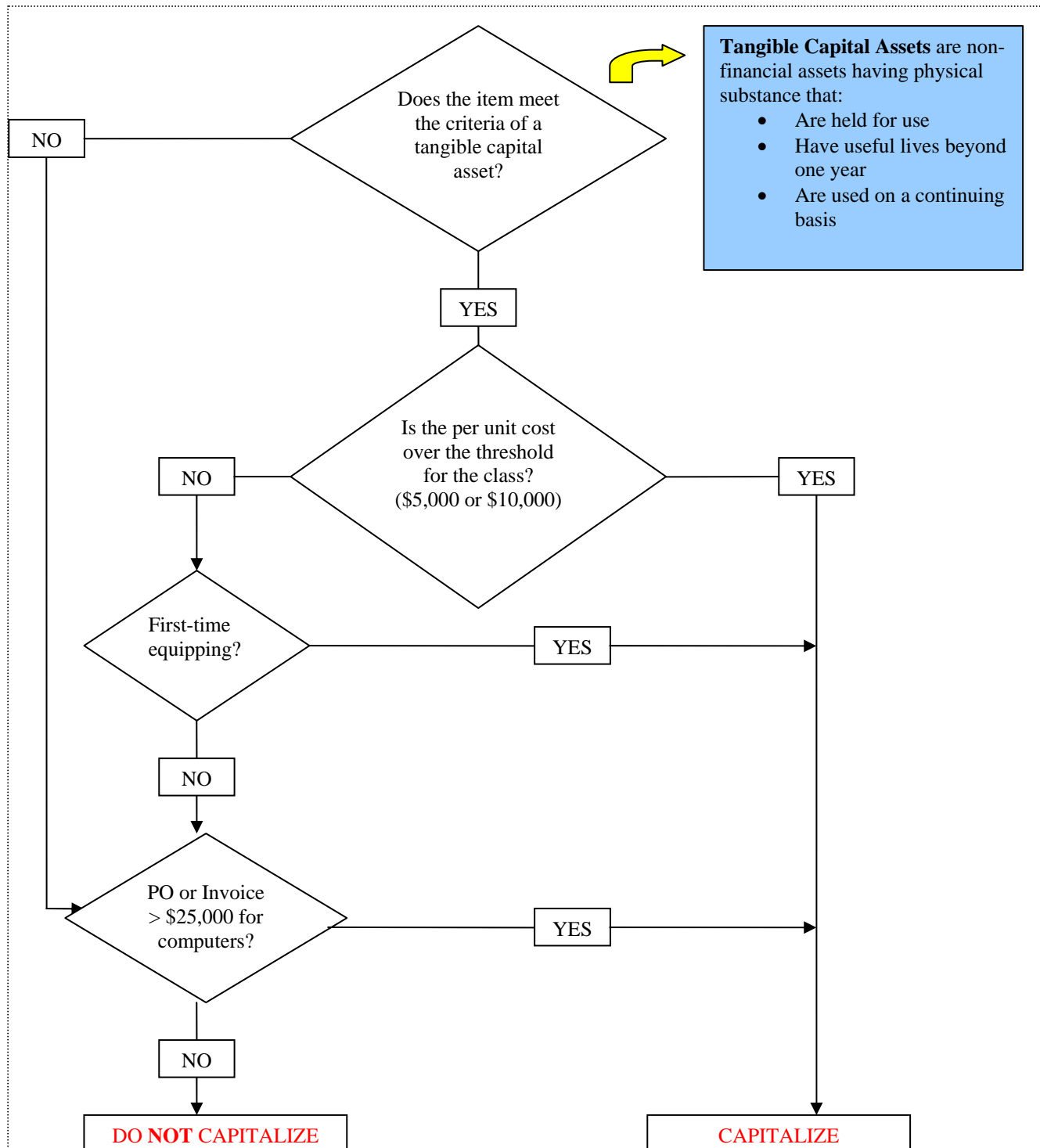
- Passenger vehicles such as cars, vans or minivans
- Trucks – ¼ ton, ½ ton, ¾ ton

Vehicles with gvwr > 10,000 pounds (capitalization threshold of \$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 2007 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 2007. The school is slated for opening in September 2009.

The board incurs the following costs on the new school:

Pre-construction Costs:	
2006-07	\$ 226,850
Actual construction Costs:	
2007-08	4,025,566
2008-09	<u>2,100,040</u>
Total Costs	\$ 6,352,456

The school is substantially complete as of August 31, 2009.

During the 2009-10 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, 2009.

This scenario is ignoring any effects of amortization.

D.02 Journal Entries

In 2006-07:

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 Construction in Progress	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 Capital Expenditures	226,850	
CR Construction in Progress		226,850

In 2007-08:

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 2008-09:

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 2009/10:

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 increasing the service quality of the property;
- Replacing existing lighting with energy saving lighting reducing future operating costs;

- Substituting a tile roof for wooden shingles increasing the expected useful life of the building beyond its current estimated life;
- Replacing an elevator with a new high-speed elevator improving the building class of the overall property; or,
- Replacing a furnace with a high-efficiency furnace decreasing 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 the office area to increase office space (i.e. better utilization of office space)
 - re-routing the wires in the 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; 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 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, it 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
<p><i>Operating projects are recorded as expenditures in the year the work is performed.</i></p>	<p><i>The value of a capital project is added to the building’s book value and amortized over the remaining useful life of the building.</i></p>
<p>Maintenance costs keep the condition of the asset at its expected operating standard. Examples include duct cleaning, painting, infrared scans, etc.</p>	<p>A project has to meet one of the following criteria:</p> <ul style="list-style-type: none"> • 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
<p>Repairs are costs to restore the asset to its originally designed service potential after damage, accident, or prolonged use.</p>	<p>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.</p>
<p>Replacements involve the removal of component parts and substitution of a new part of essentially the same type of performance capabilities.</p>	<p>Rearrangements of the building that increase service capacity or physical output. Examples include increasing the number of partitions in the office area to increase office space, re-routing the wires in the building to increase the number of workstations.</p>

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, 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: <ul style="list-style-type: none"> • 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	<p>A project(s) to upgrade or re-wire the whole building and install new electrical panels.</p> <p>A project(s) to install new panels and wiring as a result of an extension or creation of a new building space.</p>	Repairing or occasional replacement of individual units such as panels, switches or outlets.
Elevators and escalators	<p>Modernization of the elevators or escalators and may include items such as:</p> <ul style="list-style-type: none"> • Voice communicators • Buttons 	<p>Replacement of individual parts and repairs including routine services and emergency repairs.</p> <p>A project to replace components like light bulbs.</p>
Environmental cleanups	A project(s) to clean up an oil or chemical contamination to rebuild another building.	<p>Clean up a minor oil or chemical spill.</p> <p>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.</p>
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: <ul style="list-style-type: none"> • 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: <ul style="list-style-type: none"> • 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: <ul style="list-style-type: none"> • 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: <ul style="list-style-type: none"> • 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).

¹This 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, 2010 a media person at a board is reading the newspapers 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 another ghost town. The closure is slated to take place April 30, 2011 but they are looking for other owners to purchase the factory. The media person informs the manager of finance of the clipping.

The board has Winchester Elementary School on their books at August 31, 2009 at the following values:

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

In January 2011, a buyer has come to Winchester and will keep the factory open. This is great news for that community. In June 2011, another article resurfaces in the paper indicating that the new owner of the factory has changed the way that it operates its factory and has by accident contaminated the land under the factory as well as nearby properties including Winchester Elementary School. The board has hired a professional and he has determined that the land is indeed contaminated and the students will have to drink bottled water at the school. He has determined that the board will not be able to sell this parcel of land or building to anyone else due to the contamination.

G.02 Actions to be taken

2009/10 Year-End:

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 .121 and .129 of the guide.

This scenario does not meet any of the criteria of paragraphs .129 but it does seem to possibly fit within the list of paragraph .121. 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 2010 (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.

2010/11 Year End:

Once again, the board would examine the particular circumstances to determine if the new news of the land contamination meets the criteria for revising the useful life of Winchester Elementary School or require a write-down to its value. The new facts definitely indicate that revision to useful life and impairment of value of the asset has occurred. The fact that the land is contaminated and that the board will have difficulty selling the property to anyone else indicates a change in the service potential of the asset as well as physical damage to the asset. Therefore the asset should be written down to its net realizable value of a nominal value.

Journal entry to be recorded:

DR Loss due to damage	399,998
CR Accumulated Amortization: Buildings	249,999
CR Land	149,999

(Note: In this example, nominal value is \$1)

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

G.03 Scenario

In 2009, a board purchased equipment for its shop classes. The equipment cost \$1,000,000, had an expected life of 10 years, and no estimated salvage value. Two years later, with the emergence of new shop lifts as faster and higher quality lifts, it became apparent to the board that its equipment had suffered an impairment in value. In early 2011, 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 2011

DR Loss due to Equipment Obsolescence	\$500,000	
CR Accumulated Amortization – Equipment (10 yrs)		\$500,000
(\$800,000 - \$300,000)		

G.05 Journal Entry to be posted in 2012 and 2013

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

(amortization charges will be \$150,000 a year based on the new carrying value of \$300,000 and a remaining life of 2 years)

Appendix H – *Financial Statement Note Disclosure during the Transition Period*

For the 2006/07 school year

H.01 No note disclosure required.

For the 2007/08 school year:

H.02 Note disclosure required on information that the board has. This will be limited to land and building asset information.

H.03 Note (x) Tangible Capital Assets:

Land and building costs are recorded at an estimate of cost. This estimate was calculated by the Ministry of Education using a tool called the Book Value Calculator. As these estimates were used for purposes of provincial consolidation, the amounts reported are as of March 31, 2008.

Excluded tangible capital asset classes include furniture, equipment, computer hardware, computer software and vehicles.

Building amortization is provided on a straight-line basis over the estimated useful life of the 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.

Amortization rates are:

Land Improvements with finite lives	15 years
Buildings	40 years
Portable Structures	20 years
Other Buildings	20 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 yrs)	950	400	375	975	600	30	50	580	395
Portable Structures	85	15	4	96	12	14	4	22	74
Other Buildings (20 yrs)	11	-	-	11	5	2	-	7	4
TOTAL	\$1,346	\$655	\$479	\$1,522	\$667	\$52	\$54	\$665	\$857

Appendix I – Financial Statement Note Disclosure after Full Implementation of PS 3150

For the 2008/09 school year:

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

I.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, 2009. At August 31, 2009, these assets were not included as part of the tangible capital asset balance. During 2009/10, 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
Furniture	10 years
Equipment	5 – 15 years
Computer Hardware	5 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 yrs)	950	400	375	975	600	30	50	580	395
Portable Structures	85	15	4	96	12	14	4	22	74
Other Buildings (20 yrs)	11	-	-	11	5	2	-	7	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	\$ 1,368	\$ 659	\$ 485	\$ 1,542	\$ 678	\$ 57	\$55	\$ 680	\$ 862

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

Appendix J – Establishing Opening Balances: Where to Start?

- J.01 Boards need to establish opening balances for all asset classes other than the land and building asset classes. These balances are required for September 1, 2008.
- J.02 Land and building opening balances have been established by the Ministry of Education using a tool called the Book Value Calculator. Should boards find material differences in the values that were calculated by the Ministry, they should make the necessary adjustments to their financial statements upon implementation of PS 3150.
- J.03 The following table lists how far back a board will have to look back to establish its opening balances:

<i>Asset Classes</i>	<i>Time Period Required</i>
Equipment – 5 years	September 1, 2003 onward
Equipment – 10 years	September 1, 1998 onward
Equipment – 15 years	September 1, 1993 onward
Furniture	September 1, 1998 onward
Computer Hardware	September 1, 2003 onward
Computer Software	September 1, 2003 onward
Vehicles with gvwr less than 10,000 pounds	September 1, 2003 onward
Vehicles with gvwr greater to or equal to 10,000 pounds	September 1, 1998 onward

- J.04 The example provided below shows how to establish opening balances for asset purchases recorded in the board’s central accounting system. Assets purchased through school activity funds, school councils and subsidiaries will also need to be included in the board’s consolidated financial statements.
- J.05 When establishing opening balances, the board should keep materiality in mind in determining the extent of work required to estimate tangible capital asset opening balances. For example, if the schools funds are used to purchase the equivalent of 1% of the boards purchases it may not be worth the effort to recreate the opening balances for these assets. This type of decision will need to be made on a board by board basis.
- J.06 The Ministry is suggesting the following methods to establish opening balances by asset class:
 1. Historical cost
 2. A method of approximating historical cost
 3. Reproduction cost new, deflated to the year of acquisition

4. Replacement cost new, deflated to the year of acquisition

Note: Deflation can be accomplished by using appropriate specific price indexes such as a construction index available through Statistics Canada. If the exact date of acquisition is unknown, a reasonable estimate is acceptable.

- J.07 As per the Handbook, historical cost is the preferred method of reporting tangible capital assets. Where historical cost is not available, an alternate method must be selected. As long as it is reasonable and applied consistently it should be acceptable.
- J.08 The Ministry of Education expects that a majority of the tangible capital asset classes' opening balances can be established with the use of the code of accounts for purchases handled centrally.
- J.09 Boards should establish a collaborative working relationship with their auditors at the beginning of this process. Auditors will be auditing these opening balances therefore they need to agree with the proposed methodology followed by the board.

Equipment – 5 years

- J.10 This tangible capital asset class is made up of the following code of accounts 501 – Replacement of Furniture & Equipment, General and 551 – Additional Furniture & Equipment, General.
- J.11 These object codes include both furniture and equipment and these represent 4 separate asset classes:
- Furniture
 - Equipment – 5 years
 - Equipment – 10 years
 - Equipment – 15 years
- J. 12 Therefore, the boards will need to determine what their expenditure patterns are for the last 2 – 3 years (longer timeframe where the pattern is inconsistent) based on the materiality threshold of \$5,000 per unit:
- 1) Pull out general ledger balances for the accounts that relate to the object codes 501 and 551 for the last 10 years.
 - 2) From the 3 most recent years of data, look for all transactions posted to these accounts that are \$5,000 or greater and break the costs down into 4 asset classes:
 - a. Furniture
 - b. Equipment – 5 years
 - c. Equipment – 10 years
 - d. Equipment – 15 years
 - 3) Determine your board's typical average expenditure pattern for each of the 4 asset classes (calculate the percentage of expenditure per code of account and then average the percentage over the 3-year period)

- 4) Once a board has determined what their “typical” average expenditure pattern is for 2 a) to d) they can apply the percentage obtained to the 4 separate asset classes as follows:
- Percentage derived to furniture
 - Percentage derived to equipment – 5 years
 - Percentage derived to equipment – 10 years
 - Step n/a for equipment – 15 years
- 5) Establish historical cost and accumulated amortization for each asset class as of August 31, 2008

J.13 Example:

Step 1: Pull out the general ledger balances for the accounts that relate to the object codes specified for the last 10 years:

Account Balances	Object Code 501	Object Code 551	Total
1998-99	114,000	78,000	192,000
1999-00	115,000	79,000	194,000
2000-01	122,000	82,000	204,000
2001-02	127,000	83,000	210,000
2002-03	115,000	72,000	187,000
2003-04	110,000	74,000	184,000
2004-05	127,000	81,000	208,000
2005-06	125,000	75,000	200,000
2006-07	114,000	79,000	193,000
2007-08	121,000	71,000	192,000
Total	\$1,190,000	\$774,000	\$1,964,000

Step 2: From the most recent 3 years of data, look for posted transactions that are \$5,000 or greater by asset class and add them up by asset class:

	Furniture	Equip (5)	Equip (10)	Equip (15)	Under \$5,000	Total
2005-06 = 501	10,000 ¹	60,000	15,000	25,000	15,000	125,000
2005-06 = 551	15,000	20,000	20,000	0	20,000	75,000
2006-07 = 501	11,000	55,000	12,000	0	36,000	114,000
2006-07 = 551	12,000	22,000	17,000	0	28,000	79,000
2007-08 = 501	13,000	58,000	17,000	0	33,000	121,000
2007-08 = 551	10,000	19,000	18,000	0	24,000	71,000

Note: In this example, 3 years of data was used as the expenditure pattern was fairly consistent from year to year. Where a board has an expenditure pattern that is not consistent, additional years need to be included.

¹ In order to obtain \$10,000, 2 postings of \$5,000 were located. The same process was followed for the other tangible capital asset categories.

Step 3: Calculate the percentage of expenditure per code of account and then average the percentage over the 3-year period (**but** first remove the amount of the equipment 15 years as it must be tracked by asset and is not pooled)

	Furniture	Equip (5)	Equip (10)	Equip (15)	Under \$5,000	Total
2005-06 = 501	10.0% ¹	60.0%	15.0%	n/a	15.0%	100.0%
2005-06 = 551	20.0%	26.7%	26.6%	n/a	26.7%	100.0%
2006-07 = 501	9.7%	48.2%	10.5%	n/a	31.6%	100.0%
2006-07 = 551	15.2%	27.9%	21.5%	n/a	35.4%	100.0%
2007-08 = 501	10.7%	47.9%	14.1%	n/a	27.3%	100.0%
2007-08 = 551	14.1%	26.8%	25.3%	n/a	33.8%	100.0%
Average per asset class:						
501	10.2% ²	52.0%	13.2%	n/a	24.6%	100.0%
551	16.4%	27.1%	24.5%	n/a	32.0%	100.0%

$$^1 (125,000 - 25,000 = 100,000) \\ 10,000 / 100,000$$

$$^2 (10.0 + 9.7 + 10.7) / 3 = 10.13 \text{ rounded to } 10.2\%$$

Step 4: Apply the percentage calculated in step 3 above to the 10-years of data in order to obtain the amount that should have been capitalized in that time frame

	Furniture	Equip (5)	Equip (10)
1998-99 = 501	10.2% x 114,000 = 11,628	52.0% x 114,000 = 59,280	13.2% x 114,000 = 15,048
1998-99 = 551	16.4% x 78,000 = 12,792	27.1% x 78,000 = 21,138	24.5% x 78,000 = 19,110
1999-00 = 501	10.2% x 115,000 = 11,730	52.0% x 115,000 = 59,800	13.2% x 115,000 = 15,180
1999-00 = 551	16.4% x 79,000 = 12,956	27.1% x 79,000 = 21,409	24.5% x 79,000 = 19,355
2000-01 = 501	10.2% x 122,000 = 12,444	52.0% x 122,000 = 63,440	13.2% x 122,000 = 16,104
2000-01 = 551	16.4% x 82,000 = 13,448	27.1% x 82,000 = 22,222	24.5% x 82,000 = 20,090
2001-02 = 501	10.2% x 127,000 = 12,954	52.0% x 127,000 = 66,040	13.2% x 127,000 = 16,764
2001-02 = 551	16.4% x 83,000 = 13,612	27.1% x 83,000 = 22,493	24.5% x 83,000 = 20,335
2002-03 = 501	10.2% x 115,000 = 11,730	52.0% x 115,000 = 59,800	13.2% x 115,000 = 15,180
2002-03 = 551	16.4% x 72,000 = 11,808	27.1% x 72,000 = 19,512	24.5% x 72,000 = 17,640
2003-04 = 501	10.2% x 110,000 = 11,220	52.0% x 110,000 = 57,200	13.2% x 110,000 = 14,520
2003-04 = 551	16.4% x 74,000 = 12,136	27.1% x 74,000 = 20,054	24.5% x 74,000 = 18,130
2004-05 = 501	10.2% x 127,000 = 12,954	52.0% x 127,000 = 66,040	13.2% x 127,000 = 16,764
2004-05 = 551	16.4% x 81,000 = 13,284	27.1% x 81,000 = 21,951	24.5% x 81,000 = 19,845
2005-06 = 501	10.2% x 125,000 = 12,750	52.0% x 125,000 = 65,000	13.2% x 125,000 = 16,500
2005-06 = 551	16.4% x 75,000 = 12,300	27.1% x 75,000 = 20,325	24.5% x 75,000 = 18,375
2006-07 = 501	10.2% x 114,000 = 11,628	52.0% x 114,000 = 59,280	13.2% x 114,000 = 15,048
2006-07 = 551	16.4% x 79,000 = 12,956	27.1% x 79,000 = 21,409	24.5% x 79,000 = 19,355
2007-08 = 501	10.2% x 121,000 = 12,342	52.0% x 121,000 = 62,920	13.2% x 121,000 = 15,972
2007-08 = 551	16.4% x 71,000 = 11,644	27.1% x 71,000 = 19,241	24.5% x 71,000 = 17,395

Step 5: Establish historical cost and accumulated amortization for the furniture, equipment 5 years and equipment 10 years asset classes as of August 31, 2008

FURNITURE:

To calculate Estimated Opening Balances

	Historical Cost											Accumulated Amortization	NBV
	(Estimated)	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08		
1998-99	24,420	(1,221)	(2,442)	(2,442)	(2,442)	(2,442)	(2,442)	(2,442)	(2,442)	(2,442)	(2,442)	(23,199)	1,221
1999-00	24,686		(1,234)	(2,469)	(2,469)	(2,469)	(2,469)	(2,469)	(2,469)	(2,469)	(2,469)	(20,986)	3,700
2000-01	25,892			(1,295)	(2,589)	(2,589)	(2,589)	(2,589)	(2,589)	(2,589)	(2,589)	(19,418)	6,474
2001-02	26,566				(1,328)	(2,657)	(2,657)	(2,657)	(2,657)	(2,657)	(2,657)	(17,270)	9,296
2002-03	23,538					(1,177)	(2,354)	(2,354)	(2,354)	(2,354)	(2,354)	(12,947)	10,591
2003-04	23,356						(1,168)	(2,336)	(2,336)	(2,336)	(2,336)	(10,512)	12,844
2004-05	26,238							(1,312)	(2,624)	(2,624)	(2,624)	(9,184)	17,054
2005-06	25,050								(1,253)	(2,505)	(2,505)	(6,263)	18,788
2006-07	24,584									(1,229)	(2,458)	(3,687)	20,897
2007-08	23,986										(1,199)	(1,199)	22,787
As at Aug 31, 2008	248,316	(1,221)	(3,676)	(6,206)	(8,828)	(11,334)	(13,679)	(16,159)	(18,724)	(21,205)	(23,633)	(124,665)	123,651

Historical cost:

Code of account 501 + Code of account 551

1998 - 99 = 11,628 + 12,792 = 24,420

1999- 00 = 11,730 + 12,956 = 24,686

2000- 01 = 12,444 + 13,448 = 25,892

etc.

Therefore the estimated opening balance for the furniture asset class at August 31, 2008 is:

Historical Cost	\$248,316
Accumulated Amortization	124,665
Net Book Value	123,651

Repeat this part of the exercise for equipment (5 years) and equipment (10 years).

This approach **cannot** be used for equipment (15 years) as this asset class is not pooled. For the 15-year equipment class, boards will need to determine what asset was purchased during step # 2 above. You will also notice that step # 2 above only goes back 10 years and this is a 15-year class. We believe that any assets purchased prior to 1998-99 will be close to being fully amortized and may have been disposed of prior to August 31, 2008 therefore the likelihood of the purchases prior to 1998-99 being material in nature are slim. If this statement does not reflect the realities of your board, you may have to try to estimate the purchases that occurred prior to 1998-99.

In our example, we only had 1 purchase for this asset class in 1998-99 totaling \$25,000. This is typical of what we expect to see for most boards which is very little equipment that will fall under this asset class. For next steps, see equipment – 15 years below.

Equipment – 10 years

J.14 Please refer to paragraphs J.10 to J.13 above.

Equipment – 15 years

J.15 This class is a limited class in terms of its composition. The Ministry of Education is recommending that boards start by obtaining a listing of equipment that would fall under this tangible capital asset category either from the plant department or the finance department. To this list the board will need to associate an estimated year of purchase for the equipment. This can be accomplished by looking at step # 2 above to see if any transactions were identified for the equipment – 15 year class.

J.16 If the board cannot identify the purchase from step # 2, boards could obtain the reproduction cost of the equipment. Based on the reproduction cost of the piece of equipment, the boards would need to deflate the cost back to the year when the piece of equipment was purchased. Once again if the year of acquisition is unknown, it will need to be estimated.

Furniture

J.17 Refer to paragraphs J.10 to J.13 above.

Computer Hardware

J.18 The Ministry expects that boards could look to their prior year financial statements to rebuild this asset class (similar to the equipment classes above). Boards have been instructed through the code of accounts to post expenditures relating to computer hardware to object codes 502 – replacement of furniture & equipment, computer technology and 552 – additional furniture & equipment, computer technology. Therefore boards should be able to recreate the purchases of computer hardware by year for purposes of establishing opening balances. Once again the materiality threshold will need to be considered in undertaking this exercise.

Computer Software

J.19 The Ministry expects that boards could look to their prior year financial statements to rebuild this asset class. Boards have been instructed through the code of accounts to post expenditures relating to computer software to object code 331 – application software. Therefore boards should be able to recreate the purchases of computer software by year for purposes of establishing opening balances. Once again the materiality threshold will need to be considered in undertaking this exercise.

Vehicles with gvwr of 10,000 pounds or less

- J.20 Due to the nature of vehicles and their insurability feature, boards should be easily capable of obtaining a listing of owned vehicles that would fall under this tangible capital asset class. From this listing, they can then go back to insurance premium packages and find the year of the vehicle.
- J.21 With this information boards can determine what it would cost to replace the vehicle today and deflate it back to its year of acquisition.
- J.22 Alternatively, boards could look to the object code 554 – additional equipment, vehicles per the code of accounts. This account code was intended to be used for the purchases of new vehicles including trucks, cars, vans or buses. As this object code applies to both vehicle tangible capital asset classes, the board would have to place the vehicles in the appropriate class.

Vehicles with gvwr equal to or greater than 10,000 pounds

- J.23 See paragraphs J.20 – J.22 above.

Overall Comments

- J.24 These are recommended approaches only. Boards may have better methods of establishing opening balances where historical cost is not available based on individual board practices.

Appendix K – Tangible Capital Assets Under Leases

K.01 Purpose

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

K.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.

K.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 yrs)	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	2010
Equipment	2012

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

K.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	<u>4,063</u>
	<u>\$25,763</u>

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