Policy Title: **3.2.1 Capital Assets**

Section: **3.0 Operations**

Last Approved: **April 2016**

BACKGROUND

The purpose of this policy is to outline the accounting requirements for capital assets. In addition the policy covers policy and procedures to:

a) Protect and control the use of all tangible capital assets.
b) Provide accountability over tangible capital assets.
c) Gather and maintain information needed to prepare financial statements.

APPLICATION

This policy applies to all departments in the Saskatchewan School Board Association (SSBA). This policy follows the accounting policy of capitalizing and amortizing capital assets recommended by the Chartered Professional Accountants of Canada (CPA).

DEFINITIONS

Amortization is a rational and systematic manner of allocating the cost of an asset over its estimated useful life.

Betterments are enhancements to the service potential of a capital asset such as:

- an increase in the previously assessed physical output or service capacity;
- a reduction in associated operating costs;
- an extension of the estimated useful life; or
- an improvement in the quality of output.

Capital Assets are non-financial assets having physical substance that:

- are held for use by the SSBA 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 lives extending beyond a year and are intended to be used on a continuing basis; and
- are not intended for sale in the ordinary course of operations.

Capital Leases are leases with contractual terms that transfer substantially all the benefits and risks inherent in ownership of property to the SSBA. For substantially all of the benefits and risks of ownership to be transferred to the lessee, one or more of the following conditions must be met:

a) There is reasonable assurance that the SSBA will obtain ownership of the leased property by the end of the lease term.
b) The lease term is of such a duration that the SSBA will receive substantially all of the economic benefits expected to be derived from the use of the leased property over its life span.
c) 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.

Capital-type expenses are costs for assets that meet the definition of a capital asset but are less than the thresholds. These assets are expensed in the year in which they are purchased.

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

Disposal refers to the removal of a capital asset from service as a result of sale, destruction, loss or abandonment.

Estimated Useful Life is the estimate of the period over which a capital asset is expected to be used or the number of units of production that can be obtained from the asset. It is the period over which an asset will be amortized and is normally the shortest of the physical, technological, commercial or legal life.

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.

Financial Assets are assets that are available to discharge existing liabilities or finance future operations and are not for consumption in the normal course of operations. Examples of financial assets are cash on hand, accounts receivable and inventories for resale.

Gain on Disposal is the amount by which the proceeds realized upon an asset's disposal exceed the asset's net book value.

Group Assets are assets that have a unit value below the capitalization threshold but have a material value as a group and is normally recorded as a single asset with one combined value. Although recorded in the financial systems as a single asset, each unit may be recorded in the asset sub-ledger for monitoring and control of its use and maintenance. Examples could include personal computers, furniture and fixtures, small moveable equipment, etc.

Leasehold and Occupancy Improvements are renovations of or modifications to leased accommodations and property occupied by the SSBA.

Loss on Disposal is the amount by which the net book value of a capital asset exceeds the proceeds realized upon the asset's disposal.

Net Book Value is the capital asset cost less accumulated amortization and any write-downs. It represents the asset's unconsumed cost.

Non-financial Assets are assets that do not normally provide resources to discharge liabilities. They are employed to deliver government services, may be consumed or used up in the delivery of those services, and are not generally for sale. Examples of non-financial assets are capital assets and inventories held for consumption or use.

Repairs and Maintenance are ongoing activities to maintain a capital asset in operating condition. They are required to obtain the expected service potential of a capital asset over the estimated useful life. Costs for repairs and maintenance are expensed.

Residual Value is the estimated net realizable value of a capital asset at the end of its estimated useful life. A related term, salvage value, refers to the realizable value at the end of an asset's life. If the SSBA expects to use a capital asset for its full life, residual value and salvage value are the same.

Straight-line Method is an amortization method which allocates the cost of a capital asset equally over each year of its estimated useful life.

Threshold is the minimum cost an individual asset must have before it is recorded as a capital asset in the financial records.

Work-in-progress is the accumulation of capital costs for partially constructed or developed projects.

Works of art and historical treasures are property that has cultural, aesthetic, or historical value that is worth preserving perpetually. These assets are not capitalized as their service potential and expected future benefits are difficult to quantify.

Write-down is a reduction in the cost of a capital asset as a result of a decrease in the quality or quantity of its service potential. A write-down should be recorded and expensed in the period the decrease can be measured and is expected to be permanent.

POLICY STATEMENT

The following parameters are applicable to Association capital assets:

Capitalization

1. Tangible capital assets should be capitalized (recorded in the fixed asset sub-ledger) according to the following thresholds:
    1.1. all land;
    1.2. all buildings;
    1.3. all buildings betterments with unit cost of $25,000 or greater;
    1.4. all others with unit cost of $5,000 or greater.
2. Different thresholds may be used for group assets. Capitalize betterments to existing assets when unit costs exceed the threshold.

Categories

3. A category of assets is a grouping of assets of a similar nature or function in the Association's operations. The following list of categories shall be used:
    3.1. land;
    3.2. buildings;
    3.3. equipment;
    3.4. motor vehicles;
    3.5. furniture and fixtures;
    3.6. computer systems (hardware and software).
4. Capital assets should be assigned to the categories outlined in Appendix 3.2.1A based on their nature, characteristics and useful life.

Valuation

5. Tangible capital assets should be recorded at cost plus all ancillary charges necessary to place the asset in its intended location and condition for use.

6. Purchased assets

    6.1. Cost is the gross amount of consideration paid to acquire the asset. It includes all non-refundable taxes and duties, freight and delivery charges, legal fees, installation and site preparation costs, etc. It is net of any trade discounts or rebates.

    6.2. Cost of land includes purchase price plus legal fees, land registration fees, transfer taxes, etc. Costs would include any costs to make the land suitable for intended use, such as pollution mitigation, demolition and site improvements that become part of the land.

    6.3. When two or more assets are acquired for a single purchase price, it is necessary to allocate the purchase price to the various assets acquired. Allocation should be based on the fair value of each asset at the time of acquisition or some other reasonable basis if fair value is not readily determinable.

    6.4. The threshold for each category represents the minimum cost an individual asset must have before it is to be recorded as a capital asset. Capital assets not meeting the threshold are expensed in the year in which they are purchased. Costs for these assets are referred to as capital-type expenses. Thresholds should be applied on an individual asset or per item basis.

7. Acquired, Constructed or Developed assets

    7.1. Cost includes all costs directly attributable (e.g., construction, architectural and other professional fees) to the acquisition, construction or development of the asset. Carrying costs such as internal design, inspection, administrative and other similar costs may be capitalized. Capitalization of administrative costs should be limited to salaries, benefits and travel for staff directly involved with project delivery (e.g., project management or construction). Capitalization of general administrative overheads is not allowed.

    7.2. Capitalization of carrying costs ceases when no construction or development is taking place or when the tangible capital asset is ready for use.

    7.3. If the construction or development of a capital asset is not completed to a usable state, the costs that would otherwise be capitalized should be expensed.

8. Work in Progress

    8.1. Where the construction or development of a capital asset occurs over several years, capital costs should be accumulated until the asset is ready for use. These costs are identified as work-in-progress for any interim and year-end reporting.

    8.2. No amortization is recorded on work-in-progress.

    8.3. Examples of work-in-progress are the construction of a new building or the development of a major computer system which occurs over several years. Work-in- progress would also include down payments and deposits which are to be applied to the cost of a capital asset.

9. Betterments

9.1. Betterments are enhancements to the service potential of a capital asset, such as:

9.1.1. an increase in the previously assessed physical output or service capacity;

9.1.2. a reduction in associated operating costs;

9.1.3. an extension of the estimated useful life; or

9.1.4. an improvement in the quality of output.

9.2. Betterments which meet the threshold of the applicable capital asset category are capitalized. Otherwise, they are expensed. Repairs and maintenance which are necessary to obtain the expected service potential of a capital asset for its estimated useful life are not betterments. These costs should be expensed when incurred. They include:

9.2.1. repairs to restore assets damaged by fire, flood, accidents or similar events, to the condition just prior to the event; and

9.2.2. routine maintenance and expenditures, such as repainting, cleaning and replacing minor parts.

9.3. Where a betterment enhances the service potential of a capital asset without increasing its estimated useful life, the amortization period should remain the same. Where a betterment increases the estimated useful life of a capital asset, its useful life should be changed. The revised amortization period should not exceed the estimated useful life of the applicable capital asset category as outlined in Appendix 3.2.1.

9.4. Where a betterment involves the replacement of an identifiable component of a capital asset, the original cost of that component and the related accumulated amortization should be removed from the accounting records.

10. Leasehold and Occupancy Improvements

10.1. Leasehold and occupancy improvements involve the renovation of or the modification to leased accommodations and property occupied. These improvements should be accounted for and recorded as capital assets and amortized in accordance with Appendix 3.2.1A.

10.2. Leasehold and occupancy improvements would not include routine maintenance and repairs, such as painting and carpeting.

11. Capitalization of Interest Costs

11.1. Interest expense related to financing costs incurred during the time a capital asset is under construction or development should be included in the cost of capital assets.

12. Donated or Contributed Assets

12.1. The cost of donated or contributed assets that meet the criteria for recognition is equal to the fair value at the date of construction or contribution. Fair value may be determined using market or appraisal values. Cost may be determined by an estimate of replacement cost. Ancillary costs should be capitalized.

13. Excluded Assets

    13.1. The following assets should not be capitalized nor amortized:

        13.1.1. Works of art and historical treasures; and

        13.1.2. Intangible assets such as patents, copyrights and trademarks.

14. Assets Held for Sale

    14.1. Assets held for sale which otherwise would have been recorded as capital assets may be recorded as financial assets or inventory.

Amortization

15. The cost, less any residual value, of a tangible capital asset with a limited life should be amortized over its useful life in a rational and systematic manner appropriate to its nature and use. The amortization method and estimate of useful life of the remaining unamortized portion should be reviewed on a regular basis and revised when the appropriateness of a change can be clearly demonstrated.

16. Useful life is normally the shortest of the asset's physical, technological, commercial or legal life.

17. Land has an unlimited estimated useful life and should not be amortized.

18. Amortization should be calculated based on the full cost of the capital asset. Where the SSBA expects the residual value of a capital asset to be significant in comparison to the asset's cost (20% or more), the amount would be deducted from the cost when calculating amortization.

19. A full year's amortization should be recorded in the year the asset is acquired, constructed or developed and put into use, regardless of when this event occurs in the fiscal year. No amortization should be recorded in the year an asset is disposed of. No amortization should be recorded on work-in-progress or capital assets which have been removed from service but not yet disposed of.

20. Generally, SSBA uses a straight-line method for calculating the annual amortization. A comprehensive list of estimated useful lives of assets and amortization rates is attached in Appendix 3.2.1A.

Disposal

21. The Executive Director shall have the authority to approve the disposal of tangible capital assets with a net book value of $5,000 or less, except land and building. Department heads should notify Corporate Services of the asset description and effective date when assets become surplus to operations. Corporate Services is responsible for adjusting the asset registers and accounting records recording a loss/gain on disposal.

22. The disposal of land and building, regardless of the net book value, will require Executive approval.

23. The disposal of a capital asset results in its removal from service as a result of sale, destruction, loss or abandonment. When a capital asset is disposed of, the cost and the accumulated amortization should be removed from the accounting records and any gain or loss recorded.

24. Any costs of disposal should be expensed and not netted against the gain or loss on disposal.

25. A gain on disposal is the amount by which the proceeds received exceeds the net book value of the capital asset and should be accounted for as a revenue in the period the disposal occurs. A loss on disposal is the amount by which the net book value of the capital asset exceeds the proceeds received and should be accounted for as an expense, in the period the disposal occurs.

Write-downs

26. A capital asset should be written down when a reduction in the value of the asset's service potential can be measured and the reduction is expected to be permanent.

27. Conditions that may indicate that a write-down is required include an expectation of providing services at a lower level than originally planned, a change in use for the asset, technological advances which render the asset obsolete or other factors such as physical damage which reduce the asset's service potential.

28. All write-downs should be approved by the Executive Director. Documentation for write- downs should be submitted to the Executive for review.

29. Write-downs of capital assets should be accounted for as an expense of the current period. Annual amortization of an asset that has been written down should be calculated using the net book value after the write-down and the remaining estimated useful life.

30. Regardless of any change in circumstances, a write-down should not be reversed.

Capital Leases

31. Capital leases are a means of financing the acquisition of a capital asset where the lessee carries substantially all of the risks and benefits of ownership. Capital leases are recorded as if the lessee had acquired the asset and assumed a liability. If one or more of the following criteria exists, the lease should be accounted for as a capital lease:

    31.1. There is reasonable assurance that the SSBA will obtain ownership at the end of the lease. (Transfer of ownership occurs at the end of the lease or the lease has a bargain purchase option.)

    31.2. The SSBA will receive substantially all of the economic benefits of the asset. (The lease term is 75% or more of the economic life of the asset).

    31.3. The lessor is assured of recovering the investment in the asset and earning a return. (The present value of the minimum lease payments is 90% or more of the fair value of the asset.)

32. Where at least one of the conditions in the preceding paragraph is not present, other factors may indicate that a capital lease exists.

33. Operating leases are leases in which the lessor does not transfer substantially all the benefits and risks of ownership. If the arrangement is an operating lease, lease payments should be expensed and no liability recorded.

34. If the arrangement is a capital lease, SSBA should apply the thresholds of the appropriate capital asset category. If the thresholds are not met, an expense and a liability should each be recorded for the present value of the minimum lease payments.

35. If the thresholds are met, a capital asset and a liability should each be recorded for the present value of the minimum lease payments. The leased asset should be amortized over the lesser of the lease term or estimated useful life for similar capital assets.

REFERENCES

Appendix 3.2.1A – Capital Asset Schedule
Financial and Operational Policy 1.3 – Financial signing authority
Financial and Operational Policy 3.1.6 – Debt management