KDSB
KENORA DISTRICT SERVICES BOARD
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POLICY and PROCEDURE

TITLE: MATERIALS MANAGEMENT – TANGIBLE CAPITAL ASSETS – ACCOUNTING TREATMENT	SECTION: FINANCIAL SERVICES
DATE: December 3, 2009	POLICY NO.: FNS-II-03
APPROVED BY: Resolution No. 2009-131	REVISED/REVIEWED DATE:

1. PURPOSE

The goal of this policy is to ensure that the Board's investment in tangible capital assets is recorded appropriately and accurately. This policy will aid in the achievement of the following goals:

- To ensure that legislative and policy requirements to establish and maintain tangible capital asset accounting records are met. This includes compliance with PS3150;
- To improve the understanding of tangible capital asset accounting processes by all stakeholders; and
- To apply consistent accounting treatment of tangible capital asset related transactions.

2. TANGIBLE CAPITAL ASSETS

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

    (1) Are held for use in the 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;

    (2) Have useful economic lives extending beyond one year;

    (3) Are to be used on a continuing basis; and

    (4) Are not for sale in the ordinary course of operations.

Examples of Tangible Capital Assets include buildings, vehicles, equipment, land, computer hardware and software.

Excluded Assets

2. The following assets should not be capitalized and amortized:

    (1) Land (or other assets) acquired by right, such as Crown, forests, water and mineral resources;

    (2) Works of art and historical treasures; and

    (3) Intangible assets such as patents, copyrights and trademarks.

When to Account for Tangible Capital Assets

3. A tangible capital asset should be accounted for and recognized in the financial statements when:

(1) It is probable that future benefits associated with the tangible capital asset will be obtained;

(2) There is an appropriate basis of measurement and a reasonable estimate of the value of the asset can be made; and

(3) The asset is in use.

Amortization

4. Amortization is the accounting process of allocating the cost of a tangible capital asset to operating periods as an expense over its useful life in a systematic manner.

5. All of the organizations tangible capital assets will be amortized using the straight line method which allocates the cost of the asset evenly over its' useful life.

6. A full year's amortization will be recorded in the year of acquisition, construction or development and put into use, regardless of when this event occurs in the fiscal year.

Useful Life of a Tangible Capital Asset

7. The useful life of an asset or part of an asset is the period over which an asset is expected to be used. The estimated useful life of the tangible capital asset will be established by collaboration between operating departments and the finance department.

(1) Useful life is normally the shortest of the tangible capital asset's physical, technological, commercial or legal life.

(2) The useful life of a tangible capital asset depends on its expected use by the organization. Factors to be considered in estimating the useful life of a tangible capital asset include:

a. Expected future usage;
b. Effects of technological obsolescence;
c. Expected wear and tear from use of the passage of time;
d. The maintenance program in place;
e. Studies of similar items retired; and
f. The condition of existing comparable items.

(3) The useful life of a tangible capital asset should be reviewed on a regular basis. If expectations differ from previous estimates, the change in useful life is to be accounted for as a change in an accounting estimate. Significant events that may indicate a need to revise the remaining useful life of a tangible capital asset include:

a. A change in the extent to which the tangible capital asset used;
b. A change in the manner in which the tangible capital asset is used;
c. Removal of a tangible capital asset from service for an extended period of time;
d. Physical damage;
e. Significant technological developments;
f. A change in the demand for the services provided through use of the tangible capital asset; and

g. A change in the law or environment affecting the period of time over which the tangible capital asset can be used.

Tangible Capital Asset Cost

8. When acquired, tangible capital assets are measured at cost. Cost is the amount of cash paid and/or the fair value of other assets given up in exchange for the asset. It includes all charges, including carrying costs, necessary to place the asset in its intended location and condition for use.

9. Tangible capital assets that are donated or contributed to the organization must be recorded at fair value as of the date of transfer. If the organization is the donor or transferor, a deemed disposition is recorded at fair value.

Tangible Capital Asset Types

10. Tangible capital asset types and descriptions are provided in the table below:

ASSET TYPE	DESCRIPTION
Land	Real property in the form of a plot, lot or area. Includes all expenditures made to acquire land and to ready it for use where the improvements are considered permanent in nature and includes purchase price, closing costs, grading, filling, draining, clearing, removal of old buildings (net of salvage), assumptions of liens or mortgages, and any additional land improvements that have an infinite life. The costs associated with improvements to land are added to the cost of the land if those improvements can be considered permanent (such as re-grading or filling of the land).
Land improvements	Land improvements consist of betterments, site preparation and site improvements (other than buildings) that ready land fir its intended use, which generally decay or break down over time. Land improvements that are removable and can degrade or deplete over the course of time through use or due to the elements should be separately capitalized and their value amortized over the useful life of the improvement.
Buildings	General capital buildings include all structures that provide shelter from the elements which function independent of an infrastructure network (including capital betterments to capital buildings).
Machinery & equipment	An apparatus, tool, device, implement or instrument that likely uses energy (human, electrical, hydraulic fuel, or thermal) to facilitate a process, function or completion of a task. Machinery and equipment also includes furniture, fixtures, and computer hardware/software. It may be installed within a building or vehicle, but is generally capable of being moved and reinstalled at a different location.
Vehicles	A means of transportation, usually having wheels, for transporting persons or things or designed to be towed behind such an apparatus.
Capital Work-in-progress	The cost of tangible capital assets under construction constructed or in an uncompleted process of acquisition by the KDSB, and that are not yet in service.

Tangible Capital Asset Thresholds

11. Tangible capital assets should be capitalized according to the following thresholds:

ASSET TYPE	THRESHOLD
Land	$0 (capitalize all)
Land improvements	$5,000
Buildings – residential	$10,000/unit
Buildings – commercial	$25,000
Buildings – portable/short term	$5,000
Building improvements – residential	$5,000/unit
Building improvements – commercial	$10,000
Leasehold and occupancy improvements	$10,000
Machinery and equipment	$5,000
Vehicles	$5,000

Betterments

12. Betterment is a cost incurred to enhance the service potential of a tangible capital asset. Betterments increase service potential and may or may not increase the remaining useful life of the tangible capital asset. Service potential is enhanced if one of the following occurs:

    (1) There is an increase in the previously assessed physical output or service capacity;

    (2) Associated operating costs are lowered;

    (3) The original useful life is extended; or

    (4) The quality of the output is improved.

13. Betterments to existing assets may be capitalized when unit costs exceed the threshold.

14. Because betterments are often difficult to determine, they should be determined in collaboration with the finance department.

Write-Down/Write-Off

15. A write-down is used to reflect a partial impairment in the value of a tangible capital asset. The carrying value of a tangible capital asset should be written down if it can no longer contribute to the organization's ability to provide service at the previously anticipated level and the impairment is permanent in nature.

16. A write-off is a 100% reduction in the net book value of a tangible capital asset to reflect the decline in the asset's value due to a permanent impairment.

17. Once an asset is written down or off, the transaction cannot be reversed. An asset that has been previously written down cannot be written up in a subsequent period. Similarly an asset that has been written off cannot be written on at a latter date.

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Tangible Capital Asset Disposal

18. Disposals occur when the ownership of a tangible capital asset is relinquished and may occur by sale, loss, destruction or abandonment.

19. Upon disposal of a tangible capital asset, whether by sale, loss, destruction or abandonment, the difference between the net proceeds on disposal and the net book value should be recognized as a gain or loss in the period the transaction to dispose of the tangible capital asset is completed.

Capital Leases

20. Capital leases are a means of financing the acquisition of a tangible capital asset where a 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 the liability.