Tangible Capital Asset Policy

Section	Date	By-Law Number	Page	Of
General	April 15, 2025	40-2025	1	8
Subsection	**Repeals By-Law Number**		**Policy Number**	
Assets	N/A		MU-01-01	

Purpose:

1. The goal of this policy is to provide direction for ensuring that The Muse's tangible capital assets are recorded appropriately and accurately, and to prescribe the accounting treatment for those assets. This policy does not apply to assets over which The Muse does not exercise control.

2. Tangible capital assets are a significant economic resource and a key component in the delivery of programs and services. The benefits from capitalizing tangible capital assets include:
   - Maintain appropriate accountability for government-owned tangible capital assets;
   - Ensure accounting consistency across the organization;
   - Ensure efficient and effective use of assets; and
   - Provide information that will support measuring the cost of programs and services.

Definitions:

Amortization - is an accounting concept in which the recorded cost of an asset is distributed in a systematic and rational manner over its estimated useful life and matches the cost of that asset to the periods in which service is derived from the asset.

Betterment - is a subsequent expenditure on a tangible capital asset, in excess of the relevant threshold, that will do one or more of the following:

- Substantially increase the previously assessed physical output or service capacity;
- Significantly lower associated operating costs (efficiency);
- Substantially extend the useful life of the asset; or
- Significantly improve the quality of the output.

Any other expenditure would be considered a repair or maintenance and expensed in the period.

Capital Project - is an activity during which expenditures are incurred that result in the creation of a capital asset.

Control - of an asset is achieved when The Muse:

- Manages and operates the asset;
- Is responsible for the asset's performance, availability and maintenance;
- Has total use of the asset or can control access to the benefit the asset provides;
- Has legal responsibility and liability with respect to the asset;
- Is the beneficiary of all or nearly all the future economic benefits from the asset;
- Is responsible for renewal and replacement of the asset;
- Bears all risk of obsolescence, environmental liability, uninsured damage or condemnation of the asset.

Fair Value - is the amount of the consideration that would be agreed upon in an arm's length transaction between knowledgeable and willing parties (buyer and seller) who are under no compulsion to act. Fair value would be used to assign an amount to a donated asset received by The Muse.

Historical cost - of an asset is the amount of consideration given up to acquire, construct, develop or better an asset and includes all costs directly attributable to acquisition, construction, development or betterment of an asset including installing the asset at the location and in the condition necessary for its intended use. Historical cost is generally determined using the actual original cost. Where actual original cost information is not available, an estimated original cost may be used.

"In Service" Date - is realized as the date at which an asset begins to be used by The Muse. The calculation and recording of amortization will not begin until the "in service" date has been reached.

Maintenance - is a recurrent expenditure, whether it be periodically or regularly required, that keeps an asset in a condition that helps maintain or ensure realization of the future economic benefits that are expected from the asset over its initially assessed useful life.

Pooled assets - are assets that have a value below the capitalization threshold when considered on an individual basis but that collectively make up a significant group of assets which exceeds the relevant threshold level (for example, computers, furniture, small moveable equipment). Pooled assets are recorded as a single asset with one combined value, although each unit may be recorded in the asset sub-ledger for monitoring and control of its use and maintenance.

Residual value - is the estimated net realizable value of a tangible capital asset at the end of its useful life.

Straight-line method - is the preferred method of amortization in which the periodic charge is computed by dividing the cost base of the asset by its estimated useful life.

Tangible capital assets - are non-financial assets having physical substance that are acquired, constructed and developed and:

- 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 lives extending beyond one year;
- Are intended to be used on a continuing basis in The Muse's operations; and
- Are not intended for sale in the ordinary course of operations.

Threshold - is generally the minimum cost that an individual asset must have before it is to be treated as a tangible capital asset. The threshold amount is to be used as a guide in addition to professional judgment.

Useful life - is the estimate of either the period over which a tangible capital asset is expected to be used by The Muse, or the number of production or similar units that can be obtained from the tangible capital asset by the City. An asset will most likely be removed from service when it is no longer economically viable. Useful life is normally the shortest of the asset's physical, technological, commercial or legal life.

Control:

3. Tangible capital assets are economic resources controlled by an entity as a result of past transactions or events and from which future benefits may be obtained. The Muse must, therefore, exercise control of an asset before it can be reported in the capital asset record of The Muse. In addition, the transaction or event giving rise to The Muse's right to, or control of, the benefit must have already occurred.

   It is not essential for control of access to the benefit to be legally enforceable for a resource to be on asset, provided the entity can control its use by other means.

Cost:

4. The cost of a tangible asset is the gross amount of consideration given up to acquire, construct, develop or better that asset. It includes direct, construction or development costs (such as materials and labour) and overhead costs directly attributed to the acquisition, construction or development of the asset and includes costs to place the asset in its intended location and condition for use. Asset costs may include, but are not limited to the purchase price and other acquisition costs such as:
   - installation costs;
   - design and engineering fees;
   - survey costs;
   - site preparation costs;
   - freight charges;
   - transportation insurance costs and duties.

Where 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.

Costs of betterments are considered to be part of the cost of a tangible capital asset and would be added to the recorded cost of the related asset. A betterment is a cost incurred to enhance the service potential of a tangible capital asset. In general, service potential may be enhanced when there is an increase in the previously assessed physical output or service capacity, where associated operating costs are lowered; the useful life of the property is extended; or the quality of the output is improved (for example, repairs and maintenance maintain the predetermined service potential of a tangible capital asset for a given useful life). Such expenditures are expensed in the period in which they are made. Betterments increase service potential (and may or may not increase the remaining useful life of the tangible capital asset). Such expenditures would be included in the cost of the related asset.

Furniture, Equipment and Technology:

5. Furniture and equipment includes fixed and moveable tangible capital assets to be used for operations, the benefits of which extend beyond one year from date of receipt.

   Technology includes computers and consists of hardware and software (canned and customized) that can be considered a component of, is typically attached to, or communicates with an information system. The term encompasses processing units, memory apparatus, input and output devices, storage devices, connectivity equipment, printers and copiers.

   Furniture, equipment and technology (FE&T) may be capitalized as pooled assets in conjunction with other asset types in the following situations:
   - Construction of a new building
   - Construction of a new building which is a replacement for a currently existing building;
   - Construction of a building addition that includes new FE&T;
   - Major renovation to a building in which new FE&T is included to replace the existing items;
   - Construction of certain major complex network systems (i.e. telephone, computers, servers, printers).

Contributed Assets:

6. A tangible capital asset may be gifted or contributed by an external third party with no cash outlay. Where an asset is acquired at no costs or for a nominal value, the amount recognized should be equal to its fair value as at the acquisition date. Fair value may be estimated using market or appraised values. When an estimate or fair value cannot be reasonably estimated, the asset will be recognized at its nominal value.

A capital asset purchased at substantially below fair value would also be recognized at its fair value with the difference between the consideration paid for the capital asset and fair value reported as a contribution.

Collections:

7. Heritage assets/Collections are works of art and historical treasures considered irreplaceable and preserved in trust for future generations. Collections or individual items of significance (i.e. paintings, historical pieces and/or structures that are owned by Kenora and not held for financial gain but rather for public exhibition, education or research in furtherance of public service) may be considered heritage assets. Heritage assets will not be recognized as tangible capital assets in financial statements, but the existence of such property should be disclosed. Amortization of heritage assets does not apply as the economic benefit or service potential of heritage assets are used up so slowly and the estimated useful lives are extraordinarily long. Due to the cultural, aesthetic or historical value, The Muse applies efforts to protect and preserve the asset indefinitely.

Accounting for Assets:

8. All tangible capital assets and amortization must be identified and valued using an appropriate cost base; namely historical cost. Reasonableness and materiality should be considered in this approach. Where practical and cost effective, existing tangible capital assets, acquired in fiscal years prior to the year of adoption of public sector accounting standards for tangible capital assets, will be valued using historical costs adjusted for the proportion of the useful life of the asset that has already been consumed through the establishment of a provision for accumulated amortization.

   Where it is not practical and cost effective to establish a reasonable estimate of historical cost, the appraised or some appropriate measure of current value may be used and discounted back to estimate historical cost using relevant price/cost index. In the case where the year the asset was constructed or acquired is unknown, an estimate of the number of years remaining and the current value of the asset, working backward an estimated year and value can be determined. Tangible capital asset classifications that were historically established on whole asset or pooled asset approaches may be recorded using a component approach on a “go forward” basis.

Recognition:

9. A tangible capital asset shall be recognized when it is probable that future benefits associated with the asset will be obtained, there is an appropriate basis of measurement and a reasonable estimate of the amount that can be made. The recognition and valuation of an asset is based on its service potential. The acquisition date of an asset is the earliest of the date on which the asset being constructed is complete and ready for productive use. In the case of contributed assets, this date shall be the date of the initial acceptance by The Muse.

Capital Threshold:

10. Capitalization threshold relates to the minimum dollar threshold that is used to assist in determining which expenditures will be capitalized as assets and amortized and which expenditures will be treated as current year expenses. The capitalization threshold has been set at $1,500 for The Muse.

Pooled Assets:

11. When the value of an individual item is less than the threshold level, but upon acquiring several of these assets in a single purchase or when these costs are aggregated for the fiscal period, the asset makes up a significant group that exceeds the threshold level then they must be capitalized. Assets to be pooled have been set out in the Category and Sub-Category table at the end of this policy.

Useful Life:

12. 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 by the organization. The estimated useful life of The Muse's tangible capital assets have been set out in the Threshold and Useful Life tables at the end of this policy.

    Estimating useful lives of assets is a matter of judgment based on experience and should be applied on a consistent basis. Factors to be considered in estimating useful life include:
    - Expected future usage;
    - Effects of technical obsolescence;
    - Expected wear and tear through the passage of time;
    - Maintenance program;
    - Condition of existing comparable items; and
    - Studies of similar items retired.

    The service potential of an asset is normally consumed through usage. Factors such as obsolescence, excessive wear and tear or other events could significantly diminish the service potential that was originally anticipated from the asset. The estimated useful life of an asset category and remaining useful life of individual assets should be reviewed on a regular basis and revised when appropriate. The rationale supporting the decision to revise life estimates of an asset should be documented.

    Significant events that may indicate a need to revise the estimated useful life of an asset or its components may include:
    - Completion of a major betterment;
    - Change in the extent or manner that the asset is used;
    - Removal of an asset from service for an extended period of time;
    - Pattern of differences in levels of maintenance as compared to that previously expected;

- Results from engineering testing indicating higher than expected rates of structural deterioration;
- Major physical damage or destruction;
- Significant technological developments;
- Significant increases in operating costs that may dictate an earlier than originally anticipated retirement; and
- Changes in government programs, laws or regulations, policies, standards; environment or public preferences impacting the period of time over which the tangible capital asset can be used.

Disposal:

13. Disposals of tangible capital assets in the accounting period may occur by sale, destruction, loss or abandonment. On disposal of an asset, the historical cost and accumulated amortization must be removed from the books. The disposal shall be documented. The difference between the net proceeds on disposal and the net book value must be recorded as a gain or loss for the accounting period.

Write-Down / Write-Off:

14. When conditions indicate that a tangible capital asset no longer contributes to The Muse's ability to provide goods and services, or that the value of future economic benefits associated with the tangible capital asset is less than its net book value, the cost of the tangible capital asset should be reduced to reflect the decline in the asset's value.

    A write-down is used to reflect a partial impairment in the value of the asset. A write-off is used to reflect total impairment in the value of an asset. Write-downs or write-offs should not be reversed. The write-down or write-off of an asset requires the approval by a properly authorized officer. Any abandoned or indefinitely postponed projects must be written down to their next realizable value and charged to the period in which the abandonment or indefinite postponement occurs. When the reduction in future economic benefits of the asset can be objectively estimated and it is expected to be permanent, the asset must be written down.

    Conditions that indicate a write down is necessary may include a change in the manner or extent to which the asset is used:
    - Removal of the asset from service;
    - Physical damage;
    - Significant technological developments;
    - A decline in, or cessation of the need for the service provided by the asset;
    - A decision to halt construction of the asset before it is complete or in useable or saleable condition; or
    - A change in the law or environment affecting the extent to which the asset can be used.

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

Amortization:

15. The Muse will use a straight-line method of calculating the annual amortization in most situations. Amortization is normally based on the total cost of the asset less its residual value. When the residual value of the asset is significant then it should be factored into the calculation of amortization. Otherwise it shall be assumed that there is no residual value for that asset.

    The Muse shall book 50% of calculated amortization in the first year.

Review of Policy:

16. The Tangible Capital Asset Policy shall be presented by the Director to The Muse Board for review at a minimum of every three years in conjunction with Treasurer.

Category	Sub-Category	Pooled	Threshold $	Useful Life Years
Furniture, Equipment & Technology	Computers	X	$1,500	3
	Servers	X	$1,500	5
	Printers	X	$1,500	5
	Software	X	$1,500	5
	Instrumentation	X	$1,500	10
	Tools	X	$1,500	10
	Misc. Equipment	X	$1,500	10
	Security Systems (not attached to buildings)	X	$1,500	5
	Furniture	X	$1,500	10