Council Policy

Morinville
Growing Together

Tangible Capital Assets

Policy Number: CP2/2021-2
Approval Date: January 12, 2021
Supersedes Policy: CFS226/2017

SECTION A

1.0 Policy Purpose

1.1 To ensure the consistent and transparent treatment of all Tangible Capital Assets within the Town of Morinville.

2.0 Definitions

2.1 **"Council"** means the duly elected officers of the Town of Morinville and the Chief Elected Officer or Mayor.

2.2 **"Town"** means the Town of Morinville and the Department(s) designated by the Chief Administrative Officer (CAO) to implement this policy.

2.3 **"Finance"** means the Chief Financial Officer or the Finance Manager of the Corporate Services Department of the Town of Morinville designated by the Chief Administrative Officer to implement this Policy.

2.4 Refer to Appendix 1 for a full-list of technical definitions in relation to this policy.

3.0 Policy Statements

3.1 In accordance with Public Sector Accounting Board Standard PS 3150, all tangible capital assets are required to be valued at historical cost and reflected on the Statement of Financial Position. The standard requires the following changes and disclosure requirements effective January 1, 2009:

- Tangible Capital Assets - Recorded at Cost
- Amortized over the useful life
- Net Book Value of all Tangible Capital Assets
- Amortization accounted for as an expense on the Consolidated Statement of Financial Activities (Income Statement).

- Write-downs apply for decline in asset values.
- Net write-downs accounted for as expenses on the Income Statement and not reversed.
- Net proceeds to be accounted for as a revenue or expense on disposals of assets.

3.2 Tangible Capital Assets (TCAs) shall fall into one of the following Major Asset Classifications. Assets must meet the minimum threshold amount in order to be considered a Tangible Capital Asset (TCA).

Major Asset Classifications	Threshold
Land	Capitalize all
Land improvement	$ 5,000
Buildings	$ 25,000
Engineered Structures	$ 25,000
Machinery and Equipment	$ 5,000
Vehicles	$ 5,000
Cultural and Historical Assets	$0

See APPENDIX 2 for definitions of major classifications. Engineered Structures will be assigned a "minor" classifications to identify more specifically its unique characteristics (see APPENDIX 3).

3.3 Thresholds should be applied on an individual asset basis, unless multiple expenditures for tangible capital assets valued below the capitalization threshold and, therefore, expensed rather than capitalized, results in a material misstatement of the financial statements.

Due to the large financial impact and large numbers purchased, the Town will create a pool of TCAs and capitalize these TCAs provided they exceed the identified thresholds as follows:

i. Computer hardware and software
ii. Office furniture and equipment

3.4 Based upon materiality, information needs of management and availability of information, a Tangible Capital Asset may be recorded using either the whole asset or component approach. The whole asset approach considers an asset to be an assembly of connected parts. Costs of all parts would be capitalized and amortized as a single asset by year of acquisition. For example a building may be considered as a single asset. Under the component approach, major components are individually capitalized and amortized. Each component with a unique historical cost, useful life or amortization is recorded separately. For example, the major components of a building (exterior shell, windows, roof, HVAC, etc.) may be capitalized.

3.5 A TCA should be accounted for and recognized in the Town's financial statements when it is probable that future benefits associated with the tangible capital asset will be obtained; and there is an appropriate basis of measurement and a reasonable estimate of the amount can be made. 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 legal ownership of the tangible capital asset is transferred to the Town. Issuance of an occupancy permit or engineering certification may provide evidence that a new tangible capital asset is ready for use.

3.6 Asset Valuation

3.6.1 The cost of a Tangible Capital Asset includes:

- The purchase price of the asset
- Other acquisition costs such as:
    - Installation costs, design & engineering fees, legal fees, site preparation costs, freight and transportation and insurance.

3.6.2 Cost of a constructed asset includes:

- Direct construction and development costs (materials, contracted services and labour)
- Overhead costs directly attributed to the construction or development activity
- Indirect labour costs are only allowed when a staff is 100% chargeable to certain projects and do not have other non-chargeable duties when not engaged in project work.

3.6.3 The cost of a contributed or donated tangible capital asset, including a TCA in lieu of a developer charge, is considered to be equal to its fair value at the date of contribution.

In order to determine the fair value, the Director of the department will obtain independent valuation of the TCA such as an appraisal, engineer professional opinion or three quotes from independent sources. These accounting estimates must be documented and provided to Finance for the appropriate financial transactions.

In the case where a TCA is being constructed on behalf of the Town or as part of a development, the responsible Director should attempt to acquire the fair value from the developer and include this as a requirement of the contract.

If the fair value cannot be determined by any means outlined above, the asset should be recorded at a nominal value and disclosed in the notes to the financial statements.

3.6.4 Interest costs related to financing the acquisition or construction of a tangible capital asset are not capitalized.

3.6.5 Alterations or modernization of an asset that significantly prolong the TCA's period of usefulness or improve its functionality are added to the recorded cost of the related asset.

One of the following criteria should be met to classify the alterations as betterment:

- The estimated life of the asset is extended by more than 25%; or
- The cost results in an increase in the capacity of the asset; or
- The efficiency of the asset is increased by more than 10%

Refer to Appendix 1 for further definition on Betterments. Repairs and maintenance to a TCA are expensed in the current year.

3.7 Amortization

3.7.1 Amortization for the Town of Morinville will be based on the straight line method of depreciation over the useful life of the asset. The useful life of a TCA depends on its expected use by the municipality. Factors to be considered in estimating the useful life of a TCA include:

- Experience with similar assets through use;
- 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.

3.7.2 Where construction of an asset is comprised of distinct, multiple and self-contained phases, amortization will begin in the year for the distinct phases are completed. For pooled assets, where purchases and disposals affect the pool balance throughout the year, the amortization calculation may be based on the estimated pool balance rather than actual. For example, where a type of asset has an average expected life of 3 years and the average balance of the pool throughout the year is $1 million, the monthly amortization would be calculated as 1/36 x $1 million. The amortization charges related to the pool should be reviewed for reasonableness at year-end.

3.7.3 Where a Department expects the residual value of a TCA to be significant, it would be factored into the calculation of amortization.

3.7.4 Departments and Finance will review the amortization methods and estimates of useful lives on an annual basis prior to the finalization of the annual financial statements. .

A change in an asset's amortization rate as a result of a revision of its estimated life is treated as change in the accounting estimates rather than a change in accounting policy. Under PS 2120 Accounting Changes, paragraph 27, a change in an estimate is not given retroactive effect since it arises from new information or developments. The effect of a change in the estimated useful life of a tangible capital asset and its associated effect on amortization expense are allocated to the period of revision and applicable future periods.

Significant events that may indicate a need to revise the amortization method or the estimate of the remaining useful life of a TCA include:

- a change in the extent to which the TCA is used;
- a change in the manner in which the TCA is used;
- removal of the tangible capital asset from service for an extended period of time;
- physical damage;
- significant technological developments;
- change in the 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 can be used.

3.8 Impairment of Assets

3.8.1 PS3150 states that when conditions indicate that a TCA no longer contributes to a municipality'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.

The net write-downs of the TCA will be accounted for as an expense in the current period statement of operations and cannot be reversed. Consequently, the decision to write-down an impaired asset could have a significant impact on the annual surplus or deficit and requires the approval of Town Council.

Further information on asset impairments and write downs can be found in Appendix 1.

3.9 Disposals

3.9.1 On disposal, the historical cost and accumulated amortization is removed from the accounting records. Under PS3150, the difference between the net proceeds on disposal of a tangible capital asset and the net book value of the asset should be accounted for as a revenue or expense in the statement of operations.

Disposals of TCA's in the accounting period may occur by sale, trade-in destruction, loss or abandonment. Departments are required to identify the planned disposals of TCA's during the budget process. Upon disposal, the Departments must inform the Finance Department of the result of the disposal and provide the proceeds on disposal together with the documentation describing the disposal.

3.10 Removed From Service

3.10.1 If the TCA is permanently removed from service and is not being used by the Town, amortization should cease and its carrying value should be written down to its residual value.

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

3.11 Under Construction (Work-in-Progress)

3.11.1 If at financial statement date, a TCA is under construction, the costs will be debited to a Work-In-Progress Inventory account.

3.11.2 Upon construction completion the Finance Department and the Departmental Director will review the WIP Inventory account and finalize the amount to be capitalized in accordance with Section 3.5.

3.11.3 When a project has distinct, multiple, completely self-contained phases that will be brought into production or use at different points of time, the operating department shall use professional judgment to determine the appropriate timing for transfers from work in progress to assets.

3.11.4 Work in progress balances must be reconciled and the appropriate transfers from work in progress made to completed assets or written off to ensure that only active and incomplete work in progress is carried forward to the next period. The reconciliation should be done quarterly or at a minimum must be done annually.

3.11.5 All costs capitalized in work-in-progress must be written-off if construction of the tangible capital asset is terminated or deferred indefinitely, and there is no alternative use for the work-in-progress.

4.0 Expiry

4.1 For the purposes of ensuring that this Policy is revised for ongoing relevancy and necessity, a review will occur prior to December 31, 2023. The policy shall be brought forth and repassed in its present or an amended form or rescinded.

4.2 This policy shall remain in effect if the review date passes prior to Council review.

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SECTION B

1.0 Reference to other Policy and Legislation
Canadian Institute of Chartered Accountants (CICA) Section 3060
Public Sector Accounting Board (PSAB) accounting policy guidelines PS 1000; PS 1100; PS 1200; PS 3150

2.0 Persons Affected
All Departments purchasing, constructing or disposing of Tangible Capital Assets.

3.0 Divisional/Departmental Responsibility
Administrative Services / Finance

4.0 Review/Revision History and Author
CFS226-2017
CF19/2010

Barry Turner
Mayor

Stephane Labonne
Chief Administrative Officer

APPENDIX 1 – DEFINITIONS

Accumulated Amortization
Accumulated amortization represents the total to date of the periodic amortization charges relating to tangible capital assets since the assets were placed in use represents the total consumed or used portion of that asset.

Amortization
Amortization of Tangible Capital Assets reflects the cost to the municipality of utilizing the TCA in providing services. The cost of property, equipment and other capital assets is essentially a long-term prepayment of an expense in advance of the use of the asset. As the economic service life of the asset expires, the cost of the asset is systematically allocated to operations as an expense called "amortization".

Acquisition Cost
Acquisition cost is the 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.

Betterment
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. 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.

Contributed Capital Assets
Tangible capital assets which have been given to the Town of Morinville for its use in delivering programs, whereby all or part of the acquisition costs of that asset are paid for by the contributor. For example, land may be contributed by another level of government at zero or nominal consideration to facilitate the construction of a roadway or structure. A developer may install services such as water/sewer mains or roads within a subdivision at its own cost and then turn them over to the Town to operate, maintain and replace.

Cost
The cost of a tangible capital asset is the 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.

Disposals
Disposals occur when the ownership of a tangible capital asset is relinquished and may occur by sale, destruction, loss or abandonment. At this time the cost and accumulated amortization of the asset is reduced to zero.

Estimated Useful Life
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
Fair value is the amount of the consideration that would be agreed upon in an arms-length transaction between knowledgeable, willing parties, who are under no compulsion to act.

Financial Assets
Financial Assets are assets that are available to discharge 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
A gain on disposal is the amount by which the proceeds realized upon the asset's disposal exceed the net book value of the tangible capital asset. Gains will be allocated to the department that owns the asset.

Non-Financial Assets
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.

Infrastructure

Municipal infrastructure is all capital assets required to create and maintain a safe, secure and sustainable community. Municipal infrastructure includes but is not limited to:

- transportation infrastructure (e.g., roads, bridges, public transit);
- utilities and environmental infrastructure (e.g., water delivery systems, sewage treatment systems, recycling systems, landfills);
- infrastructure enabling the provision of protective services (e.g., police, fire, flood, mitigation);
- parks, recreation and cultural facilities (e.g., arenas, playgrounds, pools, trails, libraries, community and art centers);
- electronic infrastructure (e.g., broadband networks, information systems);
- municipal civic institutions (e.g., Town/Town Hall, Administration buildings)

Land
Land includes land purchased or acquired for use, for preservation, for parks and recreation, for building sites, for infrastructure and for other program use.

Loss on Disposal
A loss on disposal is the amount by which the net book value of the tangible capital asset exceeds the proceeds realized upon the asset's disposal. Losses will be allocated to the department that owns the asset.

Net Book Value
The net book value is the difference between the cost of a tangible capital asset and both its accumulated amortization and the amount of any write-downs. It represents the unconsumed cost of a tangible capital asset attributable to its reaming service life. Net book value will always include the residual (scrap) value of a tangible capital asset.

Professional Judgment
Professional judgment is based on an individual's past experiences and training. In the presence of uncertainty, the application of judgment is inevitable. Professional judgment must be used in determining which costs are to be capitalized; the proper classification of certain assets, the residual value to apply, the appropriateness of the useful life and the associated accounting treatment.

Repairs and Maintenance
The cost incurred to maintain the service potential of a tangible capital asset is a repair. These expenditures are made to maintain the asset in operating condition and are expensed in the year they occur.

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Residual Value
It is the estimated net realizable value of a tangible capital asset at the end of its useful life to the Municipality.

Service Potential
It is the output or service capacity of a tangible capital asset, that is normally determined by references to attributes such as physical output capacity, quality of output, associated operating costs and useful life.

Straight Line Method of Amortization
The straight line method is an approach of amortizing a tangible capital asset where the amortization is considered as a function of time instead of a function of usage. It is assumed that the economic usefulness is the same each year and therefore the amortization charge is the same for each year of its useful life.

Tangible Capital Assets (TCA)
Non-financial assets having physical substance that are acquired, constructed or developed and are held for use in the production or supply of goods and services to others; for administrative purposes or for the development, construction, maintenance or repair of other tangible assets; have useful economic lives extending beyond an accounting period; are to be used on a continuing basis; and are not for resale in the ordinary course of operations. Beneficial ownership and control clearly rests with the Town.

Tangible Capital assets do not include such things as:

- Inventories held for resale (including land);
- Capital grants
- Intangible assets, except for software which is tangible for the purpose of capitalization;
- Feasibility studies, business cases, management reviews (post implementation) and;
- Assets below the thresholds outlined in this policy.

Threshold Amount
Generally, the threshold amount for each category is the minimum cost an individual asset must have before it is treated as a tangible capital asset and added to proper asset class balance.

Useful Life
Useful life is the estimated period over which a tangible capital asset is expected to be used by the Town. The useful life of a tangible capital asset, other than land, is finite and is normally

the shortest of the physical, technological, commercial, and legal life. The life of a tangible capital asset may extend beyond the useful life of the tangible capital asset.

Works of Art and Historical Treasures
Properties that have cultural, aesthetic or historical value that is worth preserving perpetually. These assets are not integral to the town's operations and are not included in the tangible capital assets at this time as a reasonable estimate of future benefits cannot be made. They are, however, noted in the financial statements.

Work-in-Progress
Work-in-progress consists of construction or development of a tangible capital asset in progress that is not yet in use.

Write-down
Write-down is the reduction in the cost of a tangible capital asset made when the value of future economic benefits associated with the asset is less than its net book value.

Conditions that may indicate that the future economic benefits associated with a TCA have been reduced and a write-down is appropriate include:

- A change in the extent to which the TCA is used;
- A change in the manner in which the TCA is used;
- Significant technological developments;
- Physical damage;
- Removal of the TCA from service;
- A decline in, or cessation of, the need for the services provided by the TCA;
- A decision to halt construction of the TCA before it is complete or in usable or saleable condition; and
- A change in the law or environment affecting the extent to which the TCA 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.

When the TCA no longer contributes to the municipality's ability to provide goods and services, it would be written down to residual value, if any. This would be appropriate when the Town has no intention of continuing to use the asset in its current capacity, and there is no alternative use for the asset.

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Write-off
A write-off is used to reflect a complete (100%) impairment of the value of a tangible capital asset. The carrying value of a tangible capital asset, net of its residual value, should be written off if the tangible capital asset can no longer contribute to the Town's ability to provide service and the impairment is permanent in nature.

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APPENDIX 2 – ASSET CLASSIFICATIONS

Tangible Capital Assets recorded in the Major classification will include:

- Land
- Land Improvements
- Buildings
- Engineered Structures
- Machinery and Equipment
- Vehicles
- Cultural and Historical Assets

Land
Land includes land purchased or acquired for value for parks and recreation, building sites, infrastructure (highways, dams, bridges, etc.) and other program use, but not land held for resale.

Land Improvements
All improvements of a permanent nature of land such as parking lots, landscaping, park and trail developments, lighting, pathways, and fences.

Buildings
Permanent, temporary or portable building structures, such as offices, garages, and recreation facilities intended to shelter persons and/or goods, machinery, equipment and working space.

Engineered Structures
This includes permanent structural works such as roads, bridges, water and sewer and utility distribution and transmission system, including plants and substations.

Machinery and Equipment
This includes equipment that is heavy equipment for constructing infrastructure, trailers, smaller equipment in buildings, offices and open spaces furnishings and major computer hardware and software costs. This class does not include stationary equipment used in the engineered structures class.

Vehicles
This includes rolling stock that is used primarily for transportation purposes.

Cultural and Historical Assets
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 PS 3150.42(e)).

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APPENDIX 3 – ENGINEERED STRUCTURES

Engineered Structures Minor Asset Classification

Minor classifications in the Engineered Structures major classification will be:

- Roadway system
- Water system
- Wastewater system
- Storm system

Roadway System

Assets intended for the direct purpose of vehicle or pedestrian travel or to aid in vehicle or pedestrian travel. This includes roads, bridges, overpasses, ramps, parkades, lights, sidewalks and signage.

Water System

Systems for the provision of water through pipes or other constructed convey. It is normally comprised of assets for the intake, distribution, storage and treatment of safe potable water. It may also be comprised of assets required to distribute non-potable water. This includes mains, services, pump and lift stations, plants and equipment, reservoirs and fire hydrants.

Wastewater System

Wastewater is defined as water that has been used for household, business and other purposes, which flows for private plumbing systems to public sanitary sewers and on to a treatment plant. This system is comprised of assets used for the collection and treatment of non-potable water intended for return to a natural water system or other originating water source or used for other environmentally approved purposes. This includes mains, services, pump and lift stations, plants and equipment and lagoons.

Storm System

Assets used for the collection, storage and transfer of water as a result of rain, flood or other external source to a natural water system. This includes mains, services, catch basins, pump and lift stations, outfalls and retention ponds.

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