POLICY NO. 77

TANGIBLE CAPITAL ASSETS

BE IT ENACTED by the Council of Region of Queens Municipality, under the authority of the Municipal Government Act, S.N.S. 1998, Chapter 18, as follows: This policy shall be known as Policy Number 77 and may be cited as "Tangible Capital Assets".

POLICY PURPOSE

This policy prescribes the accounting treatment for tangible capital assets so that users of financial reports can discern information about the investment in property, plant and equipment and the changes in such investment. This policy will provide guidance for all departments to assist them in assessing their physical resources in order to provide the information necessary to prepare financial statements. The principal issues in accounting for tangible capital assets are the recognition of the assets, the determination of their carrying amounts, amortization charges and the recognition of any related impairment losses.

In addition, the policy covers procedures to:

a) protect and control the use of all tangible capital assets;
b) provide accountability over the tangible capital assets;
c) gather and maintain information needed to prepare financial statements.

AUTHORITY

The Public Sector Accounting Board of Canadian Professional Accountants requires that municipal financial statements be prepared in accordance with Generally Accepted Accounting Principles and Public Sector Accounting Standards. This policy applies to all departments operating within the reporting entity of Region of Queens Municipality.

DEFINITIONS

"amortization" of capital assets allocates an expense the effective utilization and reduction in value of a capital asset during the course of a year's operations. This indicates writing off the cost of the capital asset over its expected life span.

"betterments" are expenditures on tangible capital assets subsequent to the initial purchase, they increase the previously assessed physical output or service capacity, cause a reduction in associated operating costs, extend the estimated useful life and cause an improvement in the quality of output. Any other expenditure would be considered a repair or maintenance and expensed in the year incurred.

"capitalization" of tangible capital assets shall be recorded in the fixed asset sub ledger according to the asset categories outlined in Schedule A.

"capital lease" is a lease with contractual terms that transfers substantially all the benefits and risks inherent in ownership of property to the Region. For substantially all of the benefits and risks of ownership to be transferred to the Region, one or more of the following conditions must be met:

a) there is reasonable assurance that the Region will obtain ownership of the leased property at the end of the lease term;

b) the lease term is of such a duration that the Region will receive substantially all of the economic benefits expected to be derived from the use of the leased property over its life span.

"fair market value" is the amount of consideration that would be agreed upon in an arm's length transaction between knowledgeable and willing parties who are under no compulsion to act.

"tangible capital assets" are defined as those assets that are held for use by the municipality in the production or supply of goods and services 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; have physical substance; and are not intended for sale in the ordinary course of operations.

"valuation" of a tangible capital asset shall be recorded at cost, if cost is available, plus all additional charges necessary to place the asset in its intended location and condition for use.

TANGIBLE CAPITAL ASSETS

THRESHOLD

The threshold for each category represents the minimum cost an individual asset must have before it is to be recorded as a capital asset on the statement of financial position. Capital assets not meeting the threshold of $50,000 per year are expensed in the year in which they are purchased.

PURCHASED ASSETS

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

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

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 shall 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.

ACQUIRED, CONSTRUCTED OR DEVELOPED ASSETS

Cost includes all costs directly attributable (e.g. construction, architectural and other professional fees) to the acquisition, construction or development of the asset. Capitalization of general administrative overhead is not permitted.

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

CAPITALIZATION OF INTEREST COSTS

Interim financing costs incurred by the acquisition, construction and production of an asset that takes a substantial period of time to get ready for its intended use shall be capitalized as part of the cost of that asset.

Capitalization of interest costs shall commence when expenditures are being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use are in progress. Capitalization shall be suspended during periods in which active development is interrupted. Capitalization interest shall cease when substantially all of the activities necessary to prepare the asset for its intended use are complete.

DONATED OR CONTRIBUTED ASSETS

The cost of donated or contributed assets that meet the criteria for recognition shall be valued equal to their fair market value at the date of construction or contribution. Fair market value for land will be based on land assessment value or appraised value; all other items shall be based on fair market value.

AMORTIZATION

The cost, less any residual value, of a tangible capital asset with a limited life will 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 shall be reviewed on a regular basis and revised when the appropriateness of a change can be clearly demonstrated.

Useful life is normally the shortest of the asset's physical, technological, commercial or legal life. Amortization shall begin in the year following the year in which the costs were incurred. No amortization shall be recorded in the year an asset is disposed of. No amortization shall be recorded on a capital asset in progress or one that has been removed from service but not yet disposed of.

Region of Queens Municipality shall use a straight-line method for calculating the annual amortization with the exception of usage based amortization that will be utilized for the landfill depreciation. A comprehensive list of useful lives and amortization is attached as Schedule B.

DISPOSAL

When tangible capital assets are taken out of service, destroyed or replaced due to obsolescence, scrapping or dismantling, the department head or designate shall notify the finance department of the asset description and effective date. The finance department shall be responsible for adjusting the asset ledgers.

The disposal of a capital asset shall result in its removal from service as a result of sale, destruction or loss. When a capital asset is disposed of, the cost and the accumulated amortization shall be removed from the accounting records and any gain or loss recorded. Costs of disposal paid by the municipality shall be expensed. A gain or loss on disposal is the difference between the net proceeds received and the net book value of the asset and shall be accounted for as a revenue or expense in the period the disposal occurs.

CAPITAL LEASES

Capital leases shall be formally approved by Council. The department head or designate shall notify the finance department of any capital lease that will acquire an asset with a value of $50,000 or more. If equipment is acquired through a capital lease, then the finance department shall account for the capital asset and incur a liability.

ASSETS EXCLUDED FROM AMORTIZATION

The follow assets shall be capitalized and not amortized: land; works of art and historical treasures; intangible assets such as patents, copyrights and trademarks.

ASSET RETIREMENT OBLIGATIONS

Asset Retirement Obligation requirements are detailed in Policy 96.

EFFECTIVE DATE

This policy shall take effect from the date of approval by Council.

OFFICIAL CERTIFICATION

THIS IS TO CERTIFY THAT this policy was passed by the Council of Region of Queens Municipality at a duly constituted meeting of said Council held on the 28th day of February, 2023.

SIGNED by the Mayor and Municipal Clerk this 10th day of March, 2023.

Mayor

Municipal Clerk

Recommended by Audit and Internal Control Committee: February 13, 2023

SCHEDULE A

The following table lists the capital asset categories and examples of assets and costs included in each category.

Capital Asset Category	Examples of Capital Assets	Examples of Capital Asset Costs
Land	• Land acquired for parks and recreation, conservation purposes, building sites and other programs • Land purchased for construction of road surface, drainage areas and allowances or future expansions	• Purchase price • Professional fees for title searches, legal, engineering, appraisals, environmental surveys, land surveys and migration • Improvement and development costs such as land excavation, filling, grading, drainage, demolition of existing buildings (less salvage)
Land improvements	• Fencing and gates, parking lots, paths and trails, landscaping, swimming pools and playgrounds	• Original purchase price or completed project costs including costs of material and labour or costs of a contractor
Buildings	• wooden structures • steel structures • concrete structures	• original purchase price or completed project costs including basic costs of material and labour or costs of a contractor • costs to remodel, recondition or alter a purchased building to make it ready to use for the acquired purpose • design fees • costs of building permits, studies, tests (pre-acquisition costs)

		• professional fees for title searches, architect, legal, engineering, appraisals, environmental surveys • operating costs such as temporary buildings used during construction
Building improvements	• major repairs that increase the value or useful life of the building such as structural changes, installation or upgrade of heating and cooling systems, plumbing, electrical, telephone systems	• complete project costs including basic costs of material and labour or costs of a contractor • preparation of plans, blueprints, and specifications • cost of building permits, studies, tests • professional fees for architect, legal, engineering, appraisals, environmental surveys • operating costs such as temporary buildings used during construction
Operating equipment	• equipment specific to maintenance, shop and sanitation, such as forklifts, welding machines, utility trailers, snow plows, radios, meters	• original contract price or invoice price • net HST on acquisition • installation charges • charges for testing and preparation
Heavy equipment	• construction equipment such as plows, rock hammers, loaders, excavators, and trucks and trailers	• original contract price or invoice price • net HST on acquisition • charges for testing and preparation • costs of reconditioning used items which purchased

		• parts and labour associated with the construction of equipment
Vehicles	• used primarily for transportation purposes such, pick up trucks, vans, boats, all terrain vehicles	• original contract price or invoice price • HST tax on acquisition • costs of reconditioning used items when purchased
Computer software	• off the shelf software and related upgrades, software licenses after removing any maintenance or similar charges	• purchase price of off the shelf software and related upgrades • net HST on acquisition • installation charges
Computer hardware	• servers, scanners, printers, hard drives, modems, tape drives, and plotters	• purchase price • installation charges • net HST on acquisition
Roads/Street construction	• municipally owned roads	• direct costs of construction including tender construction costs, labour, materials, survey costs, equipment, and project specific design costs • construction and material costs related to overhead structures and signage • salary and travel costs for employees/contractors assigned to the project for direct management duties such as project management, inspection and quality control

Roads/Streets	• concrete curbs/gutters/sidewalks	• direct costs of construction including labour and materials
Bridges – construction	• bridges/railings	• direct costs of construction including tender construction costs, labour, materials survey costs, and project specific design costs • salary and travel costs for employees assigned to the project for direct management duties such as project management, inspection and quality control
Bridges - upgrades	• upgrades to bridges/railings	• direct costs of construction including labour and materials • salary and travel costs for employees assigned to the project for direct management duties such as project management, inspection and quality control
Storm Water Management	• storm water conveyance structures	• Direct costs of construction including tender construction costs, labour, materials, survey costs, and project specific design costs • Salary and travel costs for employees assigned to the project for direct

		management, inspection and quality control
Airports – runways	• airport runways, strips and aprons • upgrading gravel runways to asphalt runways • upgrading gravel runways to treated gravel runways	• direct costs of construction including labour and materials • salary and travel costs for employees assigned to the project for direct management duties such as project management, inspection and quality control
Airports - navigational aids	• runway lighting and non-directional beacons • replacing the entire existing lighting or wiring system	• original purchase price • installation charges • charges for testing and preparation • parts and labour associated with construction and installation
Illumination structures	• light systems (traffic, outdoor, street), new signage initiative	• original purchase price • installation charges • charges for testing and preparation • parts and labour associated with construction and installation
Sewer infrastructure	• Sanitary sewer systems, lagoons, septic facilities, pump stations	• original purchase price • direct costs of construction including labour and materials • salary and travel costs for employees assigned to the project for direct management duties such as project management,

		inspection and quality control
Other infrastructure	• landfills, helipads	• costs that support infrastructure but are not included in any other category

SCHEDULE B

CAPITAL ASSET THRESHOLDS, ESTIMATED USEFUL LIVES AND AMORIZATION

The following table outlines the threshold and estimated useful life application to each capital asset category. A threshold of ALL means that all capital asset purchases, regardless of cost, are recorded.

Capital Asset Class and Category	Threshold	Estimated Useful Life	Amortization
Land and Land Improvements			
Land	ALL	Indefinite	N/A
Land Improvements	$50,000	20 years	Straight-Line
Buildings and Building Improvements			
Buildings	$50,000	40 years	Straight-Line
Building Improvements	$50,000	20 years	Straight-Line
Engineered Structures	$50,000	40 years	Straight-Line
Outdoor Swimming Pools	$50,000	25 years	Straight-Line
Machinery and Equipment			
Heavy Equipment	$50,000	15 years	Straight-Line
Operating Equipment	$50,000	12 years	Straight-Line
Transportation Equipment			
Vehicles	$50,000	5 years	Straight-Line
Office and Information Technology			
System Development - Packaged System	$50,000	10 years	Straight-Line
Computer Hardware	$50,000	5 years	Straight-Line
Computer Software	$50,000	5 years	Straight-Line
Office Furniture and Equipment	$50,000	10 years	Straight-Line
Infrastructure			
Streets/Roads	ALL	30 years	Straight-Line
Sidewalks	ALL	25 years	Straight-Line
Illumination Structures	$50,000	15-25 years	Straight-Line
Bridges/Railings - Construction	ALL	50 years	Straight-Line
Bridges/Railings - Upgrades	$50,000	15 years	Straight-Line
Storm Water Conveyance Structures	ALL	35 years	Straight-Line
Airports - Runways	ALL	30 years	Straight-Line
Airports - Navigational Aids	ALL	15 years	Straight-Line
Sewer Infrastructure	ALL	50 years	Straight-Line
Landfill Cell	ALL		Based on % of Useful Life