County of Essex Policy and Procedures Manual

Tangible Capital Assets

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1.0 Introduction

The Corporation of the County of Essex is committed to providing service to residents in a fiscally responsible manner that supports a healthy and vibrant community. With this commitment in mind, assets must be managed in a way that supports the County’s goals, plans and policies.

2.0 Scope

This policy applies to all tangible capital assets owned, purchased, constructed by the County or donated to the County by other parties. This policy applies to all County departments and boards falling within the reporting entity of the County. Intangible assets are not covered by this policy.

It is anticipated that the tangible capital asset policy will be refined and amended over time; assets and their lifespans will change as technology advances, and thresholds will likely increase over time in accordance with inflation. Administration will continue to monitor thresholds, valuations, and useful lives to determine if adjustments are required.

3.0 Definitions/Glossary

Amortization means the accounting process of allocating the cost of a tangible capital asset, less any residual value, to operating periods as an expense over the useful life of the asset. This is also referred to as depreciation, as it demonstrates the value of an asset depreciating over the life of the asset as its useful life is depleted.

Betterments are subsequent expenditures on tangible capital assets to be capitalized that fulfill one or more of the following requirements:

a) Increase previously assessed physical outputs or service capacity;

b) Lower associated operating costs;

c) Extend the useful life of the asset; or

d) Improve the quality of the output.

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

Capital Lease means a lease with contractual terms that transfer substantially all of the benefits and risks inherent in the ownership of the leased property to the lessee. For substantially all of the benefits and risks of ownership to be transferred of the lessee, one or more of the following conditions must be met:

a) Reasonable assurance that the lessee will obtain ownership of the leased property by the end of the lease term.

b) Lease term is of such duration that the lessee will receive substantially all of the economic benefits to be derived from the use of the leased property over its lifespan.

c) The lessor would be assured of recovering the investment in the leased property and of earning a return on investment as a result of the lease agreement.

Capitalization Threshold means the minimum dollar amount that is used to determine whether expenditures will be recorded as a capitalized asset on the Statement of Financial Position or treated as an expense in the year such expenditures are incurred.

Construction in Progress means assets which have been purchased, constructed or developed but not yet in service. Once completed and in service, these assets will be record as an asset in their proper category and will be amortized over their useful life.

Cost means 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. For contributed assets, the cost is considered to be equal to its fair market value at the date of contribution.

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

Fair Value means the amount of consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties, who are under no compulsion to act.

'In Service' Date means the date at which the asset begins to be utilized by the County. The calculation and recording of amortization will not begin until the 'in service' date has been reached.

Pooled Assets are similar assets that have a unit value below the capitalization threshold (on their own) but have a material value as a group. Such assets shall be 'pooled' as a single asset with one combined value. Although recorded in the asset database as a single asset, each unit of the pool may be recorded in an asset subledger for monitoring and control of their use and maintenance.

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

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

a) Are held for use by the municipality 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;

b) Have useful lives extending beyond a year;

c) Are to be used on a continuing basis; and

d) Are not intended for sale in the ordinary course of operations.

Threshold means the minimum cost an individual tangible capital asset must have before it is recorded as a capital asset on the statement of financial position.

Works of art and historical treasures means 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 means a reduction in the cost of a capital asset when conditions indicate that the asset no longer contributes to a government's ability to provide goods and services or the value of future economic benefits associated with the asset is less than net book value. A write-down should be recorded and expensed in the period the decrease can be measured and is expected to be permanent.

4.0 Purpose

The purpose of this policy is to establish accounting guidelines for tangible capital assets ("TCA") in accordance with Public Sector Accounting Handbook Section 3150 – Tangible Capital Assets and their representation on the Financial Statements of the Corporation of the County of Essex ("County"). The principal issues in accounting for TCA are the recognition of the assets, the determination of their carrying amounts and amortization charges and the recognition of any related impairment losses.

In addition, the policy covers guidelines and procedures to:

- Protect and control the use of all tangible capital assets;
- Provide accountability over tangible capital assets;

- Gather and maintain information needed to prepare the financial statements.

5.0 Policy/Procedures

5.1 Asset Classes

Tangible capital assets shall be classified using a *Category* identifier. The category describes what an asset objectively is and will be presented separately in the notes to the financial statements. The following categories will be used:

- Land
- Land Improvements
- Buildings
- Machinery & Equipment
- Vehicles
- Furniture & Fixtures
- Information Technology
- Bridges & Culverts
- Road Network
- Stormwater Mains
- Construction in Progress

5.2 Capitalization Thresholds

The capitalization thresholds that are established impact the size of the asset inventory and how future acquisitions and disposals are treated. The capitalization thresholds presented on the next page attempt to balance accurate and meaningful presentation of information that can be used for decision-making and analysis against the cost of gathering and maintaining the information. Tangible capital assets and subsequent betterments will be capitalized and amortized according to the following threshold:

Asset Category	Threshold
Land	Always
Land Improvements	$25,000
Buildings and/or their components	$50,000
Civil Infrastructure (i.e. Roads, Bridges, Culverts & Stormwater Mains)	$50,000
Vehicles	$20,000
Pooled Assets (combined value)	$50,000
All other tangible capital assets	$5,000

Acquisition and betterment costs that do not exceed the threshold shall be expensed in the period incurred. These items shall be charged against the operating budget of the department that acquired the asset.

5.3 Valuation

Tangible capital assets should be capitalized at gross historical cost as required by PS 3150 upon the latter of the acquisition or the in-service date. This includes the cost of the asset plus all additional charges incurred to place the asset in its intended location and condition for use. These direct costs will be added as part of the original cost of the asset and will be amortized over the useful life of the associated asset using the straight-line method. Capital grants should not be deducted for capitalization purposes.

5.3.1 Purchased Assets

The cost of an asset is the gross amount of consideration paid to acquire the asset. It includes the purchase price, all non-refundable taxes and duties, freight and delivery charges, installation and site preparation costs, and any other directly related costs. The cost is net of any discounts or rebates, and excludes the value of any asset traded in.

The cost of land includes the purchase price plus legal fees, land registration fees, transfer taxes, survey soil tests and any other directly related costs. Cost would include any expenditure necessary to make the land suitable for its 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 (i.e. land and building), the purchase price should be allocated to the various assets based on the fair value of each at the time of acquisition. If the fair value of each component is not readily available, then another reasonable method to allocate the costs should be used.

5.3.2 **Acquired, Constructed or Developed Assets**

The cost includes all costs directly attributable to the acquisition, construction or development of the asset, such as construction, architectural and other professional fees. Carrying costs such as design, inspection, administrative and other similar costs may be capitalized. Capitalization of general administrative costs, such as rent, utilities and insurance are not allowed.

5.3.3 **Donated or Contributed Assets**

Donations or contributions of tangible capital assets are recorded at their fair value at the date of receipt or contribution. Fair value may be determined using market or appraisal values. Costs may be determined by an estimate of replacement cost. Any related costs should also be capitalized.

5.3.4 **Capital Leases**

Tangible capital assets acquired under a capital leasing arrangement will be capitalized in accordance with PSG-2 Leased Tangible Capital Assets. The value of a leased capital asset and the amount of the corresponding liability is equal to the sum of the present value of the lease payments, not including the portion relating to executory costs (i.e. insurance, maintenance costs, property taxes, etc.).

The discount rate is either the County’s cost of debt or the lease interest rate, whichever is lower.

5.3.5 Capitalization of Interest Costs

Borrowing 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 should be capitalized as part of the cost of that asset.

Capitalization of interest costs should commence when expenditures and borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use are in progress. Capitalization should be suspended during periods in which active development is interrupted. Capitalization of interest costs should cease when substantially all (90%) of the activities necessary to prepare the asset for its intended use are complete. If only minor modifications are outstanding, this indicates that substantially all of the activities are complete.

5.4 Exclusions

Purchases of the following items shall be expensed in the period incurred:

5.4.1 Easements

An easement is an intangible legal right or permission, and therefore does not fall under the definition of ‘tangible capital asset’.

5.4.2 Software

Software purchases are an intangible legal right or permission to use a program developed by a third-party. Most software applications are, or soon will be, ‘cloud based’, and subject to annual subscription or maintenance charges. The cost of tracking this asset class would outweigh any operational benefits derived.

5.4.3 Street Lights

The cost of an individual street light is less than the capitalization threshold. Further, street lights are rarely replaced in their entirety – instead, they are maintained as part of the operations maintenance budget, and should not be capitalized.

5.5 Componentization

Tangible capital assets may be capitalized using either a single asset or component approach. Factors to consider when deciding which approach to use include:

- Whether the components have significantly different useful lives
- The value of the components in relation to the whole asset
- The usefulness of having data at the component level
- The cost of collecting and maintaining information at the component level

5.6 Pooled Assets

Assets that are similar or identical in nature and have an individual value below the capitalization threshold but have a material value as a group may be recorded as a single asset with one combined value. Examples include library books and traffic signals.

Although recorded in the accounting system as a single asset, the Financial Services Department may keep a listing and track each unit individually for asset control purposes.

5.7 Amortization

Tangible capital assets shall be amortized using the straight-line method with the half-year rule in the year of acquisition and disposition. Land is not amortized unless it is used for a purpose that will cause it to have no market value in the future, such as for a landfill or cemetery.

The cost of a tangible capital asset shall be amortized over its estimated useful life. The detailed estimated useful lives presented in Appendix A have been determined by examining the County's own experience with previous and existing capital assets, reviewing policies from other municipalities, and consulting with management and staff of the County. The estimated useful life figures are for amortization purposes only, and represent the best estimates at this time. The estimated useful life for asset management purposes may vary from this. The table can be summarized as follows:

Asset Category	Estimated Useful Life (Years)
Land	Infinite
Land Improvements	15 – 30
Buildings	10 – 50
Machinery & Equipment	5 – 20
Vehicles	5 – 8
Furniture & Fixtures	15
Information Technology	2 – 5
Bridges & Culverts	20 - 80
Road Network	12 – 40
Stormwater Mains	40

Tangible capital assets are deemed to have no residual value for the purpose of calculating amortization.

Amortization charges will be reflected as expenses in the statement of operations.

5.8 **Idle Assets**

Amortization is not recorded in idle assets. If an asset is taken out of service, the Department Head or designate must notify the Financial Services Department in a timely manner so that amortization of the asset can be discontinued.

5.9 **Fully Amortized Assets**

Tangible capital assets that are fully amortized and are still in use shall remain in the asset listing for asset control purposes.

5.10 **Write-Downs**

Write-downs should occur when the County has determined that there is a permanent reduction in the expected future economic benefits from an asset. The write-down will equal the reduction in the asset's value from its net book value and will be accounted for as an expense in the statement of operations. Write-downs may result from the occurrence of one of the following events:

- A change in the extent to which the asset is used
- A change in the manner in which the asset is used
- A decline in, or cessation of, the demand for services provided through the use of the asset
- A change in the laws or environment affecting the use of the asset
- A decision to half construction of the tangible capital asset before it is complete or in usable or saleable condition
- Removal of the asset from service
- Physical damage
- Technological developments

When the tangible capital asset no longer contributes to the County's ability to deliver goods or services, and the County has no intention of continuing to use the asset in its current capacity and there is no alternative use for it, the asset should be written down to its residual value.

Write-downs cannot be reversed.

5.11 **Disposals**

In accordance with the Procurement Policy, when a tangible capital asset is taken out of service, destroyed, replaced, scrapped, dismantled or sold, the Department Head or designate must notify Financial Services Department in a timely manner. Details of the asset's description, the effective date of disposal, and any proceeds received must be provided. The gain/loss, if applicable, will be determined as the difference between the sale or salvage value and the net book value of the asset.

Any proceeds realized from the disposal, transfer or exchange of tangible capital assets will be transferred to the relevant reserve fund and can then be used in the future purchases of new assets. Exceptions to this policy may occur at the discretion of the Director of Financial Service or designate.

6.0 Responsibility

6.1 The Department Head or their designate is responsible for notifying the Financial Services Department when an asset is being, or has been disposed of, including the method of disposition (i.e. donation, scrap, public auction).

6.2 The Financial Services Department is responsible for maintaining and adjusting the asset registers and accounting records to accurately reflect the inventory of tangible capital assets, as well as to record a gain/loss on disposal if applicable.

7.0 Related Documents/Legislation

- 2019-003 Procurement Policy
- 2019-002 Strategic Asset Management Policy

8.0 Summary of Amendments

Date	Amendment(s)
2009-11-18	Council Report 2009-R19-FIN-1118-RM initiated policy retroactive to Jan 1, 2009. Approved by Council Resolution 288-09.
2023-xx-xx	Council Report 2023-1101-FIN-RXXX-HM updates policy for current estimates of asset service life. Approved by Council Resolution xxx-2023.

Appendix A – Detailed Amortization Schedule

Category	Segment	Useful Life
Land	Land	Infinite
Land Improvements	Fencing	20 years
Land Improvements	Parking Lot – Asphalt	15 years
Land Improvements	Parking Lot – Lighting	25 years
Land Improvements	Sidewalks	30 years
Buildings	Ancillary Buildings	40 years
Buildings	Building Frame and Structure	50 years
Buildings	Building Improvements	20 years
Buildings	Electrical and Lighting	25 years
Buildings	Elevators	20 years
Buildings	Excavation and Foundation	50 years
Buildings	Fire Protection	20 years
Buildings	Generators	25 years
Buildings	HVAC	20 years
Buildings	Interior Finishes	10 years
Buildings	Non-Enclosed / Soft-sided Structures	25 years
Buildings	Plumbing	20 years
Buildings	Roof Structure and Cover	20 years
Buildings	Windows, Doors and Hardware	10 years

Machinery & Equipment	Appliances	10 years
Machinery & Equipment	Audio Visual Materials	7 years
Machinery & Equipment	Books	7 years
Machinery & Equipment	Generators (Portable)	20 years
Machinery & Equipment	Heavy Equipment	12 years
Machinery & Equipment	Illuminated Signs	15 years
Machinery & Equipment	Light Duty Equipment	10 years
Machinery & Equipment	Medical Equipment	5 or 10 years
Machinery & Equipment	Miscellaneous Equipment	10 years
Machinery & Equipment	Office Equipment	5 years
Machinery & Equipment	RTVs	10 years
Machinery & Equipment	Shop Equipment	12 years
Machinery & Equipment	Traffic Signals	30 years
Machinery & Equipment	Trailers	10 years
Vehicles	Ambulance / ERU	5 years
Vehicles	Heavy Trucks - Licensed	8 years
Vehicles	Pickups / SUVs	7 years
Vehicles	Vans	6 years
Furniture & Fixtures	Furniture & Fixtures	15 years
Information Technology	Aerial Photography	5 years
Information Technology	Audio Visual Equipment	5 years
Information Technology	Computer Equipment	5 years

Information Technology	Telecommunication System	5 years
Information Technology	Traffic Cameras	15 years
Bridges & Culverts	Bridge – Deck	20 years
Bridges & Culverts	Bridge – Structure	40 years
Bridges & Culverts	Bridge – Foundation	80 years
Bridges & Culverts	Culvert – CSP	12 years
Bridges & Culverts	Culvert – Boss 2000 (HDPE)	50 years
Bridges & Culverts	Culvert – Concrete	30 years
Road Network	Road Surface - Asphalt	12 years
Road Network	Road Surface - Concrete	40 years
Road Network	Road Surface - Tar and Chip	12 years
Road Network	Road Base	40 years
Road Network	CWATS	12 years
Stormwater Mains	Stormwater Mains	40 years