County of Butte

Administration's Finance Office	Approval Date: 4/10/12 Effective Date: 4/10/12
Capital Assets and Property Control	Review Date:
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PURPOSE

To provide a uniform criteria for identifying County expenditures for capitalization, and for the proper asset classification of capital expenditures, including guidelines for the determination of the economic useful lives of assets. To provide policy for the purchases of capital assets, capitalization of construction projects, use of Equipment Replacement Funds, Capital Projects Fund and Capital Improvement Program, and the control of property that falls below the capitalization threshold. Additionally, to partially guide the preparation of financial statements in conformity with generally accepted governmental accounting standards.

SCOPE

This policy sets forth the parameters, on a county-wide basis, to establish and maintain a systematic method for capturing capital asset data for internal and external use. Governmental Accounting Standards Board Statement 34 requires that all capital assets (meeting threshold parameters, per below) be reported in the government-wide balance sheet of the Comprehensive Annual Financial Report (CAFR). This policy provides authority for all elements of capital asset management, including the use of Equipment

Replacement Funds, Capital Projects Fund, Capital Improvement Program, and control of property below the capitalization threshold.

Summary of General Policy

Capital assets (also referred to as fixed assets) are either tangible or intangible assets of significant value acquired for use in operations that will benefit more than a single fiscal period; and are broadly classified as land, buildings (structures) and improvements, infrastructure, and equipment; and exceed the capitalization thresholds as set forth by the Butte County Board of Supervisors and maintained by the Butte County Chief Administrative Officer or designee. This policy supersedes all prior policies related to Capital Assets and Property Control.

POLICY

I. Responsibility for Capital Asset Record Maintenance

The Chief Administrative Officer or designee will ensure that reporting for capital assets is being exercised on a regular and consistent basis, both initially and periodically in subsequent years. The Chief Administrative Officer or designee will further ensure that capital asset reports and work papers will be updated annually to reflect improvements, additions, retirements, and transfers and to reflect the new, annual capital asset balance for financial reporting purposes and the annual and accumulated depreciation calculations and net book value amounts.

If situations arise whereby a determination is necessary regarding any capitalization issues, discussion shall occur between the Chief Administrative Officer or designee and respective department(s). Ultimately, the Chief Administrative Officer or designee will make the final decision as to outcome.

Day-to-day stewardship of personal property above the capitalization threshold is the express responsibility of the department utilizing the property.

Annually, per Government Code Section 24051, a detail of all County property shall be submitted to the Auditor-Controller by each county officer in charge of a department. The Chief Administrative Officer or designee shall work in conjunction with the Auditor by compiling the detail of County property with respect to each department of the County and forwarding to the Auditor to send to each department. The Auditor shall provide any necessary changes to the Chief Administrative Officer or designee in order to make adjustments in the Capital Assets tracking system.

II. Capital Assets

a. Criteria for Capitalization

There are two criteria used in the determination of when the acquisition of an item should be capitalized instead of expensed:

The first criterion is whether the expenditure is expected to provide additional future benefit over what the asset currently provides.

Generally, expenditures that **increase the economic value** of the asset and **increase the useful life beyond the original useful life**, or **increase the productive capability of capacity**, should be capitalized. **NOTE – when it is determined that a purchase is to be capitalized; it is still recorded as an expenditure.** If the expenditures are to be capitalized, the appropriate account in the 560 account series in the general ledger related to capitalized assets shall be used; Account 561 – Land; Account 562 – Structures and Improvements; Account 563 – Equipment; (Exceptions are: Internal Service Equipment Replacement Fund-account charged is 552006; In the Capital

Projects Fund, the total costs of the project are capitalized, so non-560 accounts could be used and would still be included in the total amount capitalized.)

On the other hand, repairs and maintenance retain value rather than provide additional value. Maintenance expenditures neither materially add to the value of property nor appreciably prolong its life, but merely keep it in an ordinary and efficient operating condition. These costs allow an asset to continue to be used during its originally established useful life. The cost of repairs and maintenance should not be capitalized. These costs should be expensed, for example, in Account 530 - Maintenance. Examples of expenditures **not** to be capitalized as building improvements, but rather recorded as repair and maintenance expenditures follow:

- Painting
- Replacing the Heating, Ventilation and Air Conditioning (HVAC) system
- Re-carpeting
- Replacement of a part or component of a building with a new part of the same type and performance capabilities, such as replacement of an old boiler with a new one of the same type and performance capabilities

The <u>second</u> criterion is the minimum levels of capitalization thresholds that are established. The capitalization threshold for the following classes of assets shall be:

A.	Land	All
B.	Land Improvements	$ 125,000
C.	Buildings and Building Improvements	$ 125,000
D.	Machinery and Equipment	$ 25,000
E.	Computer Software	$ 25,000
F.	Vehicles (See Definitions section)	All

G.	Infrastructure	$ 125,000
H.	Construction in Progress	$ 125,000

Capitalization thresholds are monetary criteria used to determine whether a given asset should be reported on the balance sheet. To be considered a capital asset for financial reporting purposes, an item must be at or above the capitalization threshold. Assets will remain as part of the property record until they are retired or disposed of, sold, traded in, etc. regardless of net book value amount.

b. Additional Considerations

Additional information is taken into consideration when capitalizing assets:

i. Classification of Assets

Capital assets are personal and real property used in the operations of the County. Capital assets shall include any item that falls into one of the following categories:

A. Land

Land, including that associated with infrastructure, shall be reported at cost, estimated cost, or estimated fair market value at date of acquisition. Land is not depreciable. The cost of land includes all expenditures in connection with its acquisition, such as:

- Purchase Price
- Appraisal and negotiation fees
- Title search fees
- Surveying fees
- Relocation costs
- Condemnation costs

- Clearing land for use
- Demolishing or removing structures

B. Land Improvements

Land improvements are improvements that add value to land, but do not have an indefinite useful life, examples of which are fences, retaining walls, parking lots, and most landscaping. As such, these costs are depreciated over the period of the land improvements' lives.

C. Buildings and Improvements

Buildings (structures) and improvements are physical property of a permanent nature, examples of which are buildings, structural attachments, and improvements that add value to an existing capital asset either by lengthening its estimated useful life or increasing its service capacity. The cost of buildings and improvements include all expenditures in connection with their acquisition, such as:

- Purchase price of construction cost
- Fixtures attached to the structure *
- Architects' fees
- Insurance during construction
- Cost of permits and licenses
- Net interest cost during construction

******Fixtures are permanent structural attachments that are not intended to be removed, and that function as part of the structure, such as boilers, lighting fixtures and plumbing.*

NOTE: Leasehold improvements are defined as improvements made to leased property that will revert to the lessor at the expiration of the lease. Leasehold improvements include construction of new buildings or improvements made to existing structures by the lessee, who has the right to use these leasehold improvements over the term of the lease. Moveable equipment and/or office furniture that is not attached to the leased property is not considered a leasehold improvement. For leasehold improvements, the useful life is the estimated service life of the leasehold improvements, or the remaining term of the lease, whichever is shorter.

NOTE - moveable equipment and/or office furniture shall be capitalized if the item(s) fall within the parameters of this policy (see Section D. Machinery and Equipment, below) even if the total project is below the Building Improvements threshold. Additionally, moveable equipment and/or office furniture included in the total cost of a capitalized project above the Building Improvement threshold may be separated from the project and capitalized as Equipment, depending on the cost of the equipment; not as Building Improvement.

D. Machinery and Equipment

Costs included in the purchase of equipment are those charges that are directly attributable to the acquisition of the asset, such as:

- Sales, Use and/or Transportation Tax
- Freight or Delivery Charges
- Installation Costs
- Site Preparation Costs
- Professional Fees

If the value of an item purchased is less than the minimum capitalization threshold, and ancillary charges increase the value above the minimum threshold, then the item is considered a capital asset and must be reported as a capital asset.

E. Computer Software

Purchased computer software with a useful life beyond a single reporting period and above the capitalization threshold shall be capitalized. The first year of any maintenance (support) agreement attached to the purchase of the software shall be capitalized. Subsequent year's maintenance shall be expensed. The first year of maintenance is considered as part of the cost of placing the asset into service. Subsequent year's maintenance is considered as ongoing cost of using the software in the course of doing business.

F. Vehicles

All County vehicles are to be capitalized, whether purchased brand new, purchased used, or donated. Generally, this classification includes construction vehicles, passenger vehicles, trucks, and other mechanized vehicles. Certain items that are considered necessary to place the vehicle in service are considered part of the cost and capitalized as such. Examples of added items to a vehicle that shall be added to the cost and capitalized are as follows:

- Freight/Transportation/Delivery
- DMV Fees/Taxes/License (Year one, only for DMV fees)
- Truck bed cabinets for secured storage
- Lights/Sirens
- Radio installed in vehicle
- Cages
- Map Light
- Gun Mount

- Decals
- Labor costs for installation of equipment

G. Infrastructure

Infrastructure capital assets are long-lived assets that normally are stationary in nature and normally can be preserved for significantly greater number of years than most capital assets, such as:

- Roads
- Bridges
- Tunnels
- Drainage systems
- Water and sewer systems
- Lighting systems

H. Construction in Progress

Construction in Progress are those capitalized costs related to a tangible capital asset that cross fiscal years, but are not yet substantially ready to be placed in service. Depreciation expense is not recognized for construction in progress until the asset is placed into service (construction is complete). Board of Supervisors approval is still required prior to the start of a project that may cross fiscal years.

ii. Valuation Basis

Capital assets shall be recorded at historical cost – the measure of value used in accounting in which the price of an asset is based on the original cost when acquired. The cost of a capital asset shall include ancillary charges necessary to place the asset into its intended location and condition for use. Capitalized ancillary charges include costs that are directly attributable to asset acquisition, such as freight and transportation charges, site preparation costs, employee wages associated with placing the asset in service, and professional fees. Donated capital assets shall be reported at their estimated fair market value on the date accepted by the Board of Supervisors. All donated capital assets *must* be accepted by the Board of Supervisors prior to being placed in service.

iii. Estimated Useful Life and Depreciation Convention

Capital assets have estimated useful lives extending beyond a single reporting period (one year) and are depreciated using the straight-line method with no allowance for salvage value. The estimated useful lives currently used were developed with the input of knowledgeable staff and reflect the County's experience with these assets:

Land	non-depreciable
Land improvements	20 years
Buildings and Building Improvements	50 years
Machinery and Equipment	5 to 20 years
Vehicles	5 to 15 years
Infrastructure	20 to 50 years
Computer Software	5 years

iv. Retirements

Retirements apply to all capital assets including land, buildings, machinery and equipment, vehicles, and general infrastructure.

Upon approval by the Board of Supervisors, an asset shall be disposed of, scrapped, sold, subject to demolition, etc. The asset shall then be removed from the property record and the appropriate reduction will be made to historical cost, accumulated depreciation, and net book value amounts.

Retirements will reflect the actual historical cost of the asset when the amount is ascertainable. When historical cost is not ascertainable, an estimated historical cost will be determined.

v. Tools Used to Manage Capital Assets

Management uses a wide variety of tools to properly account for capital assets:

1. Equipment Replacement Funds

Two distinct funds have been established for the purpose of financing certain capital assets. The Equipment Replacement Fund is used to finance the purchase of equipment for county operations other than internal and support services. The Internal Service Equipment Replacement Fund is used to finance the purchase of equipment for internal and support service operations. Revenue from equipment use allowance charges is received in both funds and used as replacement funds for future purchases.

The Chief Administrative Officer or designee shall manage both funds, review and approve requests for purchase out of these funds (only with Board of Supervisors approved appropriation in place), and shall maintain procedures for acquisition and disposition of capital assets purchased through either fund.

2. Capital Projects Fund

The Capital Projects Fund was established to consolidate certain capital projects of the County into a single fund. Separating major capital acquisition and construction from ongoing operating activities helps avoid the distortion in financial trend information that can arise when capital and operating activities are mixed. Generally, if above the established threshold, all capital projects **(not including Roads and Bridge projects and Enterprise Fund projects)** will be in the Capital Projects Fund unless directed otherwise by the Board of Supervisors.
The Chief Administrative Officer or designee will maintain procedures for the capitalization of projects in the fund.

3. Capital Improvement Program

The Capital Improvement Program (CIP) is a budgeting plan for Butte County's service and transportation infrastructure needs over the next ten years. Projects identified in the CIP have a cost of at least $125,000, unless directed otherwise by the Board of Supervisors, are nonrecurring, have a multi-year useful life, and result in capital assets.

Annually, or as otherwise updated, the CIP is updated and presented to the Board of Supervisors for approval. The Chief Administrative Officer or designee shall maintain procedures for the administration of the CIP.

III. Property Control Below the Capitalization Threshold

A department head may elect to control and inventory property below the capitalization threshold based on the needs or requirements of the department and such election may be different department-to-department. Examples of items that a department head may elect to control are: weapons, radios, personal computers, laptop computers, printers, fax machines, and small power tools. The cost of the property, cost to control and inventory, and materiality may be considered by the Department Head when he/she decides what items, if any, are to be controlled. Stewardship of these minor items that are sensitive or at high risk of theft is the express responsibility of the department head responsible for utilizing these properties.

Personal property below the capitalization threshold which the department head believes warrants control shall be inventoried at the department level and an appropriate list will be maintained. Data elements are to include asset description, location, make, model, serial number, and other information that assists control.

The Chief Administrative Officer or designee shall have the right to request copies of the inventory and/or updated inventory of controlled items from the responsible department head.

Examples of items that are not capitalized

The following are items that do not meet either one or both of the two primary criteria for determining when the acquisition of property should be expensed, and not capitalized:

- Adding, removing and/or moving walls relating to renovation projects that are below the $125,000 threshold
- Improvement projects of minimal or no added life expectancy and/or value to the building;

  For example, a new building is expected to have a useful life of 50 years, but will require a roof replacement in half that time. The cost of the original roof is included in the total cost of the building. If the roof were not replaced, it would appear the useful life of the building is 25 years. In substance, however, the replacement of the roof does not lengthen the original estimated useful life of 50 years, but simply avoids cutting it in half.
- Plumbing or electrical repairs
- Interior decoration, such as draperies, blinds, curtain rods, wallpaper
- Maintenance-type interior renovation, such as touch-up plastering and tile work
- Any other maintenance-related expenditure which does not increase the value of the building
- Items of a like nature that individually fall below the Equipment Threshold; For example, when a purchase of like items is made, and the cost of each individual item is below the capitalization threshold, the total purchase cost shall **not** be capitalized. For example, if 20 modular furniture units are purchased for a total of $80,000 and each unit is valued at $4,000, the individual unit is below the capitalization threshold, thus the $80,000 would not be capitalized. Or, for example, 50 personal computers (Central Processing Unit, screen, keyboard and mouse) are purchased for a total of $100,000. If each personal computer unit is valued at $2,000, the total cost

of $100,000 is **not** capitalized, again, because each individual unit is below the capitalization threshold.

In the event that determination whether to capitalize or expense is not clearly dictated in the policy or related procedures, a decision will be made by the Chief Administrative Officer or designee based on evaluation of the particulars of the item(s). Engineering, physical, and other relevant factors, apart from cost, will be taken into consideration.

IV. Definitions

Accumulated Depreciation – the total amount of depreciation for a capital asset that has been expensed in the County Financial Statements since the asset was acquired and placed into service. The amount of accumulated depreciation for an asset will increase over time, as depreciation continues to be charged against the asset.

Capital Assets – tangible and intangible assets acquired for use in operations that will benefit more than a single fiscal period.

Capital Projects – a new construction, expansion, renovation, or replacement project for an existing facility or facilities. The project must have a total cost of at least $125,000 over the life of the project. Project costs can include the cost of land, infrastructure, right of ways, development rights, engineering, architectural planning, and contract services needed to complete the project.

Capitalized Interest – interest incurred to finance the construction of a long-term asset. The interest is added to the cost of the asset and is included in the depreciation of the asset. Capitalization of borrowing costs terminates once the construction of the asset is complete.

Depreciation Expense – recognition of the pro rata cost of a capital asset over several years as the value of the asset decreases. For example, a government buys a vehicle for $30,000 that will be depreciated over five years. Each year, one-fifth, or $6,000 will be depreciated. For Governmental Funds (General Fund, Special Revenue Funds, etc.), depreciation is not recorded in the general ledger. However, for financial statement purposes (the Comprehensive Annual Financial Report, or CAFR), an adjustment is made to show the value of capital assets, depreciation expense, and accumulated depreciation on what are commonly known as "Government-wide Financial Statements" in the CAFR. In contrast, depreciation expense is recorded in the general ledger for Enterprise Funds and Proprietary Funds, and related assets and accumulated depreciation are shown in financial statements.

Net Book Value – the original cost of a capital asset, less any accumulated depreciation of the asset.

Straight-line method – recognition of depreciation expense in equal increments over the life of a capital asset.

Vehicle – A vehicle is described as a mode of transportation that can transport one or more individuals, or convey something, by virtue of a motorized mechanism that is self-propelled. The conveyance, or vehicle, can run on wheels, tracks, runners, or the like. In addition to vehicles running on wheels, other examples include aircraft, (including helicopters), ski mobiles, and pieces of equipment that run on caterpillar tracks. A piece of equipment is not considered a vehicle if it cannot transport at least one individual. For example, a pallet jack is a piece of equipment designed to move pallets from one location to another. Although it is "guided" by an individual, it is not designed to "transport" an individual, thus is considered equipment.