County of Butte

Capital Asset Policy

COUNTY OF BUTTE
CAPITAL ASSET POLICY
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PURPOSE

The purpose of this policy is to provide a uniform criteria for identifying and properly classifying County expenditures for capitalization. This policy also provides guidelines for determining the economic useful lives of capital assets (also known as fixed assets) and includes thresholds and guidance for:

- Purchases of capital assets
- Capitalization of construction projects
- Use of Equipment Replacement funds
- Capital Projects - Funds
- Control of property that falls below the capitalization threshold
- Lease Purchase of capital assets

Capital asset tracking is required for the following reasons:

- To safeguard a sizeable investment.
- To fix responsibility for the custody of equipment.
- To assist in the formulation of acquisition and retirement policies through accumulation of data regarding prices, sources of supply and useful life.
- To provide data for financial reporting.
- To account for reimbursement of depreciation under grants and proprietary service programs.
- To provide information for insurance purposes.

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 (GASB 34) requires that all capital assets (meeting threshold parameters in this policy) 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. This policy revises and supersedes the Capital Asset and Property Control Policy approved by the Board of Supervisors on 4/10/12.

POLICY

Purchase, Valuation, Disposition

Capital Asset purchases shall be approved by the Board of Supervisors. Source funds may be federal, State, local, other, donated, seized or a combination of these sources. Butte County may use specialized funds and/or programs to properly account for capital assets.

Purchase

Equipment Replacement Funds

The County utilizes distinct Equipment Replacement Funds (ERF) for the purpose of setting aside funds to replace certain capital assets. When an asset is part of an ERF, the department to which the asset is assigned is charged an annual equipment use allowance. Revenue from the equipment use allowance charges are received in the ERF and used as replacement funds for future purchases. The estimated useful life of these capital assets are generally based on the number of years it takes to replenish the fund for that asset. The Chief Administrative Officer or designee shall manage these special funds.

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. Capital Project costs include:

- Direct Labor
- Materials
- Equipment usage
- Overhead

Generally, if above the established threshold, all capital projects (not including Road, Bridge and Enterprise Fund projects) will be in the Capital Projects Fund unless otherwise directed by the Board of Supervisors.

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. This Program is not a comprehensive list of all the County's infrastructure needs, but rather a spending plan that is based on current revenue projections. Projects identified in the CIP have a cost of at least $125,000, unless otherwise directed by the Board of Supervisors, are nonrecurring, have a multi-year useful life, and result in capital assets. The CIP can be located on the Butte County website www.buttecounty.net →Departments →Administration →Documents →Financial →Capital Improvement Projects.

Lease Purchase Agreement

A Lease Purchase Agreement is a contractual agreement that extends beyond the current accounting period and results in the purchase of an asset or assets. In substance these agreements are purchases, and are treated as long-term liabilities and the assets are capitalized. For additional information regarding Lease Purchase Agreements, refer to the Debt Management Policy located on the Butte County Website under Administration, Documents.

Valuation

Capital assets should be recorded at historical cost. Historical cost is the value of the asset on the date acquired by the County. The cost of a capital asset should include capitalized interest or ancillary charges necessary to place the asset into its intended location and condition for use. Ancillary charges include costs that are directly attributable to asset acquisition. Non-Federal thresholds for capitalization are detailed by classification in category section of this policy.

Donated Capital Assets

Any and all capital assets donated to the County must be approved by the Board of Supervisors as outlined in Butte County's Donation Policy, Resolution #12-001. Donated capital assets shall be recorded at their fair market value at the date of acceptance by the Board of Supervisors.

Donated vehicles must be inspected by Public Works Fleet Services prior to being submitted to the Board of Supervisors for approval regardless of if they are used or new.

Seized Capital Assets

All awarded assets obtained through the seizure process desired to be placed into County service must be accepted by the Board of Supervisor. Seized capital assets shall be recorded at their fair market value at the date of acceptance by the Board of Supervisors.

Awarded vehicles must be inspected by Public Works Fleet Services prior to being submitted to Board of Supervisor for approval.

Disposition

The Auditor Controller's Office in coordination with General Services will maintain procedures for reassignment of capital assets from one department to another, retirements and disposals of capital assets.

Capital Asset Transfers

Capital assets may be transferred between county departments using the Capital Asset Transfer form.

Disposals and Retirements

General Services is responsible for the disposal of all capital assets (donation, sale or scrapping of an asset, damaged beyond repair and deemed a total loss, trade-ins), trade-ins and retirements (removing a capital asset indefinitely from active use), including land, buildings, machinery and equipment, vehicles and general infrastructure.

Proceeds from the sale of capital assets are deposited back to the Fund from which they were purchased or upon special instructions provided to the Auditor-Controller's Office with direction to deposit elsewhere.

Lost or Stolen

Upon incurring the loss of an asset, a relief of accountability memo is necessary by the Auditor-Controller's Office prior to submitting it to Board of Supervisors for approval.

Category, Classifications, Useful Life, Depreciation

Assets of significant value that have a useful life that extends beyond the current year are broadly classified as land, land improvements, buildings (structures) and improvements, infrastructure, equipment, vehicles, and intangible assets. The two criteria used in determining when an item should be capitalized instead of expensed are:

1. The asset has a utility or expected useful life that benefits more than a single fiscal year.

2. The asset must meet or exceed the minimum capitalization threshold established for each category of capital asset.

Federal Awards

All capital asset categories purchased with federal funds or by Support Service Departments shall be capitalized at the minimum threshold of $5,000 as required by federal law and by the cost plan which allocates costs to federal programs.

All major maintenance paid for with federal funds or by Support Service Departments that substantially increases the capacity, value, operating efficiency, or useful life shall be capitalized in compliance with 2 CFR Part 225 – Cost Principles for State and Local (OMB A-87), Appendix A, Paragraphs C, 1.b and 3.a.

Land

Type	Minimum Capitalization Threshold	Estimated Life
Land	ALL	Non-Depreciable

Land, including that associated with infrastructure shall be reported at cost, estimated cost, or estimated fair market value at the 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
- Cost of obtaining consents
- Demolishing and/or removing structures
- Filing costs

Receipts from the sales of salvage shall be credited against the land cost.

Structures and Improvements

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, storage tanks, reservoirs, parking areas, sidewalks, and most landscaping. As such, these costs are depreciated over the period of the land improvements' life.

Type	Minimum Capitalization Threshold	Estimated Life
Land Improvements	$ 125,000	20 years

Buildings (Structures) and Improvements

Buildings (structures) and improvements are defined as 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. These buildings (structures) and improvements must also meet the monetary criteria enumerated below.

Type	Minimum Capitalization Threshold	Estimated Life
Buildings (Structures) and Improvements	$ 125,000	30 to 50 years

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
- Accident or injury costs
- Payment of damages
- 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.*

The cost should be reduced for:

- Sale of salvage from materials charged against the construction
- Discounts, allowances and rebates secured
- Amounts recovered through surrender of liability and casualty insurance

Leasehold Improvements

Leasehold improvements are improvements made to a leased property that will revert to the lessor (landlord, property owner) at the expiration of the lease. Leasehold improvements include construction of new buildings or improvements made to existing structures by the lessee (tenant), 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.

Type	Minimum Capitalization Threshold	Estimated Life
Leasehold Improvements	$ 125,000	Estimated service life or the end of term of the lease, whichever is shorter

Infrastructure

Infrastructure are long-lived assets that normally are stationary in nature and can be preserved for a significantly greater number of years than other capital assets. Buildings, except those that are an ancillary part of a network of infrastructure assets, should not be considered infrastructure. Other items that are not an integral part of the infrastructure, such as parking meters and portable traffic signals, are considered equipment.

Type	Minimum Capitalization Threshold	Estimated Life
Infrastructure	$125,000	30 to 50 years

The cost of infrastructure includes all costs in connection with their acquisition, such as:

- Construction or purchase costs

- Engineering, surveyor, and architect fees
- Insurance costs related to construction
- Permit or license fees
- Staff time

Types of Infrastructure include:

- Roads
- Gas distribution piping
- Fire hydrants
- Streets
- Irrigation systems
- Highways
- Bridges
- Drainage Systems
- Water and Sewer Systems
- Dams
- Lighting Systems
- Tunnels
- Sidewalks
- Culverts
- Dams/dikes
- Airport runways
- Guard Rails
- Piers
- Storm piping
- Electrical Systems
- Telecommunications Structures
- Curbs

Equipment

Equipment is moveable personal property of a relatively permanent nature (useful life of longer than one year) and of significant value, such as furniture, machinery and tools.

Type	Minimum Capitalization Threshold	Estimated Life
Equipment	$ 25,000	5 to 20 years

Items of a like nature that individually fall below the equipment threshold are not capitalized. 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.
The cost of equipment includes all expenditures in connection with their acquisition, such as:

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

Training and maintenance support agreements shall not be included in the capitalization of an asset.

Vehicles

Vehicles are defined as a mode of transportation that can transport one or more individuals. 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 its purpose is not to 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 rather than a vehicle.

Type	Minimum Capitalization Threshold	Estimated Life
Vehicles	ALL	5 to 15 years

All County vehicles are to be capitalized. Certain items that are considered necessary to place the vehicle in service are considered part of the cost and capitalized as such. Costs subsequent to acquisition should be capitalized only if incurred after acquisition of the related asset has come to be considered probable (likely to occur). Examples of items added to a vehicle that shall be added to the cost and capitalized if directly identifiable with a specific asset as follows (these examples shall not be considered a complete list):

- Freight, Transportation, Delivery Charges
- DMV Fees, Taxes, License (year one only for DMV fees)
- Truck bed cabinets for secured storage
- Lights, sirens
- Radios installed in vehicle
- Cages
- Map Light
- Gun Mount
- Labor costs associated with equipment installation
- Decals (visible County marking and vehicle number)

Prior to submitting retirement of vehicle to the Board of Supervisors, Public Works Fleet Services shall perform a thorough inspection as outlined in the Butte County Vehicle Policy.

Construction In Progress

This major class of capital assets is used for costs incurred to construct or develop a tangible or intangible capital asset before it is substantially ready to be placed into service. Once it’s placed into service it is reclassified into the appropriate major class.

Other

Intangible Capital Assets

Intangible capital assets are defined as those assets that lack physical substance, are nonfinancial in nature and are useful beyond a single reporting period. Intangible capital assets include easements, land use rights (such as the right to use a water source), computer software, patents, and trademarks. Intangible assets may be externally generated (purchased or received from a third party) or internally generated such as computer software.

Type	Minimum Capitalization Threshold	Estimated Life
Intangible Assets	Refer to the Asset Type	5 to 15 years or indefinite
Computer Software	$ 25,000	5 years

The cost or value of intangible assets includes:

- Purchase price
- Labor costs
- Appraisal and negotiation fees
- Development costs
- Installation costs
- First year of maintenance

Externally acquired intangible assets are reported when purchased or received. Internally generated intangible assets must meet three criteria to begin to be reported as a capital asset:

- Objective - the County's specific objective and service capacity has been determined.
- Feasibility - the potential of completing the asset for its intended use has been demonstrated.
- Intention - the County's intention to complete the project has been demonstrated.

Responsibility for Capital Asset

Purchases of capital assets are the responsibility of the department making the purchase in coordination with General Services. Departments shall ensure these assets follow any and all guidelines as set forth in the restrictive documentation established by grant criteria or fund source.

Departments are responsible for ensuring that their capital assets are recorded properly in the Capital Asset System. The make, model, year, description, manufacturer’s serial number, acquisition date, acquisition amount, funding source (Federal, State, Local, Donated, Seized, Other, and percentage) of each capital asset shall be reported to the Auditor’s Office.

The Auditor-Controller or designee shall ensure that the reporting for capital assets is being exercised on a regular and consistent basis. The Auditor-Controller or designee will further ensure that capital asset reports and work papers will be updated annually to reflect improvements, additions, transfers and retirements. This information will be used for financial reporting purposes and for updating the annual accumulated depreciation calculations and net book value amounts of county capital assets.

If situations arise whereby a determination is necessary regarding any capitalization issue that is not clearly spelled out in the Policy, discussion shall occur between the Auditor-Controller or designee and respective Department(s). Ultimately, the Auditor-Controller or designee will make the final decision as to the outcome.

Annually, per Government Code Section 24051, a detail of all County capital asset property shall be submitted to the Auditor-Controller by each county officer in charge of a department. The Auditor-Controller or designee shall compile the detail of County property and send this information to each department head for verification. Necessary changes shall be submitted by the department head or designee to the Auditor-Controller or designee to make adjustments in the County's Capital Asset tracking system.

Day-to-day stewardship of assets are the express responsibility of the department head to which the assets are assigned.

Costs Subsequent to Acquisition

Cost should only be capitalized only if it is directly identifiable with a specific asset. Expenditures incurred after the original acquisition are defined and recorded as follows:

> ***Additions*** - new and separate units, or extensions of existing units, are considered capital assets if at the time of the original asset purchase, the addition is known to likely occur. The cost of the addition shall meet this policy's valuations in order to be capitalized. Additions and improvements to infrastructure assets should be capitalized.
>
> > It is the responsibility of the Department purchasing the assets to identify and associate each piece of equipment/improvement to the appropriate capital asset. Example: A department purchasing multiple vehicles with multiple enhancements such as lights, sirens, decals, map lights, etc. shall identify charges associated with **each** vehicle being placed into service.
>
> ***Alterations*** - changes in the physical structure or arrangement of capital assets, the cost of which does not qualify as an increase in capital assets shall not be capitalized.
>
> ***Capitalized expenditures*** - expenditures that materially add to the value of the capital asset or appreciably extend its life, or are necessary to place the asset into service for its intended use. The cost of the capitalized expenditure should be added to the book value of the asset where the original cost of a component being improved can be specifically identified.
>
> ***Maintenance*** - expenditures that neither materially add to the value of the capital asset nor appreciably prolong its life, but merely keep it in an ordinary efficient operating condition. Maintenance costs are not capitalized. Exception below for Employment and Social Services which requires costs to be charged to Federal programs in accordance with relative benefits received.
>
> > *"The replacement of major building components must be treated as a capital improvement, recovering costs over the useful life. Costs charged to Federal grants are in accordance with the relative benefit received. It is not equitable to expense a major replacement in one fiscal year and allocate the costs only to the Federal, State and county programs that the county happens to be performing in the year of expenditure."* (SCO, Maintenance vs. Capital Improvement, 02.05.14, www.sco.ca.gov/ard_county_cost_allocation.html)

County Property below 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 from 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 a decision is made as to what items, if any, shall be controlled. Stewardship of these minor items that are sensitive or at high risk of theft is the express responsibility of the department head.

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

The Auditor-Controller or designee shall have the right to request copies of the inventory and/or updated inventory of controlled items from the responsible department head.

DEFINITIONS

Accumulated Depreciation – a valuation to record the accumulation of periodic credits make to record the expiration of the estimated service life of a capital asset.

Capital Asset - tangible or intangible asset acquired for use in operations that will benefit more than a single fiscal period and meet or exceed the minimum capitalization threshold established for each category of capital asset.

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.

Capital Projects - 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 may include the cost of land, infrastructure, right of ways, development rights, engineering, architectural planning and contract services needed to complete the project.

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 (Comprehensive Annual Financial Report), 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 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 Depreciation Method - recognition of depreciation expense in equal increments over the life of a capital asset.

Support Service Departments – departments that support the County operations including General Services, Administration, Auditor-Controller, Human Resources, County Counsel, Information Systems