PURPOSE

To present a uniform method of maintaining Humboldt County capital asset records and apply a consistent method of accounting for capital assets. This procedural manual does not address budget procedures related to capital assets. This policy is intended to be in accordance with the financial reporting requirements set forth in the Generally Accepted Accounting Principles (GAAP) and Governmental Accounting Standards Board (GASB) Statement Numbers 34, 35 and 51, and follow the best practices established for the maintenance of capital asset records. Consistent capital asset accounting will enhance the county's ability to:

- Prepare Financial Reports-Government Wide Balance Sheet of the Comprehensive Annual Financial Report (CAFR).
- Safeguard sizable public investments.
- Establish responsibility and accountability for custody of assets.
- Provide Risk Management with an accurate list of assets for proper insurance coverage.
- Provide guidance on future acquisitions and retirement planning.
- Recover costs from federal and state programs or fee reimbursement.

POLICY AUTHORITY

California Government Code Section 26881 states that the Auditor-Controller "…shall prescribe, and shall exercise a general supervision over the accounting forms and the method of keeping the accounts of all offices, departments and institutions under the control of the board of supervisors… " Accordingly, the Auditor-Controller has produced this Capital Asset Policy. Final determination as to definitions, valuations, and proper accounting entries required to record capital asset transactions rests with the Auditor-Controller. The Auditor-Controller shall maintain a capital asset system to be used for tracking the County's capital assets.

California Government Code Section 24051 states that "…each county officer or person in charge of any office, department, service, or institution of the county, …shall file with the county clerk, or with the county auditor, according to the procedure prescribed by the board, an inventory under oath, showing in detail all county property in his possession or in his charge…" Capital assets will be recorded and maintained in the capital asset system. County Departments are required to complete a certification of their capital assets to be submitted to the Auditor-Controller annually by September 30th.

STATEMENT OF POLICY

A capital asset, also called a fixed asset, is defined as an asset, tangible or intangible, of significant value, and that provides benefit beyond the budget year in which the asset was acquired. Capital assets are categorized as follows:

- Land and land improvements
- Building and building improvements
- Infrastructure
- Equipment, furniture and vehicles
- Intangible assets
- Leasehold improvements
- Capital leases
- Construction in progress
- Works of art and historical treasures

Capitalization thresholds and estimated useful life are as follows:

Fixed Asset	Threshold	Duration
Land	All	Indefinite
Land improvements	$25,000.00	20 years
Buildings	$50,000.00	40 years
Building improvements (Includes leasehold improvements)	$25,000.00	20 years
Infrastructure	$50,000.00	20-40 years
Machinery, equipment & furniture	$5,000.00	5 years
Vehicles & heavy equipment	$5,000.00	5-10 years
Software	$50,000.00	5 years
Easements	$50,000.00	20 years
Construction in progress (If completed project will be over $25,000)	$5,000.00	Non-depreciating
Works of art & historical treasures	$5,000.00	Indefinite

DEFINITIONS

Land - includes all real property other than structure and land improvements. When land is acquired as part of a building or infrastructure, the cost of the land should be separated and classified as non-depreciable.

Land improvements - are non-building assets that enhance the quality or facilitate the use of land. Examples of depreciable land improvements include parking lots, fences, landscaping, outdoor lighting and retaining walls. The cost of land includes all expenditures in the acquisition and preparation for use including but not limited to: purchase price, title searches, filing and recording fees, appraisals, and relocation costs. Cost incurred creating airport clear zones are classified as non-depreciable.

Buildings - are structures of a permanent nature that enclose people, equipment, services or functions. Buildings may contain high cost components such as boilers, elevators, HVAC (heating, ventilation and air conditioning) systems and roofs. All components permanently affixed to the building are considered part of the structure; however, when practical these components should be recorded separately because their useful life is different.

Building Improvements - are improvements to existing buildings that extend the useful life or increase the value of the building. Examples include replacing major building components, additions, major energy conservation projects, installation of upgraded electrical, data cabling, plumbing, and major renovation of exterior deterioration. On the other hand, repairs and maintenance retain value rather than add value and are not capitalized. Examples of repairs and maintenance include interior painting and patching, repairs to plumbing, electrical or data lines.

All expenditures required to obtain a building or make a structural improvement should be included in the valuation. These costs include, but are not limited to, purchase price, construction costs, closing costs, architects' fees, permits and licensing, insurance during construction, inspections and tests, payment of damages, and accident or injury costs. Sale of salvage materials may be credited against the cost.

Leasehold improvement - is defined as improvements made to leased property that will revert to lessor at the expiration of the lease. Leasehold improvements include construction of new buildings or improvements to existing buildings by the lessee, who has the right to use the leasehold improvement over the term of the lease. For leasehold improvements, the useful life is the estimated service life of the leasehold improvement or the remaining term of the lease whichever is shorter.

Infrastructure - is a capital asset that is stationary in nature and normally can be preserved for a significant number of years. Examples of infrastructure include, but are not limited to roads, bridges, tunnels, drainage systems, sidewalks, culverts, water and sewer systems, levies, and outdoor lighting systems.

Any and all costs associated with the acquisition and construction of infrastructure are included in the valuation of infrastructure. These costs include, but are not limited to, construction costs, purchase price, internal cost whether administrative or self-constructed costs, and, any other expenditure necessary to put the infrastructure into its intended use.

Equipment - is defined as physical, moveable personal property such as, machines, tools, furniture, computer equipment, radio/communication equipment, vehicles, heavy equipment and trailers. Equipment does not include major systems integrated into buildings or structures such as, elevators, including elevators motors, boilers, roofs or HVAC. Lease/purchases of equipment are capitalized upon receipt of product. An item acquired through a lease/purchase should be added to equipment inventory upon receipt. All costs associated with acquiring equipment and putting the equipment into use are considered part of the costs. These costs include but are not limited to tax, freight, fees, installation, site preparation, and professional services.

The group method for capitalization may apply in limited circumstances for equipment. Grouping includes a number of different units purchased at the same time whose defined purpose is to work in conjunction with one another, their independent operation is not feasible, and replacement of which is intended as a whole. Examples of valid grouping are:

- Modular furniture. Initial lot purchases and each subsequent lot or component over $5,000
- Computer systems comprised of hardware and software components designed to work exclusively with one another
- Unique multi-device systems for communications or vehicles

Intangible assets - include easements, water rights, timber rights, patents, trademarks and computer software. Generally, they have the following three required characteristics: lack of physical substance; nonfinancial in nature; and useful life extends beyond a reporting period. Intangible assets are treated the same as equipment.

Capital Leases - a lease that transfers substantially all benefits and risks of ownership of property during the term of the lease. Leases which meet one of the four requirements below, as defined by ASC 840-10, are considered capital leases and shall be accounted for as a capital asset if the cost of the property reaches or surpasses the class's capitalization threshold:

- The lease transfers ownership of the property to the lessee by the end of the lease term (example – the title of the leased car transfers at end of lease term).
- The lease contains a bargain purchase option (example - you can purchase the car for $5,000 which is a bargain compared to the remaining value of $15,000).
- The lease term equals 75% or more of the estimated useful life of the leased property (example - you lease a car for 4 years and the car has a useful life of 5 years).
- The present value of the minimum lease payments exceeds 90% of the fair market value of the leased property at the date of the lease agreement (example – you will make 60 monthly lease payments of $450 equaling $27,000 on a car with a purchase price of $30,000).

(The last two criteria do not apply when the asset is already in the last quarter of its economic life, which includes the asset's economic life prior to the lease.)

Assets classified as capital leases are deemed or estimated to meet or exceed the capitalization threshold based on their applicable asset class.

Construction in progress - includes new construction or improvements to land, buildings, or infrastructure that have not been physically completed or have not had all project costs processed by fiscal year end. Construction in progress is not depreciated until the project is complete and put into service and contractor has been paid in full. Expenditures related to construction in progress are to be reported to Auditor-Controller's Office at fiscal year-end.

Works of art and historical treasures - should be recorded at historical cost. If the historical cost is unavailable, fair market value at the time of acquisition should be used. Works of art and historical treasures are inexhaustible and are not depreciated.

CAPITAL ASSET GUIDELINES

Characteristics of a Capital Asset

When purchasing certain items a decision must be made whether to record the item as a capital asset (item will be used in operations for the benefit of multiple periods) or as a current period expenditure. There are certain criteria which distinguish whether an item should be a capitalized asset and reported on the Statement of Net Position (Government-Wide financial statement, including both governmental and business type) or recorded as a current period expenditure on the Statement of Revenues, Expenditures and Changes in Net Position (Proprietary Funds financial statement). The criteria for capital assets are:

Nature of the Asset - By its nature, the asset is intended to be used in the ordinary course of business and falls within one of the categories of capital assets including those defined above

Useful Life - The benefit provided by the asset is reasonably expected to last beyond one year.

Cost Basis - The cost basis, including purchase price and other costs incurred in acquiring and placing the asset in service, must surpass a minimum level (Capitalization Threshold) for the asset class. This Capitalization Threshold might be thought of as the level at which an asset's materiality justifies continued bookkeeping expense and attention.

Ownership - The County is identified as either the titled owner or legally responsible party (leased items) for the asset. In cases where the entity which receives the "use and enjoyment" of the asset is not the titled owner, the asset is considered a capital lease and recorded on the non-owners books and records. Jointly funded capital assets paid for by two governmental entities should be capitalized by the entity responsible for managing the asset or future maintenance.

Characteristics of an Expenditure (Repairs and Maintenance)

Repairs and maintenance are current period expenditures/expenses incurred in connection with existing capital assets that neither lengthens the originally estimated useful life nor increases the service capacity of the asset.

Examples of expenditures/expenses which are appropriately classified as repairs and maintenance include:

- Plumbing or electrical repair.
- Cleaning, pest extermination or other periodic maintenance.
- Interior decorations such as draperies, blinds, curtain rods, wallpaper, paint, etc.
- Exterior decorations such as detachable awnings, decorative fences, etc.
- Maintenance type interior renovations such as repainting, touch-up plastering, replacement of existing flooring with similar material, fixture refinishing, etc.
- Maintenance type exterior renovations such as repainting, replacement of sections of deteriorated siding, roof, or masonry, etc.
- Adding, removing and/or moving walls relating to renovation projects that are not considered major rehabilitation projects and do not increase the value of the building.
- Improvement projects of minimal or no added life expectancy and/or value to the building.
- Any other maintenance-related expenditure/expense which does not increase the value of the asset.
- General equipment repairs to bring asset to original condition (replacing a broken component).

Capital Asset Cost Basis

Capital assets should be reported at historical cost and should include applicable additional costs. If something other than cash is used to pay for an asset, then the fair-market value of the non-cash payment or consideration determines the asset's cost or acquisition value. When the value of the consideration paid can't be determined, the asset's fair-market value determines its cost basis. Fair-market value is what the entity would normally spend on a like asset purchase.

With few exceptions, an asset's cost basis should also include necessary costs incurred to place the asset into service. Costs include invoice price plus incidental costs (example: insurance during transit, freight, capitalized interest, duties, title search, registration fees, site preparation, architect and engineering fees, sales tax, installation costs and legal fees). Exceptions to this rule include interest expense associated with deferred payments and current real estate taxes paid, if any, in the acquisition of property.

Certain assets require training for the end-user to properly operate and maintain the asset. Costs for end-user training are not eligible to be capitalized. Training provided during the development and configuration phase of certain projects are to be capitalized.

Acquisition

The most common form of acquisition of capital assets is the purchase of equipment. All purchases of equipment should be done via formal encumbered purchase orders and coordinated through the Purchasing & Disposition Team of the County Administrative Office. Items purchased on formal encumbered purchase orders are automatically posted to the Capital Asset System. Equipment will be placed on the inventory of the budget unit that purchased the item except when the department provides the Auditor's Office with justification and the intended budget unit.

An asset acquired with federal or State grants or other funding sources often have limitations or restrictions enforced by the granting agency. The major authoritative sources for federal rules and regulations include the Common Rule issued by a number of major federal agencies and numerous Office of Management and Budget (OMB) Circulars that are organization and topic specific. Please refer to the grant for specific guidelines and rules regarding purchasing capital assets with these funds. Since federal and state grants can often times have very specific guidelines which may not always coincide with this policy. If a capital asset is acquired using state or federal funding, or another restrictive source, the funding source must be noted in the asset documentation.

Donations

The County occasionally receives donations from private parties or other agencies. Donations of capital assets should be recorded into the capital asset system at the fair market value at the time of acquisition. Acceptance of donations may require approval by the Board of Supervisors. The department receiving the donation is responsible for determining if Board approval is needed and preparation of an agenda item if required. The agenda item should contain the fair market value of the asset.

According to GASB 33, recipients of contributed (donated) capital assets must recognize fixed asset contributions as revenues and not as contributed capital. The contributed asset and related revenue are to be recognized when the asset is received. To qualify as a capital asset, the fair-market value of the donated asset must exceed the County's capitalization threshold for the applicable asset class.

Found

This mainly applies to works of art and historical treasurers. Assets that are found are to be reported to the Auditor-Controller's Office so they can be added to the county's Capital Asset System.

Constructed or Contracted

Primarily relates to infrastructure and building projects. The county often contracts with professional builders for construction of infrastructure, buildings and major building improvements.

Capital Asset Controls Overview

Departments are responsible for maintaining a system of control over their capital assets and to minimize risk of loss and/or misuse of their property. The recommended controls are the use of capital asset tags or labels and capital asset inventory controls. All fixed assets should be entered in the Capital Asset System.

Inventory

A certification inventory of all County capital assets is performed annually. Department heads are responsible for all County property in their department's possession. To comply with California Government Code Section 24051, department heads must file an inventory under oath, showing in detail all fixed assets in his or her possession or in his or her charge at the close of business on June 30th by September 30th. County Departments are responsible for safeguarding assets that are not defined as capital assets by the Policy Guidelines.

The Auditor-Controller, on an annual basis, is responsible for ensuring that the Capital Asset System is up to date; therefore, on August 1 of each fiscal year or soon thereafter, the Auditor-Controller will send out a list of the properties contained in the Capital Asset System to each department head. Each department head or designated employee will respond to the Auditor-Controller's Office with any changes that need be made in the Capital Asset System. These changes include any item not on the inventory list and any item on the list that the department is no longer in possession of.

Transfers are defined as the physical relocation of a capital asset either by department and/or fund. When an asset is being transferred with no other consideration involved, the asset will be transferred with the current net book value and will continue to be depreciated or amortized over the remaining useful life. It is necessary for the respective departments/funds to complete the necessary asset acquisition/sale documentation so that the asset can be properly transferred within the financial system. If a department sells a capital asset to another department, the value of the asset will be the net book value.

Disposal of a capital asset is when the asset is abandoned, sold, traded-in, scrapped, or otherwise removed from service during any given reporting period. Disposals must be processed on a timely basis throughout the fiscal year to ensure the accurate calculation of depreciation and amortization expense. For proprietary funds, should a capital asset disposal result in a loss on fixed asset, it will be necessary to ensure there are adequate appropriations available to record the loss.