Capital Asset Accounting Procedures

2019-20

County of Sutter

Authority: Auditor-Controller

Approval Date: 1/28/20

Effective Date: 7/1/19

Revision: N/A

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1. INTRODUCTION

1.1 Purpose and Authority

In accordance with Sutter County Administrative Policies and Procedures number 506, titled *Accounting for Capital Assets*, approved by the Board of Supervisors, these procedures are established by the Auditor-Controller for the accounting of capital assets.

Procedures are intended to be in accordance with the general guidelines regarding capital assets found in the publication *Accounting Standards and Procedures for Counties* published by the California State Controller, generally accepted accounting principles (GAAP), governmental accounting auditing and financial reporting (GAAFR), and Government Code sections 24051, 26202, 29008, 29089, and 29090.

1.2 Procurement

The purchase of capital assets must go through the purchasing process prescribed by the Department of General Services. Credit cards can only be used provided the vendor does not charge the County a fee for the use of the credit card. Additionally, Information Technology (IT) purchases regardless of cost, are subject to these requirements.

Every effort should be made to purchase all capital assets prior to May 1st of the fiscal year. Purchases in May/June can be accommodated based on special circumstances. Consult with the AC office prior to any planned purchases to be made subsequent to May 1st.

1.3 Applicability

1.3.1 Auditor-Controller Responsibilities

California Government Code §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 (AC) has produced this Capital Assets Accounting Procedures document. The AC will revise these procedures as required by law, generally accepted accounting principles, or practical necessity. Final determination as to definitions, valuations, and proper account entries required to record capital asset transactions rests with the AC. The AC shall maintain a capital asset accounting system to be used for tracking the County's capital assets. The AC may verify the integrity of capital asset records by conducting periodic physical inventory counts of capital assets and make any necessary adjustments to the capital asset system and financial records. The AC is required to provide an inventory, showing in detail all county property in his/her possession or charge at the close of business on the preceding June 30th. The date for submission of the inventory of County property to the Board of Supervisors is to be no later than December 15th of the year of inventory.

Accounting for capital assets is complex it is impractical to include all scenarios in this policy. As such, professional judgement must be exercised to determine the appropriate accounting treatment in accordance with GAAP. For scenarios not explicitly addressed in this policy or that require professional judgement, the Auditor-Controller reserves the right to have final determination in implementation of this policy.

1.3.2 Department Responsibilities

According to the Accounting for Capital Assets policy, department responsibilities include, but are not limited to, the following:

1. Appoint a liaison to work with the Auditor-Controller's office to maintain accurate and up-to-date capital asset accounting records.

2. Departments are to review their capital asset inventory listings maintained by the Auditor-Controller's office for accuracy and completeness.

3. Implement capital asset procedures as prescribed by the Auditor-Controller's office.

4. Submit certification of their capital assets as of the end of each fiscal year to the Auditor-Controller's office by July 10th pursuant to California Government Code §24051.

2. CAPITAL ASSET DEFINITIONS AND GUIDELINES

2.1 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. 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: tangible assets (land, land improvements, buildings, building improvements, equipment, furniture, vehicles, infrastructure, leasehold improvements, capital leases and certain other capital assets), or; intangible assets (including internally created software, purchased software, patents, copyrights and rights of usage or way, and easements).

- 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. It is not necessary to capitalize interdepartmental charges of $200 or less.

- Ownership – The County 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-owner's 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. Please contact the AC's office for further information.

2.2 Characteristics of Repairs and Maintenance Expenditures

Repair and maintenance expenditures are those incurred in the ordinary course of business to keep an asset functioning as intended for the length of its original useful life and for its original purpose. If the expenditure goes beyond this, see section 2.3.

Examples of expenditures/expenses 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 materials, fixture refinishing, etc.
- Maintenance type of 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 that does not increase the value of the asset.
- General equipment repairs to bring the asset to its original condition (i.e. replacing a broken component).

2.3 To Capitalize or Not to Capitalize

Governmental accounting standards require expenditures that either 1) extend the original estimated useful life, or 2) increase the service capacity of the asset, or 3) significantly change the original purpose or function of the asset be capitalized. In addition to these qualitative criteria and in order to provide more efficient operations, quantitative criteria will be established. Accordingly, only expenditures in excess of $1,000 and which are greater than 20% of the capitalized cost of the existing asset must be capitalized.

A few examples are provided below:

Example 1: An existing building with an original useful life of 50 years requires replacement of the roof at a cost of $50,000. The capitalized cost of the existing building is currently $200,000. The building is fully depreciated, and its original useful life is exhausted. In this case, capitalization is required since the useful life is extended, and the expenditure is greater than $1,000 and is more than 20% of the capitalized cost ($50,000 > $40,000 (20% x $200,000). The roof would be capitalized separately from the underlying asset.

Example 2: An additional room is built onto an existing building at a cost of $30,000. This expenditure is capitalized since the additional room/square footage will increase the service capacity (usefulness/utility) of the asset.

Example 3: A building that has been used for office space is modified to be used as a recreation center for youth. The cost of the modifications was $50,000. Assuming the quantitative criteria is met, capitalization is required since the original purpose or function of the asset has changed.

2.4 Capitalization

For accounting purposes, a cost can either be expensed or capitalized. When assets are capitalized, the cost is included in an asset account for financial reporting purposes. To simplify processing and tracking of capital assets, an organization will usually apply a dollar threshold to determine costs to be capitalized. Each asset purchased must meet the applicable threshold to be capitalized.

Table 1 on the next page provides capitalization thresholds and useful lives of various asset classes along with the associated expenditure account for the purchase of the asset. The cost of the asset is capitalized in the accounting system by the AC office when Capital Asset Addition Forms are approved and processed.

For Construction in Progress year-end reporting, project costs expected to exceed capitalization thresholds at completion based on the applicable asset class should be capitalized.

Due to the susceptibility of an asset to misappropriation, or its inherent risk/danger, certain assets that are not required to be capitalized should be separately tracked, controlled, and inventoried by department staff. The inventory listing is subject to internal audit by the Auditor-Controller. Such assets include, but are not limited to, the following:

- Vehicles such as cars, busses, trucks, or fire engines.
- Firearms such as handguns, rifles, or shotguns.

Table 1 - Capital Asset Useful Lives and Capitalization Thresholds

Asset Class	Expenditure Account #	Asset Description[1]	Useful Life	Threshold ($)
Land	54100	Land	N/A	0
Land Improvements	54101	Lighting systems, fences, sidewalks, canals, waterways, drainage facilities, sewers, transmitting towers	15	60,000
Structures and Improvements	54200	Leasehold improvements to building interior such as fixtures, ceilings, flooring, and inner walls	15	60,000
		HVAC systems	20	60,000
		Solar panels	25	60,000
		Buildings and improvements	39	60,000
Vehicles	54300	Automobiles, buses, trucks	5	0
		Fire engines	20	0
Equipment	54301	Tractors	3	5,000
		Trailers, computers and peripheral equipment, printers, card readers, copiers, appliances, other office equipment, firearms, engines, hand tools, storage tanks, generators, transformers, converters, cleaning equipment such as floor polishers, scrubbers, and sweepers, library books and equipment	5	5,000
		Aircraft	6	5,000
		Phone systems, office furniture and fixtures, desks, files, safes, agriculture equipment	7	5,000
		Metal working and welding equipment, vessels, barges, tugs, and similar water transportation equipment, and alarm systems	10	5,000
		Medical and veterinary equipment such as X-ray, surgical, orthopedic, stretchers, and medical kits	12	5,000
		Backhoes, pavers, graders	20	5,000
Software	54311	Purchased software	3	25,000
		Internally created software	10	25,000
Infrastructure	54400	Roads, pipelines, pavement, bridges	15	100,000
		Storm drains	35	100,000
		Channels and basins	75	100,000

[1] See section three for additional examples.

2.5 Acquisition of Capital Assets

Acquisition of a capital asset is determined when an expenditure would be more properly recorded as a capital asset as it meets the capitalization criteria described in the section 2.1 (Characteristics of a Capital Asset). If it has been determined the expenditure meets the criteria and applicable capitalization threshold, the asset should be recorded in the general ledger as a capital asset.

2.6 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 market 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 (i.e. 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. If you have questions regarding capitalization of training, please contact the AC.

All capital asset acquisitions require a **Capital Asset Addition Form** (see Attachment C) that supports the capital asset cost. See Attachment B for instructions for completing the form. A separate form must be completed for each capital asset. Departments should allow sufficient time for all capitalized costs to be paid prior to submission of the form. After the form is processed by the AC office, the capital asset number will be deactivated, and no additional expenditures will be added to the capitalized cost of the asset. Accordingly, the expenditure cannot be charged to capital asset expenditure accounts (i.e. accounts that begin with 54).

2.6.1 Contributed Capital Assets (Donated or Gifted)

Contributed assets are defined as voluntary contributions of resources to a governmental entity by an unrelated person or entity. All contributed assets are to be valued at the fair market value of the asset at the date of donation or gift, plus ancillary charges, if any. Contributed assets should be depreciated based on the asset class and useful life (or estimated remaining useful life based on the age of the contributed asset).

According to GASB 33, recipients of contributed (donated) capital assets must recognize capital 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 contributed asset must exceed the County's capitalization threshold for the applicable asset class.

2.6.2 Capital Assets Acquired with Federal or State Grants

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, please contact the AC so that we can evaluate the purchase of capital assets with grant funds.

2.6.3 Capitalized Interest

For business type activities and enterprise funds, if the asset meets the requirements prescribed under GASB 62, paragraph 5-22, Capitalization of Interest, actual or imputed interest (capitalized interest) costs associated with the asset should be calculated and added to the asset value.

2.7 Depreciating or Amortizing Capital Assets

Depreciation is the process of allocating the cost of a tangible capital asset over the period of time, referred to as the "useful life," during which the owner receives benefit from the use of the asset, rather than deducting the cost as an expenditure in the year of acquisition. Amortization is similar to depreciation but applies to intangible assets. Generally, at the end of an asset's life, the sum of the amounts charged to depreciation in each accounting period (accumulated depreciation) will equal the original cost basis. The straight-line depreciation method (historical cost divided by useful life) and straight-line amortization (historical cost divided by useful life) will be used by the County.

The County uses the monthly method for calculating the depreciation/amortization. If an asset is purchased on the 15th of the month or prior it is included for depreciation/amortization purposes as of the 1st of the month in which it was purchased. If the asset is purchased subsequent to the 15th of the month it is included for depreciation/amortization purposes as of the 1st of the following month.

All proprietary funds (enterprise and internal service funds) will require available appropriations prior to recording depreciation and amortization expenses on an annual basis.

Certain capital assets are considered to be "non-exhaustible assets," where their useful life is unlimited and therefore are not depreciated. Example of non-exhaustible assets include land, certain works of art and certain intangible assets.

2.8 Disposal of Capital Assets

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. Dispositions are not budgeted; however, replacement of equipment or purchases of new equipment are included in the annual budget. For proprietary funds, should a capital asset disposal result in a loss on capital asset, it will be necessary to ensure there are adequate appropriations available to record the loss.

- Retired/Abandoned – it is possible that a loss may be recognized for any remaining net book value. Net book value is the difference between the historical cost of the asset and the accumulated depreciation. If the net book value of the asset being disposed is zero, no loss is recorded.
- Sold – a gain or loss must be recognized when the proceeds do not equal the net book value of the asset. If proceeds exceed the net book value, then a gain is recorded and reported as Other Financing Sources for Governmental Funds or Gain on Sale of Capital Asset for Proprietary Funds. If proceeds do not exceed the net book value, then a loss is recorded and reported as Other Financing Uses for Governmental Funds or Loss on Sale of Capital Asset for Proprietary Funds.

- Exchanged or Traded-in – for example trading in a truck for a truck, the original asset's net book value should be added to any consideration (additional cash outlay) resulting in the asset's cost basis. When the assets are not similar in nature, such as exchange of a truck for a tractor, the fair-value of the truck exchanged for the fair-value of the tractor received should be recorded, with any additional consideration (additional cash outlay) paid added to the fair-value of the asset received.

- Missing (lost/stolen) – the accounting personnel responsible for those capital assets will prepare a report listing the missing items. The personnel will document all efforts made to locate the missing assets. This missing capital asset report listing will be reviewed by the department head annually. Items will remain on the listing for a period of two years, at which point the assets will be retired as missing.

- Federal or State Grant Assets – for all disposals involving an asset funded with federal or state funds, the finance personnel for the grant project must first ascertain if there are any grant requirements surrounding the disposal of capital assets. Typically, in the event that an asset to be sold/disposal of has a fair market value in excess of $5,000, the department must report the sale/disposal to the granting agency that provided the initial funding. In some instances, departments may be required to remit some, or all cash proceeds received from the sale of the asset acquired with federal or state funding to the agency involved. Please refer to the original funding documentation for specific criteria related to asset disposal.

- Assets Owned by Others – for all disposals involving capital assets whereby the county does not have legal title, the department with custody of the asset at the time of disposal must ascertain if there are any requirements surrounding the disposal of the asset and whether any or all proceeds received in connection with the disposal are to be retained by the county. To maintain proper tracking and accountability these assets will be added to the County's Capital Asset Inventory Listing through submission of a Capital Asset Addition Form to the AC office.

Pursuant to Sutter County Ordinance[2], disposals of personal property must be approved and effected by the purchasing agent. The purchasing agent for Sutter County is the General Services Director. As such, capital assets to be disposed of must be transferred to General Services. All capital asset disposals require a **Capital Asset Deletion Form** (see Attachment E) that supports the capital asset cost. See Attachment D for instructions for completing the form. A separate form with supporting documentation must be completed for each capital asset.

[2] Sutter County Code of Ordinance, Section 1, Chapter 16-100

Disposals of personal property will be effected by the purchasing agent. Capital assets that are transferred to General Services for disposition will be updated in the County's capital asset accounting system to a status of Surplus (SU) to designate these assets have been transferred. After the transfer occurs, General Services becomes responsible for the custody, tracking, and safeguarding of the asset. In the limited circumstance that it is impractical for the asset to be physically transferred, General Services should work with the department to ensure those responsibilities are maintained.

2.9 Assets Held for Sale

Assets held for sale are items that are not used in the ordinary course of business. The economic benefit of the asset is obtained through the asset's sale rather than through its continued use in operations of earning rental income or capital appreciation. The asset must be available for immediate sale in its present condition, subject only to terms that are usual and customary for sale of such assets, and its sale must be highly probable.

For the sale to be highly probable, the appropriate level of management must be committed to a plan to sell the asset, and an active program to locate a buyer and complete the plan must have been initiated. Further, the asset must be actively marketed for sale at a price that is reasonable in relation to its current fair value. In addition, the sale should be expected to qualify for recognition as a completed sale within one year from the date of classification, unless circumstances beyond the County's control extend the period to complete the sale beyond one year. An extension of the period required to complete a sale does not preclude an asset from being classified as held for sale.

If an existing asset's status is changed from a capital asset (active status) to asset held for sale, the asset should no longer be depreciated, as it is no longer used in the ordinary course of business. The value of the asset should be transferred from capital assets to asset held for sale with a cost basis at the lower of: 1) the asset's net carrying value or 2) the asset's fair value less the selling costs. These assets held for sale should be shown separately on the face of the balance sheet, above capital assets, as they are both non-current assets. These items are recorded in enterprise, internal service funds, private purpose trust funds and the Government-Wide Statement of Net Position (not recorded in governmental funds).

2.10 Asset Grouping

Asset grouping is defined as the grouping of several components that are used in conjunction with one another to form an asset to be used in operations. Though asset grouping is to be used in limited circumstances, asset grouping can provide an accurate representation of the cost of an asset that, under other circumstance, would not be capitalized. When determining the composition of the asset, please keep in mind the following:

When should individually insignificant components be combined into one capital asset or components of a system?

- If individually insignificant items are a part of placing a major asset in service, then those items should be included with the main asset. For example, a 10-gig network module to upgrade the speed of a switch should be included in the cost basis of the switch as a part of the whole capital asset.

- Insignificant component parts of a system or network should be capitalized together. For example, if there were multiple switches that individually did not meet the capitalization threshold, however they work in conjunction with other switches as part of an overall network and have long useful lives, they should be capitalized.

- If it is expected that certain components will need to be replace either together or are anticipated to be replaced at roughly the same time, consider grouping those assets together. By grouping assets with similar characteristics or life spans together, it will be easier to dispose of the old asset when the new one is placed into service.

2.11 Transfer of Assets Between Departments or Funds

Transfers are defined as the physical relocation of a capital asset or a change in responsibility for the asset due to transfer among departments and/or funds. The capital asset record will be updated in One Solution to reflect the transferee department now has custody and responsibility for the asset. Going forward the asset will be included on the transferee's Capital Asset Inventory listing. It is necessary for the departments to complete a **Capital Asset Transfer Form** (see Attachment G) and include the necessary asset transfer documentation so the asset can be properly transferred within the financial system. See attachment F for instructions for completing the form. A separate form must be completed for each capital asset transferred.

Intrafund transfers are transfers within the same fund but are among departments. These transfers do not necessitate a journal entry. For example, the assessor's office transfers an asset to the treasurer's office (both are General Fund departments).

Interfund transfers are transfers across funds. For example, an asset is transferred from the General Fund to the Road Fund. For interfund transfers, a journal entry may be necessary to account for the transfer. The AC office will prepare the journal entry and determine the cost basis of the asset for the transferee. The department must submit documentation to substantiate the current fair market value (FMV) of the transferred asset. For a vehicle, this can be an online estimate from Kelly Blue Book. For real estate, this could be an independent third-party appraisal.

The cost basis to the transferee will depend on whether there is an unrealized gain on the transfer. A gain is present if the consideration (e.g. cash) received is greater than the book value of the asset. The gain is unrealized since the transfer is within the county (i.e. between funds and/or departments). A realized gain or loss would occur if the asset was sold to an entity outside the county or the asset was disposed of. The departments effecting the transfer should determine if there is an unrealized gain and the amount. If there is an unrealized gain that is $5,000 or more, the transaction will be treated as a sale and purchase by the departments involved. The FMV will be used as the cash. The transferring department prepares a Capital Asset Deletion Form and the transferee department prepares a Capital Asset Addition Form. The supporting documentation for each form should include applicable documents as identified in Attachments B and D. If the unrealized gain is less than $5,000, or there is an unrealized loss, or no unrealized gain or loss, the cost basis will be the current book value at the time of the transfer.

2.12 Impairment

Impairment is a significant or unexpected decrease in the service utility or abrupt decrease in its fair value due to a capital asset that will continue to be used in operations. Because impaired assets continue to be used in operations, rather than be sold, their book value needs to be reduced to reflect the loss in service utility resulting from the impairment. However, a temporary decline in service utility would not constitute impairment (e.g. using an office building as a warehouse for one year).

Impairment is assumed to be permanent unless there is sufficient evidence to demonstrate that it is not, in which case the capital asset should not be written down. Indicators of impairment are:

- Physical damage where action would be needed to restore lost service utility.
- Changes in laws, regulations, or other environmental factors that negatively affect service utility (beyond the control of County management).
- Technological developments that negatively affect service utility or evidence of obsolescence.
- A change in the manner or duration of use of a capital asset that negatively affects service utility (under employing the asset from its originally intended use).
- Stoppage of construction or development.

The cost of the impaired asset must be adjusted to reflect the impairment using one of the following three methods:

- Restoration Cost Approach.
- Service Units Approach.
- Deflated Depreciation Replacement Cost Approach.

For impairments resulting from stoppage of construction or development, the lower of carrying value or fair value should be utilized.

Annually, the AC will conduct a capital asset impairment survey requiring departments to identify impairments as part of the annual Capital Asset Inventory Certification process. For any assets indicated as impaired, the AC office will assist in the determination of the impairment dollar amount. If you believe that an asset is impaired or have identified an impaired asset prior to the survey, please contact the AC office.

2.13 Replacement of Capital Assets

For accounting purposes, replacement of equipment has the same procedure as retiring or disposing of the old asset and adding the new asset. When the new asset is added, new asset number/tags are to be assigned. There does not need to be a one to one replacement of equipment. If minor components of a capital asset, such as power cable cords or incidental parts are replaced prior to the main asset being replaced, these costs should be recorded as an expenditure in the period incurred.

2.14 Accumulated Capital Outlay (ACO) or Replacement Fund

The Accumulated Capital Outlay (ACO) or Replacement Fund is designed to record the accumulation of funds to be spent on future capital assets. To avoid years with large spikes in expenditures for capital purchases or replacement of equipment, sponsoring departments (e.g. Information Technology) identify assets, based on asset use and functionality, then anticipate the cost to replace the asset with a like model at a pre-determined replacement date. These costs are billed to participating departments monthly and the funds are retained by the sponsoring department until the replacement is purchased. At each fiscal year end, the sponsoring department will provide an annual accounting of the replacement funds detailing the beginning balance, current year activity, and ending balance for each participating department. In some circumstances, if the cost of a new asset is greater than the amounts contributed to the replacement fund, the department will be invoiced for the remainder of the cost upon acquisition.

Activity related to the replacement fund is subject to audit by the AC to ensure proper administration of the fund such as ensuring replacements are necessary and charges to departments are commensurate with the benefits received.

3. CAPITAL ASSET CLASSIFICATIONS

3.1 Land

Land is the investment in the surface of the earth, which can be used to support structures, construct roads and highways, or may be used to grow crops, grass, shrubs, and trees. Land is characterized as having a non-exhaustible life (unlimited).

3.1.1 Land Capitalization Threshold

All land, regardless of cost, is capitalized. In the case of acquiring a parcel of land with an existing structure/improvement, the purchase price must be allocated between the land and structure/improvement. This is necessary as the structure/improvement may qualify as a depreciable asset(s).

3.1.2 Expenditure Examples to be Capitalized as Part of Land Cost

- Purchase price or fair market value at time of gift.
- Professional fees (i.e. title searches, consents, condemnation, legal, appraisal, surveying, environmental assessments, commissions, etc.).
- Land excavation, fill, clearing, and grading land for use.
- Demolition cost of existing buildings and improvements (less salvage) on land purchased with the intent to demolish and rebuild will be included in the cost of the land. (Please note that demolition costs related to assets already placed in service should be expensed).
- Removal, relocation, or reconstruction of property of others (i.e. railroad, telephone, and power lines).
- Hazardous waste clean-up.
- Interest on mortgages accrued at date of purchase.
- Accrued and unpaid taxes at date of purchase.
- Other cost incurred in acquiring the land.

Note: Receipts from sales of salvage should be credited against the cost of the land (e.g. selling material from demolished structures, rock or dirt, etc.)

3.2 Land Improvements

Land improvements are non-building assets which enhance the quality or facilitate the use of land. Land improvements do not include roads, bridges, pipelines, etc., as these are classified as infrastructure. Land improvements include:

- Betterments.
- Excavation.
- Fencing and gates.
- Parking lots, driveways, parking barriers, sidewalks not associated with infrastructure (e.g. roadways, bridges, etc.).
- Retaining walls, certain lighting, landscaping and irrigations systems.
- Site preparation.
- Landscaping, fountains, paths and trails.
- Outside sprinkler system.
- Golf courses, recreation areas and athletic fields (including bleachers).
- Landscaping of non-temporary nature.
- Septic systems.
- Water impoundment structures or attachments (e.g. dam, liner, other water control structure).
- Swimming pools, tennis courts, basketball courts, etc.

Land Improvements can be further categorized as non-exhaustible or exhaustible:

- Non-Exhaustible – Expenditures for improvements that do not require maintenance or replacement; expenditures to bring land into condition to commence erection of structures; expenditures for improvements not identified with structures; and expenditures for land improvements that do not deteriorate with use or passage of time are additions to the cost of land, are generally not exhaustible, and therefore, not depreciable.
- Exhaustible – Other improvements that are part of a site, such as parking lots, landscaping, and fencing, are usually exhaustible and are therefore depreciable. Depreciation of site improvements is necessary if the improvement is exhaustible.

3.2.1 Land Improvements Capitalization Threshold

Land improvements with a cost of $60,000 or more must be capitalized.

3.2.2 Expenditure Examples to be Capitalized as Part of Land Improvement Costs

- Professional fees (i.e. architect, legal, engineering, surveying, environmental assessments, inspections, permits, licenses, etc.).
- Land excavation, fill, clearing, and grading of existing land to ready for use.
- Removal, relocation, or reconstruction of property of others (i.e. railroad, telephone, and power lines) on existing property to ready for use.
- Water wells (initial cost for drilling, the pump and its casing).
- Accident or injury costs and payment of damages.
- Insurance during construction.
- Capitalized interest for certain funds. See 2.6.3 Capitalized Interest.

3.3 Building and Building Improvements

3.3.1 Building Definition

A building is a structure that is permanently attached to the land, has a roof, is partially or completely enclosed by walls, and is not intended to be transportable or moveable.

Buildings should be recorded at either their acquisition cost or construction cost. The cost of new construction should be carefully evaluated. Usually projects consist of major components such as land, land improvements, building construction (including professional fees and permits), furniture, fixtures, and equipment. In addition, buildings include components (e.g. roof, air conditioner system, boilers, elevators, etc.) that should be recorded as a separate asset within the building classification. These building components typically have shorter useful lives than the building structure and are likely to be replaced during the useful life of the building. The value of each component group needs to be determined and given an appropriate useful life.

3.3.2 Building Improvements

Capitalization of building improvements depends on several criteria (see section 2.3).

3.3.3 Building and Building Improvement Capitalization Threshold

All buildings with a cost of $60,000 or more must be capitalized. Building improvements that either 1) extend the original estimated useful life, or 2) increase the service capacity of the asset, or 3) significantly change the original purpose or function of the asset should be capitalized; regardless of the capitalization threshold established for the asset class.

In the case of acquiring a parcel with land and buildings, a value should be assigned to both the land and building; recorded and depreciated appropriately based on the asset class.

3.3.4 Expenditures Capitalized as Part of Building and Building Improvements Cost

- All costs associated with the construction of a new building (including excavation, grading, filling land for a specific building) or purchase of an existing building.
- Cost associated with remodeling, reconditioning or altering a purchased building to make it ready to use for the purpose for which it was acquired, should be capitalized as building costs.
- Professional fees (e.g. legal, architect, inspections, title search, etc.).
- Payment of unpaid or accrued taxes on buildings to date of purchase.
- Costs of temporary buildings used during construction.
- Capitalized interest for certain funds. See 2.6.3 Capitalized Interest.

Examples of building and building improvements:

- Construction or purchase of building (see above).
- Remodeling, reconditioning or altering a building for its intended use (see above).
- New roofing, roof replacement with different material to enhance useful life and service capacity (i.e. replace a shingle roof with a tile roof) or replacement of roof which has exceeded its useful life.
- Major energy conservation projects or environmental compliance (i.e. asbestos abatement).
- Remodeling or replacing major building components.
- Conversion of attics, basements, etc., into useable office, clinic or research space.
- Structures attached to the building such as covered garages, enclosed stairwells, etc.
- Installation or upgrade of heating and cooling systems, including ceiling fans and attic vents.
- Original installation of wall or ceiling covering such as carpeting, tiles, paneling or parquet.
- Structural changes such as reinforcement of floors or walls, installation or replacement of beams, rafters, joists, steel grids, or other interior framing.
- Interior renovation associated with large scale project (including casings, light fixtures, etc.).
- Exterior renovation such as installation or upgrade of siding, roofing masonry, etc.

- Installation or upgrade of: window or door frame, built-in closets or cabinets, plumbing, electrical wiring, phone or closed-circuit television systems, networks fiber optic cable, wiring required in the installation of equipment.

3.4 Equipment

Equipment is defined as fixed or movable tangible assets to be used for operations. Improvements or additions to existing equipment that constitute capital outlay or increase the value or life of the asset should be capitalized and recorded as an addition, referencing the existing asset. Equipment does not include major systems integrated into a building or structure such as elevators, boilers, roof, or HVAC.

Equipment with a cost of $5,000 or more must be capitalized.

3.4.1 Examples of Expenditures to be Capitalized as Part of Equipment

- Original contact or invoice price, less any discounts.
- Freight, handling, storage, in-transit insurance charges and import duties.
- Sales, use or other taxes imposed on the acquisition.
- Installation charges to place assets in service.
- Charges for testing and preparation for use.
- Costs of reconditioning when used item is purchased.
- Parts and labor associated with the construction of equipment or installation.
- Parts and labor associated with additional components necessary to bring asset into service condition (light bars, radios, security, paint/branding, etc.
- Capitalized interest for certain funds. See 2.6.3 Capitalized Interest.

Examples of equipment include:

- Computers and other Information Technology equipment such as desktop computers, laptops, servers, copiers; including software required for operation.
- Shop tools, machinery, trailers, forklifts.
- Office trailers/mobile homes.
- Appliances, televisions.
- Voting equipment, lab equipment.
- Firearms, weapons, tactical gear.

- Cameras, camera equipment, audio equipment, projectors.
- Tape recorders and dictating equipment.
- Mobile, portable and two-way radio equipment.
- Playground equipment, scoreboards, bleachers, marine equipment, fuel tanks.
- Backhoes, heavy duty trucks, dozers, front-end loaders, large tractors, earth movers.
- Mowers, tractors, and attachments, grounds maintenance equipment.

3.5 Furniture

Furniture is defined as certain types of equipment to be used for operations. Examples of furniture include:

- Filing cabinets or shelving units.
- Desks, modular units, tables, etc.

Furniture is capitalized on a per item basis subject to the capitalization threshold of $5,000.

3.6 Vehicles

A vehicle is defined as an asset that can move itself under its own power. Cars, trucks, fire trucks, boats and busses should be classified as vehicles. Travel trailers, horse trailers, equipment trailers, ATVs (All Terrain Vehicles), etc. should be classified as equipment. Careful consideration should be given as to whether an asset is a vehicle or equipment. Typically, if it's required to be licensed by the California Department of Motor Vehicles it's a vehicle.

Busses can range in size and utility and their useful life is often dictated based on the funding source. Consult the funding source for any useful life requirements.

Vehicles are considered ready to be placed into service when all necessary add-on components are installed in/onto the asset.

Vehicles with a cost of $5,000 or more must be capitalized.

3.7 Asset Group Method

In limited circumstances, the asset group method of capitalization may be used. Typically, the assets work in conjunction with one another and replacement of the assets is intended to be done at approximately the same time. Please see 2.10 Asset Grouping for more details or consult the AC office when considering the asset grouping method.

3.8 Infrastructure

Infrastructure is defined as long-lived capital assets that normally are: 1) stationary in nature and 2) can be preserved for a significantly greater number of years than most capital assets. Examples Include:

- Pavements, curbs, gutters, tunnels, canals, dams, wharfs, sea walls, rest areas, fire hydrants.
- Sidewalks associated with roadways, bridges, sewer systems, water distribution systems and water drainage systems.
- Traffic light systems, signage.
- Airport runway, strip, taxiway or apron.
- Electric, water, and gas (i.e. main lines and distributions lines, tunnels, etc.).
- Fiber optic and telephone distribution systems (between buildings).

Infrastructure acquired by the County must have a value for capitalization. Historical costs or estimated values should be available in reports required from the original developer within the permit process. Land must be capitalized as a separate non-depreciable asset within the land account at fair market value as of the date of acceptance.

3.8.1 Infrastructure Capitalization Threshold

All infrastructure projects with total cost of $100,000 or more must be capitalized.

3.8.2 Expenditure Examples to be Capitalized as Part of Infrastructure Costs

- Construction costs (i.e. contract amounts, payroll, fringe benefits, rental value of equipment, insurance, etc.).
- Legal and engineering fees.
- Materials.
- Payment of damage claims connected with construction.
- Conservation or environmental easement required as part of construction.
- Capitalized interest for certain funds. See subsection Capitalized Interest.

3.9 Intangible Assets

As defined by GASB Statement No. 51, "Accounting and Financial Reporting for Intangible Assets", an intangible asset is defined based on the following:

- Lack Physical Substance – An asset that may be contained IN or ON an item with physical substance, such as computer software on a compact disk, land use rights, patents, trademarks, computer software, websites, etc.

- Nonfinancial in Nature – Cannot be receivables or prepayments of goods, an asset that is not in monetary form or represents neither a claim or right to.

- Initial Useful Life – Extends beyond a single reporting period.

3.9.1 Intangible Capitalization Threshold

Intangible assets with a cost of $25,000 or more must be capitalized.

3.9.2 Expenditure Examples to be Capitalized as Intangible Assets

- Off-the-shelf software (ready to use with no significant modifications necessary)

- Patents, copyrights, trademarks, franchises, goodwill.

- Timber rights.

- Land rights (including minerals, etc.).

- Capitalized interest for certain funds. See section 2.6.3 Capitalized Interest

- Easements

3.10 Easements

An easement is defined as an interest in land owned by another individual or entity that entitles the easement holder to a specific limited use or enjoyment (right to use land). Easements are typically used to access another property and are classified as intangible assets.

3.10.1 Easements Capitalization Threshold

All easements, regardless of cost, are to be capitalized.

3.10.2 Temporary Easements as Part of Construction Projects

Temporary easements acquired during the construction phase of a project will be capitalized as part of the overall capital asset project and not as a standalone easement.

As an example, when certain infrastructure projects are constructed, it is necessary to obtain easements for the use of neighboring land during the project. The costs of these temporary easements are immaterial to the overall infrastructure project and are included in the cost of the infrastructure project.

3.11 Capital Leases

Capital leases are defined as 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' capitalization threshold:

- The lease transfers ownership of the property to the lessee by the end of the lease term (i.e. the title of the leased copier transfers at the end of the lease term).
- The lease contains a bargain purchase option (e.g. you can purchase the copier for $5,000 which is a bargain compared to the remaining value of $10,000).
- The lease term equals 75% or more of the estimated useful life of the leased property (e.g. you lease a copier for 4 years and the copier 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 (e.g. you will make 60 monthly lease payments of $150 totaling $9,000 on a copier with a purchase price of $10,000).

3.11.1 Capital Lease Capitalization Threshold

Assets classified as capital leases are deemed or estimated to meet or exceed the capitalization threshold based on their applicable asset class. The asset costs should be depreciated in accordance with the standard useful lives for the applicable asset class.

3.12 Leasehold Improvements

Leasehold improvements are defined as improvements to increase the service capacity of a 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 the leasehold improvements over the term of the lease (i.e. – if you make improvements to a leased building that you would normally capitalized if those same improvements were made to a County owned building, then it should be classified as a leasehold improvement and be capitalized).

3.12.1 Leasehold Improvement Capitalization Threshold

Leasehold improvements with a cost of $60,000 or more must be capitalized.

Please refer to Buildings and Building Improvement section 3.3.5 - Expenditure Capitalized as Part of Building and Building Improvement Costs. This section also provides examples of building and building improvements that should be capitalized.

3.13 Internally Created Software

Internally created software is defined as either internally developed software or purchased software that is significantly modified to meet the County's internal needs. See GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets,* for additional guidance.

3.13.1 Internally Created Software Capitalization Threshold

Internally created software with a cost of $25,000 or more must be capitalized.

3.13.2 Expenditure Examples Capitalized as Internally Created Software

Costs related to the significant modification of purchased software for use by the County should be capitalized. In addition, Costs to develop or obtain software that allows for access or conversion of old data by new information systems should also be capitalized.

Costs of internally developed software are to be capitalized based on:

- Preliminary Project Stage – Activities in this stage include the conceptual formulation and evaluation of alternatives, the determination of the existence of needed technology, and the final selection of alternative for the development of the software. These costs are **Not Capitalized.**

- Application Development Stage – Activities in this stage include the design of the chosen path, including software configuration, software development and configuration training, software interfaces, third-party service fees, coding, installation of hardware, and testing, travel costs incurred by employees, and parallel processing phase. These costs are **Capitalized.**

- Post-Implementation/Operation Stage – Activities in this state include end-user training and software maintenance. These costs are **Not Capitalized.**

3.13.3 Accumulating and Tracking Costs During the Work-in-Progress Stage Internally Created Software

Internally created software project costs should be updated as costs are incurred. Once the project is completed for its intended purpose and ready to be placed into active service, all costs associated with the development phase should be evaluated and capitalized. For discussion on whether it is necessary to capitalize interest during the construction phase, please see subsection Capitalized Interest. Any costs associated with end-user training or maintenance should be recorded as an expenditure in the period incurred.

3.14 Works of Art and Historical Treasures

Works of art and historical treasures are defined as collections or significant individual items that are owned by a county agency and are not held for financial gain, but rather for public exhibition, education or research as part of a public service.

3.14.1 Works of Art and Historical Treasures Capitalization Threshold

The capitalization threshold of works of art and historical treasures is $10,000 for either a collection or individual item.

Governments are encouraged, but not required, to capitalize a collection (and all additions to that collection) whether donated or purchased that meets all of the following conditions. The collection is:

- Held for public exhibition, education, or research in furtherance of public service, rather than financial gain;
- Protected, kept unencumbered, cared for, and preserved; and
- Subject to an organization policy that requires the proceeds from sales of collection items to be used to acquire other items for collections.

3.14.2 Expenditure Examples Capitalized as Part of Works of Art and Historical Treasures

All costs of acquiring works of art and historical treasures should be recorded.

Collections and items acquired by gift or donation should be recorded using the following acceptable valuation methods: Fair Market Value (FMV), historical cost, or the cost may be determined by the gifting artist upon donation to the County.

3.15 Library Books and Equipment

Library books and equipment include information resources that are circulated to students or the general public such as books, journals, periodicals, audio/visual media, computer-based information, manuscripts, maps, documents, and similar items which provide information essential to the learning process or which enhance the quality of academic, professional or research libraries.

3.15.1 Library Books and Equipment Capitalization Threshold

The capitalization threshold of library books and equipment is $10,000. Purchases of library books and certain equipment should be grouped by year to determine the amount capitalized rather than individual purchases.

3.15.2 Expenditure Examples Capitalized as Part of Library Books and Equipment

- Invoice price.

- Handling and freight/shipping charges.
- In-transit insurance charges.
- Electronic access charges.
- Reproduction and like costs required to place assets in service, except for library salaries.

3.16 Construction in Progress

Construction-in-Progress (CIP) is defined as the accumulation of all costs incurred on uncompleted land improvements, buildings, building improvements, infrastructure, or other capital construction projects. Also included are capital assets (e.g. vehicles) that have not been completed in terms of cost accumulation or have yet to be placed in service as of fiscal year-end.

3.16.1 Construction-in-Progress Capitalization Threshold

Projects classified as CIP are deemed or estimated to meet or exceed the capitalization threshold for the applicable asset class upon the earlier occurrence of filing of Notice of Completion documents, occupancy, or when the asset is placed into service. At the time of completion, the asset costs should be transferred to the applicable asset class and depreciated in accordance with the standard useful lives.

3.16.2 Construction-in-Progress Accumulating and Tracking Costs

Construction project costs should be updated as costs are incurred. Once the project is completed for its intended purpose and placed into active service (i.e. filing of notice of completion, occupancy, etc.) all costs associated with the construction phase should be evaluated and capitalized. All costs incurred subsequent to the project being placed in service need to be addressed with the AC. For discussion on whether it is necessary to capitalize interest during the construction phase, please see section 2.6.3 - Capitalized Interest. Any costs associated with end-user training or maintenance should be recorded as an expenditure in the period incurred.

3.16.3 Capital Assets and Capital Projects

Accounting for capital assets and capital projects is complex and often requires professional judgement for proper application of related accounting principles. Due to this complexity, additional asset controls are implemented to assist in accomplishing management purposes such as cost and budgetary control. The sections below provide guidance on how to distinguish between capital assets and capital projects and presents the differences in how to account for them. In addition, a flowchart is provided in attachment H. As a reminder, capital projects can include various types of assets, such as land improvements, infrastructure, and internally created software; rather than just structures and improvements. If there are any questions, please contact the Auditor-Controller’s office for assistance.

All capital assets or capital projects must be assigned a capital asset ID#/project # when budgeted. This number is requested from and provided by the auditor-controller's office. Numbers begin with C for capital asset/project followed by two digits for the fiscal year, four digits for the department, and three digits for the number of the asset/project budgeted for that year. For example, C171203001 would be interpreted as:

C	17	1203	001
(Capital Asset)	(Fiscal Year: 2016-17)	(Department)	(First Asset Purchased in Fiscal Year)

All transactions relating to the project must contain the project number. Each budgeted appropriation, purchase order, claim, journal entry, encumbrance, and cash receipt related to the project must contain the project number. Departments should monitor the project ledger to ensure it reconciles to the general ledger at all times.

Capital Assets

An asset is accounted for as a capital asset if three criteria are met:

- The organization is expected to benefit from the asset for more than one year, and
- The asset is used in ordinary operations and not intended for resell, and
- The total capitalizable cost of the asset meets or exceeds the capitalization threshold for the asset class (see Table 1)

If the criteria above are not met, the cost of the asset is recorded as an expenditure in the current period. Capital assets, as opposed to Capital Projects (discussed in the following section) are assets purchased which are essentially ready to use and place in service immediately with only minor modification. An example would be a vehicle that needs installation of light bars or radio equipment prior to being placed in service. Due to timing, these expenditures may cross fiscal years. However, it is expected that all costs are incurred, and work is completed to put the asset in service within one year from the date of initial purchase.

Capital assets not yet complete and placed in service prior to May 31st, must be included in CIP at fiscal year-end. With assistance from departments, General Services will prepare the Capital Asset Addition Form and submit to departments for review and signature. Departments then forward all documentation to the AC office. Ideally, CIP for capital assets should be minimal as departments should purchase their capital assets with sufficient lead time so the asset can be completed and placed in service by May 31st. Documents specified in Attachment B should be included in support of **all** costs to be capitalized, regardless of fiscal year in which the cost was incurred.

Any capital asset where claims have been paid but the Capital Asset Addition form was not submitted by May 31st will require these costs to be added to CIP at fiscal year-end. The department will need to submit a listing of these assets along with the supporting documentation as specified in Attachment B.

Basic Capital Projects

Capital projects involve the construction or creation of a capital asset. A capital project will be become a capital asset upon completion. Accounting for capital projects varies depending on whether the capital project is determined to be "basic" or "complex". For a capital project to be basic, the following criteria must be met:

- Total expected capitalizable cost meets or exceeds the applicable capitalization threshold, **and**
- Total completion time is expected to be within one year from the date of initial purchase, **and**
- Funding is only from one source

Basic capital projects must be accounted for in the Capital Projects Fund (0016). A general department (1800) is set up within this fund to account for all basic capital projects. As with any capital asset or capital project, a specific project ledger is set up using a capital asset ID# to provide cost tracking and control. For example, the first basic capital project for fiscal year 2018-19 would have a project number of C191800001.

Complex Capital Projects

Capital projects are considered complex have the following characteristics:

- Total expected capitalizable cost meets or exceeds the applicable threshold, **and**
- Total completion time is expected to be more than one year (i.e. multi-year project), **or**
- The project has multiple funding sources

These projects are accounted for in the Capital Projects Fund and will be assigned a specific department number within the 1800 series (e.g. 1805, 1815, etc.) and a capital asset ID number by the AC office.

For all capital projects, a list of the projects and associated costs as supported by and reconciled to the general ledger should be submitted to the AC office at fiscal year-end. Any project where the final total cost is estimated to exceed the applicable capitalization threshold must be clearly indicated so the AC office can include incurred costs in CIP at year-end. Once capital projects are completed, departments will prepare the Capital Asset Addition form including supporting documentation and submit to the AC office. For projects that span more than one fiscal year, the supporting documentation specified in Attachment B should be included for the current fiscal year only. To support prior year costs, include the CIP report that shows the amount recorded to the general ledger for the specific project as of the end of the prior fiscal year.

Repairs and Maintenance

Repairs and maintenance expenditures that do not meet capitalization criteria are expended in the current period and should not be posted to a 54*** expenditure account. These expenditures should be included in the Building Maintenance Department (1700) in the General Fund (0001). The general ledger account Maintenance Structure/Imprvmt (52130) should be used. A project number should be used/created under building and maintenance when there is a need to track revenues and expenditures for a specific maintenance project (e.g. grant purposes, reimbursements, shared costs, etc.) otherwise expenditures and revenues are charged directly to building maintenance. For projects that require revenue/expenditure tracking, a project number should be assigned by the auditor-controller's office. Numbers begin with P for project followed by two digits for the fiscal year, four digits for the department that benefits from the repair/maintenance, and three digits for the number of the project for that year. For example, P192201001 would be interpreted as:

P	19	1203	001
(Project)	(Fiscal Year: 2018-19)	(Department)	(First Project in Fiscal Year)

4. DEPRECIATION & AMORTIZATION

The County of Sutter uses the straight-line method of depreciation for all capital assets. Other methods may be considered as long as they are consistent with other guidance and restrictions, such as grant agreements or cost plan requirements. If a method other that straight-line is being considered for a particular asset, please consult with the AC office.

Land

Land is a non-exhaustible asset and is not depreciated over time.

Land Improvements

Land improvements must be classified as either non-exhaustible (not depreciable) or exhaustible (depreciable). For exhaustible land improvements, the asset will be depreciated using the straight-line method of depreciation (historical cost / useful life). In the event a land asset and the accompanying land improvements are disposed, all land improvements should reference the land asset it is affiliated with for easy identification.

Building and Building Improvements

Assets should be broken into components based on estimated useful lives including, but not limited to the following examples:

- Shell – structure of building.
- Service systems – electrical & lighting, systems, heating, ventilation, air conditioning, HVAC, plumbing, fire protections system, elevator.
- Fixed equipment – sterilizers, casework, fume hoods, cold room.

Infrastructure

The asset should be broken into components based on estimated useful lives if applicable.

Equipment, Furniture, and Vehicles

These asset types are to be depreciated over a 5-year to 7-year useful life. Refer to section 2.4 for examples.

Intangible Assets

Intangible assets are amortized using the straight-line method (historical cost / useful life). If the intangible asset is determined to have an indefinite life, then it will not be amortized.

Easements are amortized using the useful life determined by the easement contract in place. If the easement has a non-exhaustible life (indefinite life), then it will not be amortized.

Leasehold Improvements

The useful life is determined to be the shorter of the asset class useful life or lease term. The asset should be broken into components based on estimated useful lives including (same as buildings and building improvements):

- Shell – structure of building.
- Service systems – electrical & lighting systems, heating, ventilation, air conditioning, HVAC, plumbing, fire protection system, elevator.
- Fixed equipment – sterilizers, casework, fume hoods, cold rooms.

Software

Capitalization should cease no later than the time at which substantial testing is completed and the software is ready for its intended purpose or rendered in service.

Works of Art and Historical Treasures

If a collection or item is held for financial gain and is not capitalized, disclosures must be made in the notes to the financial statements that describe the collection or item and the reasons these assets are not capitalized.

Some collection or items are considered exhaustible (diminish by display, educational or research applications) and should be depreciated over their estimated useful life.

Collections or items that are non-exhaustible are items whose economic benefit or service is used up so slowly that the estimated useful lives are extraordinarily long. Because of their cultural, aesthetic or historical value, holders protect and preserve these assets more than similar assets without such value. Depreciation is not required for collections that are non-exhaustible.

For further information please see GASB 34.

Construction-In-Progress

Costs associated with construction-in-progress are not to be depreciated until the finished asset is placed into service. The asset should be depreciated based on the depreciation methodology of the asset class. While it is considered construction-in-progress, the cost should be reported with land and other non-depreciable assets.

Capital Leases

Costs associated with capital leases are depreciated in accordance with the particular asset class' depreciation methodology.

5. POLLUTION REMEDIATION

Pollution remediation is the obligation to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities such as site assessments and cleanups. Once a specified event occurs, a government is required to estimate the components of expected pollution remediation outlays and determine whether outlays for those components should be accrued as a liability or, if appropriate, capitalized when goods and services are acquired.

5.1 Pollution Remediation Identification and Reporting

Annually, the Risk Management division of the Human Resources department prepares and distributes a GASB 49 Pollution Remediation survey to all County departments, inquiring of identified or potential landfill and pollution remediation activities (i.e. obligations to remove contaminations, such as asbestos removal, water pollution, leaking underground storage tanks, etc.).

The department is responsible for coordinating capitalizable remediation projects with the AC office.

If you have further questions about pollution remediation please contact either the AC or Risk Management.

6. CONTROLS OVER CAPITAL ASSETS

Departments, districts and agencies are responsible for maintaining a system of control over their capital assets and minimize risk of loss and/or misuse of their property. The controls in place include:

- Enhanced Tracking, Recording, and Reporting
- Capital Asset Tagging
- Capital Asset Inventory Controls

6.1 Enhanced Tracking, Recording, and Reporting

Capitalization itself functions as an internal control over capital assets. Capitalization requires enhanced tracking of capital assets and requires the cost of the asset be recorded and reported as an asset for financial reporting purposes. Capital assets are tracked from initial purchase, through potential interdepartmental transfer, and ultimately to final disposition through the use of Capital Asset Addition, Capital Asset Transfer, and Capital Asset Deletion forms, respectively. The Auditor-Controller's office processes all capital asset forms and prepares necessary journal entries to record changes to capital assets for financial reporting.

Timely preparation of the CAFR includes a public issuance date no later than December 31 on the prior fiscal years' activity. Meeting this deadline is important for providing timely information on financial performance to decision makers and ensuring other reporting that is dependent on the CAFR information can be completed prior to established deadlines. In this effort, and to aid in an efficient year-end close process, we encourage departments to submit the above forms as soon as possible after the event occurs and no later than on a quarterly basis. Please see the attachments at the end of this document for instructions on completion of the forms.

6.2 Capital Asset Tagging

All capital assets held by the County are assigned an identification number (e.g. C192201001). Of those, most will receive an asset identification tag. However, due to the nature and location of some assets, tagging is not practical (see section 5.2.3). The AC will issue an asset tag upon receipt and approval of the Capital Asset Addition form. This must be completed prior to entering the asset into the Capital Asset system within One Solution.

6.2.1 Placement of Asset Identification Tags

Capital asset tags should be placed on assets in a manner that ensures ease of identification when capital asset inventory is performed, without defacing or reducing the functionality of the asset. The following are recommended locations to place asset identification tags:

- Vehicles should be tagged inside the driver side door jam next to the VIN number decal.
- Computers and office equipment should be tagged on the front.
- Appliances should be tagged on the top right corner of either the face or side, depending on accessibility.
- Shop equipment, other heavy machinery, grounds and maintenance equipment should be tagged where minimum grease, oil, vibration, or heat will be encountered. Tags are intended to last the useful life of the asset, so care should be taken when selecting the placement of the tag. Ideally, the tag should be placed on the front of the asset or next to the manufacturer's plate.

- Engineering/scientific equipment should be tagged near the manufacturer's identification plate or on the upper right-hand corner of the asset.

- Audiovisual equipment should be tagged near the manufacturer's identification plate or on the upper right-hand corner of the asset.

6.2.2 Replacement of Defaced Asset Tags

If an asset is observed to have a tag defaced to the point where number recognition is impossible, the asset should have a replacement capital asset identification tag assigned and affixed to it. Upon receipt of the notification that the asset tag needs replacement, the AC will issue a new tag or asset number if needed.

6.2.3 Untaggable Capital Assets

An identification tag can be applied to most capital assets. However, there are several instances where a capital asset identification tag is not practical. Below is a list of assets that require a capital asset number, but do not require a physical identification tag.

- <u>New Construction</u> - New construction, which is completed within one fiscal year should be entered into the capital asset system at the time of completion. Often, the final contractor's cost summary will supply the proper original cost figures; however, special care must be taken when analyzing these summaries as they occasionally include costs for the purchases of equipment, land and/or the construction of land (site) improvements. These costs must be extracted and entered separately under their respective asset categories. In addition, a contractor's cost summary may not reflect fees associated with the design, engineering, and legal aspects of the project. These fees should be accounted for to reflect the total capitalized cost of the project.

- <u>Purchased Construction</u> – Frequently, properties are purchased with existing structures; which will be modified for use. In these cases, the total purchase price must be allocated to the appropriate capital asset categories such as land, land improvements and construction. It is common to engage a local real estate appraiser when negotiating the purchase of such property. These appraisals will usually indicate separate values for the above accounts and are probably the best tool available for allocation of the total purchase price.

- <u>Infrastructure</u> – See new or purchased construction.

- <u>Construction in Progress (CIP)</u> – The CIP account can be viewed as a "holding" account for accrued construction project costs where the duration of the project will extend to more than one fiscal year and the completed project will meet capitalization criteria. Once such projects are completed and have been accepted by the County, the total cost will be transferred out of CIP and into the appropriate capital asset account.

- <u>Land</u> – Land is recorded in the capital asset system based on original cost and date of purchase. When the information is not readily available, it can be researched through the

County records maintained at the Assessor's office. Occasionally, verifiable cost records will simple not exist. In such cases, land should be included based on a reasonable estimate of fair market value at the time of acquisition.

- Land Improvements – Land improvements consist of items such as paving, fencing, flag poles, outdoor lighting, etc. If these assets are part of a new construction project, they can be entered into the capital asset system based on contractor supplied information as discussed in 'New Construction' above.

- Structures and Improvements – This asset class consists of items such as buildings, solar panels, and HVAC systems.

- Software – Whether software is developed internally or is purchased off-the-shelf, it is considered an intangible asset and is therefore untaggable.

6.3 Capital Asset Inventory Controls

Government code §24051 requires annual inventory certification of all County capital assets, including assets acquired with grant funds. This inventory is based on all County capital assets placed in service as of June 30th of each year. Inventory is required to be completed and submitted to the AC by July 10th of that year. In addition, on the day a successor to a county officer or department head assumes office, the successor shall receive from the predecessor the last inventory filed with the AC office. The successor must submit receipt of the listing to the AC office.

During the capital asset inventory procedures performed below to prepare the annual inventory certification, departments must assess whether any capital asset has become impaired. See section 2.12 for additional information on impairment of capital assets.

6.3.1 Capital Asset Inventory Procedures

- During the first week of July, each department will receive a current Capital Asset Inventory that provides the capital assets in custody by the department. The department head or applicable manager, who assumes the responsibility of capital assets within the department, will facilitate the scheduling and taking of the capital asset inventory.

- Inventory count shall be performed by two individuals: a locator (the person to identify the asset and read the asset tag number or serial number) and a recorder (person to locate the asset on the Capital Asset Inventory listing and confirm whether the asset exists).

- During the inventory count, note any capital asset tags that require replacement and any assets that need an asset tag.

- Inventory counts are based on the asset listing received from the AC. The actual date and time of the inventory count should be noted on the Capital Asset Inventory listing. As assets can be kept at various locations or in use during the course of business, this count may take several days to accurately inventory all assets.

- During the inventory count, if assets are identified that are not on the Capital Asset Inventory listing, the vital data (e.g. serial number, year, make, model, color, style, etc.) of the asset must be noted and forwarded to the AC. Also, a separate Capital Asset Addition form and supporting documentation must be completed and submitted to the AC office for each asset.

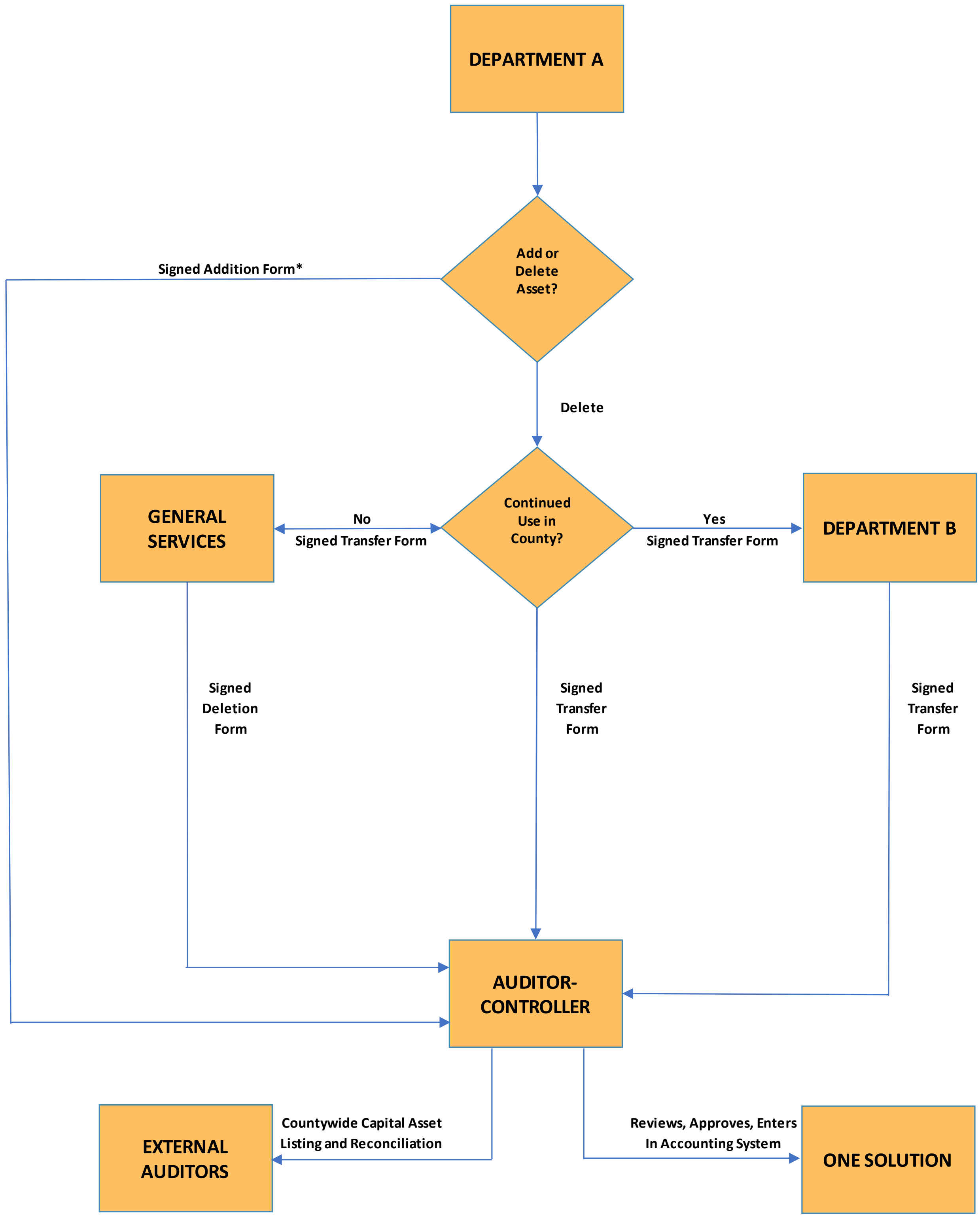
- After the inventory count is completed, the results should be reconciled with the department head or applicable manager. All original count sheets, reconciliation notes and outcome of any reconciliation are to be provided to the AC to the attention of the capital asset accountant.

- The department head or applicable manager must review any assets identified as missing, lost, or are unable to be located. All steps taken to locate the asset must be documented. Provide the listing of these assets, steps performed to locate the asset(s) and outcome to the capital asset accountant in the AC's office. If at any point after the inventory count is completed, the asset(s) are located, the department head or applicable manager must notify the capital asset accountant at the AC's office immediately. For each asset, a Capital Asset Deletion Form and supporting documentation must be completed and submitted to the AC office. A copy of this form will be forwarded to the County Administrator's Office for informational purposes.

- When capital assets are believed to have been stolen, the agency must immediately contact the law enforcement agency having jurisdiction. Immediately after the Sheriff/police report is completed, the agency must investigate the loss and advise the Auditor-Controller, Risk Management, and the Board of Supervisors in writing of the items stolen and the related asset identifications numbers, stating the probability of recovery of the capital assets, and requesting deletion of the items from the capital asset inventory and relief of accountability for the items. The letter must also describe the circumstances of the loss and the specific steps which have been taken to modify procedures and increase controls to preclude similar incidents from occurring in the future. The letter must be signed by the Department Head with a copy of the police report attached. The Board of Supervisors must approve removal of the asset. A Capital Asset Deletion form along with proper supporting documentation must be completed and submitted to the AC office.

- Although infrequent, there may be instances where a department will need to certify an asset on their capital asset inventory listing, but the department does not have physical control or custody of the asset. Usually, this results from the cost of an asset being allocated to the departments that receive benefit from the asset (e.g. Solar PV assets from the solar array on Acacia St.). This can also arise if the department has a share of cost for the asset or pays part of the debt service used to finance the acquisition of the asset.

Attachment A – Flowchart for Capital Asset Processing



*All Addition, Deletion, and Transfer forms must include required supporting documentation.

Attachment B – Capital Asset Addition Form Instructions

When an asset has been completed and placed in service, a Capital Asset Addition form signed and approved by the department head, along with supporting documentation (see below) must be submitted to the Auditor-Controller's (AC) office. This documentation is used as the basis for entering a capital asset into the county's accounting system (One Solution).

Supporting documentation for capital asset additions should include the following:

- Claims and Invoices that make up the total capitalized cost of the asset. For the asset to be added, the total cost per the claim(s), and total cost per the invoice(s) should both agree to the total purchase price as reported on page one of the Capital Asset Addition Form.

- Departments should allow sufficient time for all capitalized costs to be paid prior to submission of the form. After the form is processed by the AC office, the capital asset number will be deactivated, barring additional expenditures being added to the capitalized cost of the asset.

- General Ledger Reconciliation – Expenditures recorded in 54*** series accounts will be included in the cost of a capital asset. As such, be mindful that only expenditures that meet capitalization criteria are recorded in these accounts. A General Ledger Report (RGL 200) should be run and the specific amounts identified and totaled which must agree to the total purchase price reported on page one of the Capital Asset Addition Form.

- Project Ledger Account Director's Report (RPL 210) – Expenditures recorded to a 54*** series account must also be recorded in the project ledger through use of a capital asset project number (CYrDeptNum). The total expenditures recorded in the project ledger must agree to the total purchase price as reported on page one of the Capital Asset Addition Form. This report includes the budgeted amount for the project. If there is no budgeted amount, departments should review to determine if expenditures have been recorded to the proper account or if the expenditures were budgeted in a prior year. If expenditures should remain in an account with no budget, a note/explanation should be included. If necessary, departments should prepare any adjusting journal entries to reconcile project ledgers to the general ledger.

- Board Authority for Asset Purchase – Either included in the Adopted Budget or Budget Amendment is preferable. However, a project ledger report that includes the budgeted amount is acceptable.

- Interdepartmental charges incurred prior to the in-service date with a cost greater than $200 should be capitalized and must be recorded to the general ledger via journal entry. A copy of the journal entry should be included in the supporting documentation.

- Relevant communication such as e-mail, letter, or memos.

Attachment C – Capital Asset Addition Form

Note: A fillable PDF version of this form is available on the Auditor-Controller's Intranet webpage.

COUNTY OF SUTTER

AUDITOR CONTROLLER SUTTER COUNTY, CALIFORNIA

Capital Asset Addition Form

NATHAN M. BLACK, CPA

AUDITOR-CONTROLLER

Description (30 characters or less) ____________________

Line Item Number ________

Fund ________

Dept ________

Warrant Number(s) ____________________

(Attach general ledger reconciliation)

ID

Purchase Price ____________ In Service Date ____________

General Info

Make ____________ Model ____________

Other ____________ Serial Number/VIN ____________

Vehicle Info

Make ____________ Model ____________

Year ____________ Serial Number/VIN ____________

License ____________ Vehicle Number ____________

Land Info ____________

Parcel ____________ Acres ____________

Depreciation ____________

Budget Unit ____________ Percentage ____________

Budget Unit ____________ Percentage ____________

Budget Unit ____________ Percentage ____________

Budget Unit ____________ Percentage ____________

Location

Building ____________ Room Name ____________

Address Line 1 ____________

Address Line 2 ____________

City ____________ State ____________

Zip ____________

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Warranty

Warranty #		Start Date	
Type		Terms	
Vendor		Contact	
Address Line 1		Phone Number	
Address Line 2			
City		State	
Zip			

Insurance

Policy Number		Start date	
Vendor		Contact	
Address Line 1		Phone Number	
Address Line 2			
City		State	
Zip			

Funding Source

Federal Amount	
State Amount	
Local Amount	
Other Amount	
Total	

*****IF GRANT FUNDED ATTACH DISPOSITION REQUIREMENTS*****

Signature ______________________ Date ______________________
Department Head

Print Name ______________________

Capital Asset Information Form to be submitted with supporting documentation to the Auditor-Controller's Office prior to June 30.

Auditor-Controller Use:

Asset ID		**Reviewed By**	Initials / Date
Primary			
Secondary		**Excel**	Initials / Date
Tertiary			
Link ID		**OneSolution**	Initials / Date
Tag No			

Attachment D – Capital Asset Deletion Form Instructions

When a capital asset has been disposed of, a Capital Asset Deletion Form along with supporting documentation must be submitted to the Auditor Controller's (AC) office. This documentation is used as the basis for removing a capital asset from the county's accounting system (One Solution).

Disposition of a capital asset can be effected through several means such as junked/scrapped, sold, or other (e.g. donation). When any of these occur for a capital asset, General Services completes a Capital Asset Deletion Form and submits to the AC office. Departments should prepare a Capital Asset Transfer Form and transfer the asset to General Services; who will then prepare the deletion form and forward to the AC office.

Supporting documentation for each capital asset disposition should include the following:

- For an asset that is sold, include the following:
    - Receipt, memo, etc. from the purchaser.
    - County deposit permit to show the proceeds from the sale were deposited with the county.
    - General ledger support to show the proceeds were deposited to the department's revenue account.
    - Page from the current capital asset listing showing the asset.
    - Current trial balance of the fund to document current capital asset balances.

- For an asset that is junked/scrapped, include relevant documentation available such as:
    - If proceeds were received, include the receipt, memo, etc. from the purchaser and the County deposit permit to show the proceeds from the sale were deposited with the county.
    - General ledger support to show the proceeds were deposited to the department's revenue account
    - If payment was required, provide the receipt for the payment.
    - Include the page from the current capital asset listing showing the asset.
    - Current trial balance of the fund to document current capital asset balances.

- Dispositions other than sale or junk/scrap, include relevant documentation available such as:.
    - If the asset was donated, provide a letter/e-mail of acceptance/thanks from a representative of the donee organization.
    - Sutter County board resolution approving the donation.
    - Page from the current capital asset listing showing the asset.
    - Current trial balance of the fund to document current capital asset balances.

- Relevant communication such as e-mail, letter, or memos.

Attachment E – Capital Asset Deletion Form

Note: A fillable PDF version of this form is available on the Auditor-Controller's Intranet webpage.

COUNTY OF SUTTER

NATHAN M. BLACK, CPA
AUDITOR-CONTROLLER

Capital Asset Deletion Form

Prepared By ______________ **Date Prepared** ______________

General Information

Asset ID	______	Acquisition Date	______
Description	______	Acquisition Cost	______
Serial or VIN #	______	Vehicle #	______
Year/Make/Model	______	License #	______
Est. Fair Market Value	______	In-Service Date	______

Method of Disposition

☐ Junk/Scrap ☐ Sold/Auction ☐ Donation ☐ Lost/Missing/Unable to Locate ☐ Other (explain in notes)

Notes:

____

____

____

Disposing Department

Department Name	______	Dept. #	______
Proceeds ($)	______	Fund	______
Deposit Number	______	Deposit Date	______
Purchasing Agent		Deposit Acct #	______
Signature	______	Date Signed	______
Print Name	______		

If the asset is grant funded, provide disposition requirements:

____

____

Auditor-Controller Use:

Link ID	______	Reviewed By	______ Initials Date
Function	______		
Depreciation	______	Excel	______ Initials Date
	______		
	______	OneSolution	______ Initials Date
	______		

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Attachment F – Capital Asset Transfer Form Instructions

County departments can transfer capital assets from one to another. For a transfer to be processed, a Capital Asset Transfer Form and supporting documentation must be completed and submitted to the AC office. After processing, the AC office will update the capital asset inventory listing to show the asset now belongs to the new department.

The form provides a means of tracking the physical custody of and responsibility for, the capital asset until its final disposition from the county. A transfer form is completed under the following circumstances:

- Department A transfers an asset to Department B for continued use in the county. On the form, Department A signs off in the "Transferring Department" section while Department B signs off in the "Receiving Department" section. Department B ensures all necessary supporting documentation is attached to the form and submits the package to the AC office.

- Department A transfers an asset to General Services for final disposition. On the form, Department A signs off in the "Transferring Department" section while General Services signs off in the "Receiving Department" section. The transferring department should include the information listed below along with the form upon submission to General Services, who will then forward a copy of the package to the AC office.

Supporting documentation for capital asset transfers should include the following:

- Current Capital Asset Inventory Listing that includes the capital asset being transferred.

- Relevant communication such as e-mail, letter, or memos.

- Documentation to support the estimated fair market value of the transferred asset. See section 2.11 for further detail.

Attachment G – Capital Asset Transfer Form

Note: A fillable PDF version of this form is available on the Auditor-Controller's Intranet webpage.

COUNTY OF SUTTER

AUDITOR CONTROLLER SUTTER COUNTY, CALIFORNIA

Capital Asset Transfer Form

NATHAN M. BLACK, CPA

AUDITOR-CONTROLLER

Prepared By ______________ Date Prepared ______________

General Information

Asset ID ______________ Acqusition Date ______________

Description ______________ Acqusition Cost ______________

Serial or VIN # ______________ Vehicle # ______________

Year/Make/Model ______________ License # ______________

Est. Fair Market Value ______________ In-Service Date ______________

Transferring Department

Department Name ______________ Dept. # ______________

Authorized Fund ______________

Signature ______________ Date ______________

Print Name ______________

If the asset is grant funded, provide disposition requirements:

____

____

____

Receiving Department

Department Name ______________ Dept. # ______________

Authorized Fund ______________

Signature ______________ Date ______________

Print Name ______________

Auditor-Controller Use:

Link ID ______________ Reviewed By ______________

Initials Date

Function ______________

Depredation ______________ Excel ______________

Initials Date

OneSolution ______________

Initials Date

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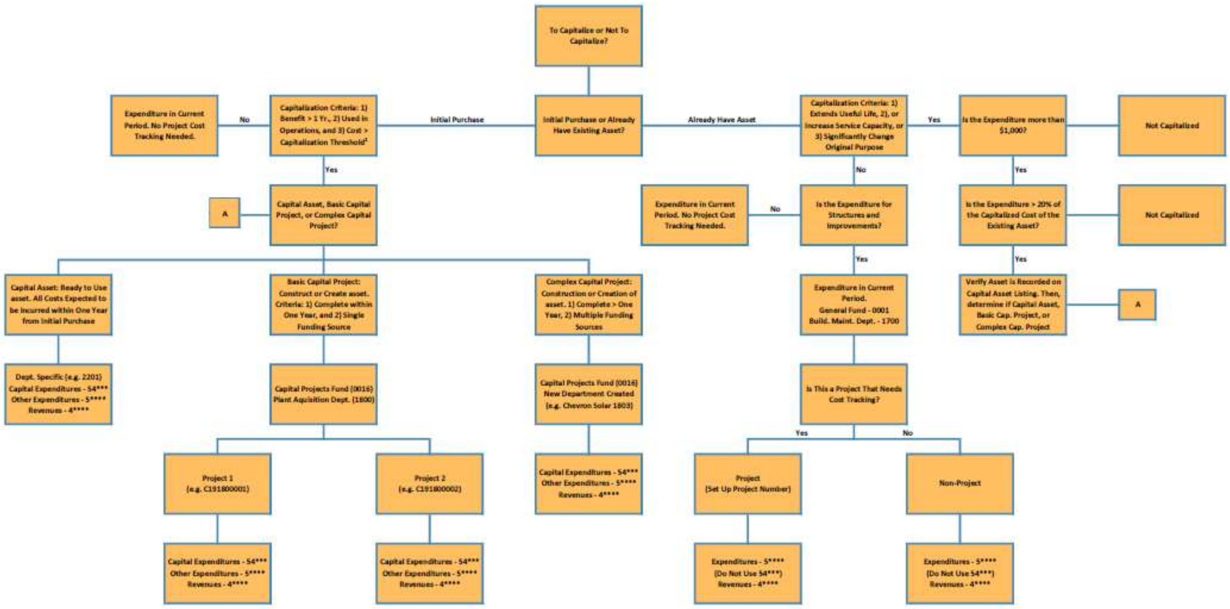
Attachment H – Capitalization Flowchart



1. See Table 1 for capitalizaton thresholds by asset class.

For higher resolution image, double click the below.

Attachment H - Capitalization Flowc