County of Monterey

Capital Asset Policy

Office of the Auditor-Controller

168 W. Alisal Street

Salinas, California

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Capital Asset Policy

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GENERAL INFORMATION

Introduction

The County of Monterey's policies for the acquisition, valuation, and disposition of capital assets are contained within this document. These policies are designed to aid County departments, offices, and institutions under the control of the Board of Supervisors by clarifying the County's definition of capital assets. Relevant State Government Codes and Accounting Standards are incorporated within the policies. Proper capital asset accounting provides the County with the data necessary to:

1. Prepare financial reports.
2. Safeguard sizable investments.
3. Identify custodial responsibility.
4. Assist with risk management/insurance activities.
5. Formulate future acquisition and retirement policies.
6. Recover costs from Federal and State programs or fee reimbursement programs.

Auditor-Controller Responsibility

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 departments, offices, and institutions under the control of the board of supervisors… ". Accordingly, the Auditor-Controller is responsible for establishing the County of Monterey's Capital Asset Policy. The Auditor-Controller will make revisions to the Policy as required by law, generally accepted accounting principles, or practical necessity. Final determination for definitions, valuations, and proper accounting entries required to record capital asset transactions rests with the Auditor-Controller. The Auditor-Controller shall maintain a capital asset system to be used for a significant portion of the County's capital assets. Alternate internal systems in use by Enterprise Funds and Internal Service Funds must provide sufficient data to support financial reporting purposes. The Auditor-Controller may verify the integrity of capital asset records by conducting periodic physical inventories of capital assets and make any necessary adjustments to the capital asset system and financial records.

Departmental Responsibility

California Government Code §24051 states that "…each county officer or person in charge of any office, department, service, or institution of the county, …shall file with the county clerk, or with the county auditor, according to the procedure prescribed by the board, an inventory under oath, showing in detail all county property in his possession or in his charge…". This inventory is required to be completed by July 10th for each fiscal year ended June 30th. To facilitate the fulfillment of the requirements of this section and in order to prepare accurate financial reports, each department shall appoint a representative to work with the Auditor-Controller's Office and Contracts/Purchasing to maintain accurate and up-to-date capital asset accounting records. County Departments are also responsible for safeguarding assets that are not defined as capital assets by the Policy Guidelines.

Overview

Capital assets are broadly defined as financial resources that are tangible or intangible in nature and have a useful life greater than one year. Examples of capital asset categories are Land, Land Improvements, Buildings, Building Improvements, Infrastructure, and Equipment. The County's Capital Asset Policy defines capital assets under each classification, addresses useful life ranges, sets minimum capitalization thresholds, and gives examples of costs to include in the value of the capital asset. Additionally, the policy discusses the treatment of unique items such as Computer Software, Capital Leases, Self-Constructed Assets, Works of Art, Donated Assets, Construction in Progress, Costs incurred Subsequent to Acquisition, and Transfers of Assets between Funds.

Capital assets are to be accounted for at historical cost, or if cost is not practically determinable, at estimated fair market value at the time acquired or placed into service. Generally, cost includes all expenses associated with the acquisition, construction, and installation of a capital asset. If appropriate, salvage/residual values should be determined prior to recording an asset.

If the funding source of an asset is a grant, or the asset is acquired by gift or donation, the source or donor should be identified. If multiple funding sources apply, all sources should be identified. For historical assets, if the funding source cannot be determined, the asset shall be recorded under the general fund.

Summary of Capitalization Thresholds

Although the service life of certain buildings, improvements, and equipment, may extend beyond one year, the County has established minimum capitalization thresholds for administrative purposes. All purchases below the applicable class threshold are to be expensed in the current period.

Class	Capitalization Threshold
Land	$ 0
Land Improvements	$ 100,000
Buildings	$ 100,000
Building Improvements	$ 100,000
Infrastructure: Pavement Bridges All Other	$ 100,000 $ 100,000 $ 100,000
Equipment, Furniture, & Vehicles	$ 5,000
Intangible Assets	$ 5,000
Capital Leases	$ 5,000
Leasehold Improvements	$ 100,000
Works of Art / Historical Treasures	$ 0
Construction in Progress for Year End Reporting	Projects expected to exceed $ 100,000 at completion

Useful Life Ranges

Useful lives are determined by suggested useful life tables and professional judgment, since similar capital assets may have different useful lives depending on how and where they are used. Questions about the useful life of a specific asset should be decided upon jointly by department personnel and the Auditor-Controller's Office. Items that have useful lives of less than one (1) year are not to be capitalized.

Budgetary Control

Assets are categorized, budgeted, and reported by account code. Annually, the Board of Supervisors considers capital asset acquisitions as part of the budget process. Each asset represented in a capital account budget total should be individually identified with estimated cost for possible Budget Analyst review. Capital assets may be added or changed during the budget year, but each asset must be presented to the Board for approval.

Capital Accounts

Land

Buildings and Improvements

Infrastructure

Construction in Progress (for multi-year projects)

Other Assets
- Works of Art
- Intangibles
- Vehicles
- Equipment
- Capital Leases

ACQUISITION OF CAPITAL ASSETS

Land and Land Improvements

Definitions: *Land* includes all investments in real property other than structures and land improvements.

Land Improvements are non-building assets that enhance the quality or facilitate the use of land. Examples of depreciable land improvements include parking lots, driveways, sidewalks, retaining walls, fencing, outdoor lighting, landscaping, irrigation systems, recreation areas, athletic fields and courts, and fountains. Land improvements such as fill, grading, and excavation that provide permanent benefits and incur limited deterioration with use or the passage of time are to be classified with land as non-depreciable.

Capitalization: All Land is to be capitalized. Land Improvements valued at or over $100,000 will be capitalized.

Valuation: The cost of land includes all expenditures in connection with acquisition and preparation for use such as, but not limited to:

Purchase Price	Appraisal and negotiation fees
Title search and filing/recording fees	Relocation costs

Costs of consents	Clearing, filling, and grading land for use
Condemnation costs	Demolishing or removing structures
Surveying fees	Hazardous waste clean-up

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

In the case of land and buildings acquired as a single parcel, the value of the land and buildings should be determined individually and recorded separately into their respective capital accounts.

Infrastructure Land: Land acquired for infrastructure projects shall be capitalized in the Land capital account rather than the Infrastructure capital account.

Buildings and Building Improvements

Definitions: *Buildings* are structures that are physical property of a permanent nature that enclose people, equipment, services, or functions. Buildings may include major high cost components such as boilers, elevators, HVAC systems, and roofs. If practical, these components should be recorded separately in the capital asset system to simplify future replacement transactions and because their useful lives can differ from buildings.

Building Improvements are additions or improvements to buildings that increase the value or extend the useful life of a building. Refer to "Treatment of Costs Subsequent to Acquisition" section of this document for more specific information. Examples include replacing major building components, structural additions to a building, major energy conservation projects, installation of upgraded plumbing or electrical systems, and major renovations of exterior structural deterioration.

***Capitalization*:** Buildings and Building Improvements valued at or over $100,000 will be capitalized.

***Valuation*:** The cost of Buildings and Building Improvements includes all expenditures in connection with acquisition or construction, such as:

Purchase price or construction costs	Fixtures attached to the structure
Filing and other closing costs	Inspections and tests
Architects' fees	Payment of damages
Cost of permits and licenses	Accident or injury costs
Insurance during construction	

The cost shall be reduced for:

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

For Proprietary Funds only, the actual or imputed interest costs associated with the construction period shall be capitalized in accordance with Financial Accounting Standards Board (FASB) Statement No. 34, FASB Statement No. 62, and supplemental updates.

Infrastructure

Definition: Infrastructure is categorized as community service assets that are long-lived, generally stationary in nature, and normally preserved for a significantly greater number of years than most capital assets. Examples are pavements, curbs, gutters, and sidewalks associated with roadways, bridges, sewer systems, water distribution systems, and water drainage systems.

Expansions and Improvements to infrastructure are those capital outlays that increase the asset's capacity or level of service, such as adding lanes to a road.

***Capitalization*:** Infrastructure and infrastructure improvements valued at or over $100,000 will be capitalized. Refer to "Treatment of Costs Subsequent to Acquisition" section of this document for more specific information.

Valuation: The cost of Infrastructure includes the purchase price, contract prices, internal costs (see Self-Constructed Assets paragraph), and any other expenditures necessary to put the infrastructure into its intended state of operation. Refer to the Buildings paragraph for examples of costs to include.

Land purchased for infrastructure projects shall be capitalized into the Land account.

Infrastructure acquired from developers or private associations which have been 'Accepted into the County Maintained System' by the Board of Supervisors must have a value determined for capitalization review. 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 capital account at fair market value as of the date of acceptance.

Preservation costs that significantly extend the useful life of an asset beyond its original estimated useful life, but do not increase the capacity of the asset, are generally capitalized. Examples are seismic retrofitting bridges and reconstructing, recycling, or overlaying pavement.

Maintenance costs allow an infrastructure asset to continue to operate at its intended level of service during its originally established useful life and are not to be capitalized.

Equipment

***Definition*:** Equipment includes physical moveable personal property such as machines, tools, furniture, vehicles, aircraft, mobile home/office trailers, and computer servers. Equipment does not include major systems integrated into a building or structure such as elevators, boilers, roofs, or HVAC. Software capital assets are managed within the Equipment capital account (see Computer Software paragraph).

Capitalization: Individual units valued at or over $5,000 and a useful life of over one (1) year.

The group method for capitalization may apply in limited circumstances for equipment. Grouping includes a number of different units purchased at the same time whose defined purpose is to work in conjunction with one another, their independent operation is not feasible, and replacement of which is intended as a whole. Purchase of multiple identical units (e.g. 4 printers @ $1,850 ea.) rarely represents valid grouping. Examples of valid grouping are:

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

Valuation: The cost of equipment includes all costs necessary to acquire and place the equipment into service, such as:

Purchase or construction price, less discounts	Installation Costs
Freight or other carriage charges	Initial operational training
Sale, use, or transportation taxes	

The cost of new equipment should not be reduced by the value of trade-ins. Trade-ins shall be retired from the capital asset and financial systems, and any resultant gain or loss for the asset being traded-in should be recognized on its disposition for Proprietary Funds.

Intangible Assets

Definition: Intangible assets are defined as financial assets that lack physical substance. Common examples of intangible assets are easements, rights-of-way, and computer software.

Software Capitalization: An individual software application or license purchased for County use shall be capitalized if it is valued at or over $5,000 and its useful life will be greater than one (1) year.

Software Valuation: Software purchased as a component of a system designed to work exclusively with specific hardware shall be capitalized with the hardware using the group method and the $5,000 threshold as noted in the equipment paragraph above. Computer software developed or obtained for internal use shall follow the capital asset guidance provided in the AICPA SOP 98-1. Vendor modifications, such as patches and version upgrades, used to keep software in a usable state as opposed to adding significant new capabilities, should be charged as maintenance expense.

Capital Leases

A capital lease is a lease that transfers substantially all the benefits and risks of ownership of property to the County at the end of the lease term. Leases which meet one of the four requirements listed below, as defined by Financial Accounting Standards Board (FASB) Statement 13, are considered capital leases and shall be accounted for as a capital asset if the cost of the property exceeds its class's capitalization threshold.

1. The lease transfers ownership of the property to the lessee by the end of the lease term.
2. The lease contains a bargain purchase option.
3. The lease term equals 75% or more of the estimated economic useful life of the leased property.
4. The present value of the minimum lease payments exceeds 90% or more of the fair market value of the lease property at the date of the lease agreement.

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

For Proprietary Funds only, the actual or imputed interest costs associated with capital leases shall also be capitalized in accordance with FASB Statement No. 34, FASB Statement No. 62, and supplemental updates.

Self-Constructed Assets

Capital assets constructed by County personnel are recorded in the same manner as those acquired by purchase or construction contract. Capitalization thresholds continue to apply.

Costs are initially charged to the accounts of the cost center performing the construction and are then transferred to the capital asset account. These costs include direct labor, materials, equipment usage and overhead. Overhead is limited to those items, such as worker's compensation and employee group insurance premiums, retirement, sick leave, and vacation allowances, which can be distributed on the basis of direct labor. Administrative overhead outside the cost center may be capitalized when clearly related to the construction.

Leasehold Improvements

Leasehold Improvements are improvements to buildings or structures that the County leases to be used during the term of that lease. Leasehold improvements are permanent in nature in that they involve physical modifications to a leased property. As such, moveable equipment or office furniture that is not attached to the leased property is not considered a leasehold improvement. Leasehold improvements do not have a residual value as they revert to the lessor at the expiration of the lease.

Leasehold improvements are capitalized by the lessee and are amortized over the shorter of (1) the remaining lease term, or (2) the useful life of the improvement. Improvements made in lieu of rent shall not be capitalized. If the lease contains an option to renew and the likelihood of renewal is uncertain, the leasehold improvement should be written off over the life of the initial lease term or useful life of the improvement, whichever is shorter.

Eminent Domain

The value of a capital asset obtained through eminent domain shall include all direct costs included in reaching a settlement with the seller.

Works of Art and Historical Treasures

Works of Art and County Historical Treasures shall be capitalized and recorded at historical cost. Works of Art and Historical Treasures that are inexhaustible should not be depreciated.

Donated Assets

Capital assets that are donated to the County are to be recorded at their fair market value as of the date of acceptance by the Board of Supervisors plus any ancillary costs necessary to place those assets into service. The department receiving the donation is responsible for obtaining and providing written information required to create a Capital Asset record. Surplus property purchased at nominal prices far below actual value are in part a donation and shall be valued at the estimated fair market value at the time of acquisition.

ADDITIONAL CAPITAL ASSET ISSUES

Treatment of Costs Subsequent to Acquisition

Major expenditures that increase future benefits from an existing capital asset beyond its previously assessed standard of performance shall be capitalized. After a capital asset has been placed into service, subsequent expenditures are capitalized if they meet the asset's class threshold and:

1. Extend the estimated life or increase the value of the asset as per established thresholds defined in this document, or
2. Increase the future service potential, (capacity, or efficiency) of the asset, or
3. Are for a new major fixture of a building (e.g. elevator, boiler, HVAC, roof), or
4. For depreciated roads, the 'base' has been impacted by a recycle, reconstruction, or overlay.

The determination as to whether expenditures meet any of these factors shall be made by an evaluation of engineering design, physical condition, cost, and other relevant factors.

Alteration or Remodeling of buildings. Costs to change the physical structure or arrangement of capital assets that do not extend the building's useful life shall not be capitalized.

Maintenance is defined as expenditures, which neither materially add to the value of property nor prolong its life, but merely maintains its original level of service or condition. Maintenance costs shall not be capitalized.

Construction in Progress

Construction in Progress includes new construction or improvements to land, buildings, or infrastructure that have not been physically completed or have not had all project costs processed by fiscal year-end and the final cost of which is expected to exceed $100,000. Construction in Progress expenditures shall be reported to the Auditor-Controller's General Accounting Division at the end of each fiscal year as the sum of the expenditures to date by project, to be classified under Construction in Progress account.

Depreciation

Depreciation is the process of allocating the cost of depreciable capital assets over a period of time, rather than incurring the entire cost as an expense in the year of acquisition. This process recognizes an asset's periodic cost of use and declining usefulness over time. Land, certain land improvements, and certain works of art and historical treasures are inexhaustible and are therefore not depreciated.

As a matter of policy, the County has elected to adopt the straight-line method of depreciation. Unless clear evidence indicating that the expected consumption of an asset will be significantly greater in the early portions than in the later portions of its useful life, the straight line method of depreciation shall be applied as follows:

(Asset Cost – Residual Value) / Estimated Useful Life in Years = Annual Depreciation Expense

Residual value is the amount that can be anticipated to be recovered when the asset is no longer useful for its intended purpose. Useful life should approximate the time an asset will provide service to the County.

Capital assets that become fully depreciated and are still in use must remain in the financial capital accounts and identified within a capital asset system until they are disposed of.

Asset Dispositions, Transfers, and Sales

Surplus items are those that are no longer required by the asset's custodial department. These assets may be traded in for new assets, transferred to other departments, or transferred to Purchasing for classification as surplus and for subsequent redistribution to other departments, sale, or disposal. Any sale, transfer, donation, disposal, or dismantling of a capital asset must receive approval from the County Purchasing Manager.

All transfers and sales require an update in the capital asset system. This includes transfers and sales between funds, transfers between departments, and site location changes. In addition to a capital asset system update, a financial transaction is necessary for the transfer or sale between funds. A *transfer* would remove the asset from the giving fund and record it in the receiving fund at the *original acquisition cost* with *depreciation incurred to date.* A *sale* would remove the asset from the giving fund and record it in the receiving fund at the *agreed upon amount*.

Stolen or missing assets must be reported to the County Purchasing Manager immediately.