

## Sample Capital Asset Policy

### *SAMPLE COUNTY, TENNESSEE* *Capital Assets Policies and Procedures*

The purpose of this policy is to provide guidelines for the departments of Sample County regarding capital asset reporting in the financial statements in accordance with Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statement-and Management's Discussion and Analysis-for State and Local Governments*, and establishes management control and continuing accountability for all capital assets, over capitalization thresholds, acquired by county departments.

Capitalization of capital assets includes land, buildings and improvements, roads and bridges, machinery and equipment, and construction-in-progress. The asset amounts represented in the county's financial statements should be documented by an inventory listing supported with detailed records for the historical or estimated historical cost of each asset.

#### ADMINISTRATIVE POLICIES

- A. Fiscal Responsibility.
  1. County Commission:
    - a. Determine and approve policies for capital asset management.
    - b. Review findings and recommendations related to internal audits conducted by inventory control personnel or external audits conducted by the state/IPA firm.
    - c. Ensure any identified deficiencies or noncompliance with policies are addressed and corrected.
  2. Capital Asset Management:

The office of capital asset management is under the direction of the county mayor's office, which provides fiscal procedure. Capital asset management operates with respect to the responsibilities of the county mayor, as fiscal agent of the county, and the county highway department. A full cooperative effort of all parties allows the capital asset management department to maintain records in accordance with adopted capital asset policies. Areas of responsibility are outlined below:

    - a. Maintain a computer database inventory of all county-owned assets that exceed capitalization thresholds assets. Copies of documentation for the actual historical or estimated historical cost of each capitalized asset will be maintained in a separate file as long as each individual asset is actively on the books.
    - b. Works with county officials and other departments to identify newly purchased or donated assets. Tags all movable assets over capitalization thresholds and inputs all relative information into the inventory control computer system.
    - c. Removes asset tags upon retirement of assets from computer records upon proper notification by appropriate departments.
    - d. Receives copy of and reviews annual inventory of all departments to determine that capitalized assets are being properly accounted.
    - e. Randomly audits annual inventory listings of county departments to ensure that departments are complying with adopted capital asset policies.
    - f. Reports to county mayor all instances of noncompliance with capital asset policies and procedures.
    - g. Updates inventory of capital assets tracked on capital asset software and generates all reports needed to prepare external financial statements.
    - h. Works with management and external auditors on all issues concerning capital asset reporting in order to comply with GASB Statement 34.

3. Administrative Officials:

Administrative officials (county officials, supervisors, etc.) are responsible for the custody and maintenance of all assets purchased for or assigned to their office. Their responsibilities include, but are not limited to, the following points:

- a. Report the theft or loss of property, immediately, to capital asset management by telephone, to be followed in writing to the county mayor and capital asset management department. A police report should be obtained on all losses suspected of being stolen.
- b. Report to capital asset management in writing any assets deemed to be surplus and unneeded by the department so that proper transfer or disposal can proceed.
- c. Any acquisition, transfer to another county department, or disposal of assets by administrative officials shall be documented in writing to the capital asset management department.
- d. Allow capital asset management access to all records and inventory necessary to aid in the determining of proper disclosure of capital assets for reporting purposes.
- e. Designate person(s) for the custody and control of departmental property (departmental property coordinator). The name of this person shall be submitted to capital asset management for direct communication purposes.
- f. All county officials/departments are required to prepare and maintain an annual inventory of all assets assigned to their respective department. A second inventory listing of only assets with cost basis that are over the capitalization threshold for financial reporting should be prepared and submitted to the capital asset management department. All county officials/department heads are responsible for the inventories of their respective department/office.

4. Departmental Property Coordinator (each county office/department):

- a. Prepare and maintain an updated (at least annually) listing for all capital assets accountable to the office.
- b. Maintain a second inventory listing of only assets with a cost basis that is over the capitalization threshold for financial reporting. This inventory report should be prepared and submitted to the capital asset management department on an annual basis.
- c. Notify, on a timely basis, capital asset management of new asset acquisitions not currently tagged and any item that has been declared surplus/destroyed/missing.
- d. Reconcile and report differences between annual capital asset inventory and actual physical inventory to inventory control and county official/department head.

B. Assets:

Assets over capitalization thresholds will be identified through various sources including county department inventories, accounting records, bond issue documents, county commission minutes, the current county road list, building and content insurance records, and data from the county's register of deeds and tax assessor's office. All capitalized assets will be inventoried on capital asset software that will be maintained by the capital asset management department.

Recording Land – Land will be capitalized but not depreciated. It is recorded at historical or estimated historical cost and remains at that cost until disposal.

1. Recording Land Improvements –

- a. Non-exhaustible – Expenditures for improvements that do not require maintenance or replacement are capitalized but not depreciated.

- b. Exhaustible – Other improvements that are part of a site, such as parking lots, landscaping, and fencing, are depreciable. During initial implementation of GASB Statement 34, these improvements will be recorded separately to the extent that cost documentation is available.
2. Recording Buildings – Buildings will be recorded at either their acquisition cost or construction cost. Each building component (e.g., roof, HVAC systems, etc.) should be recorded separately when significant because of the difference in the useful life of these components. During initial implementation of GASB Statement 34, these components will be recorded separately to the extent that cost documentation is available.
3. Recording Building Improvements – Building improvements that extend the useful life of a building and meet the capitalization threshold will be capitalized. During initial implementation of GASB Statement 34, these improvements will be recorded separately to the extent that cost documentation is available.
4. Recording Construction-in-progress – Construction-in-progress will be capitalized and not depreciated.
5. Recording Vehicles – Vehicles will be identified by asset tags, inventoried and depreciated.
6. Recording Furniture and Equipment – Assets such as furniture, machinery, and equipment should be identified and inventoried. If they meet the threshold levels, they will be capitalized and depreciated.
7. Interest on Debt Issued – Interest on debt issued for the construction of an asset will be capitalized as part of the asset's cost to the extent of the interest that was incurred during the construction period only.

C. Costs:

Capital assets shall be recorded at historical cost if the cost is reasonably determinable. If historical cost data is not determinable, an estimated cost will be used.

1. Actual Cost – This will include not only the purchase or construction cost (which can be obtained through invoice, purchase order, and paid check files) but also charges necessary to place the asset in its intended location. This includes costs such as freight and transportation, site preparation expenditures, interest costs, professional fees, and legal claims directly attributable to asset acquisition.
2. Estimated Cost – This will be based on as much documentary evidence as can be found to support the cost, such as interviews with personnel and/or price level adjustments based on the Consumer Price Index for each asset.
3. Donated Cost – These assets will be based on their estimated fair market value at time of acquisition. A determination as to the fair market value basis will be included with property records.

D. Depreciation:

Depreciation is a method for allocating the cost of buildings and equipment over their useful lives. Generally accepted accounting principles dictate that the value of the capital asset must be written off as an expense over the useful life of the asset as an indirect cost. Annual depreciation expense will be calculated using the straight-line method. The county will utilize the full-month averaging convention. By using the full-month averaging convention, property placed in service at any time during a given month is treated as if it was placed in service at the first day of that month, regardless of the actual day of the month acquired. Likewise, when the asset is disposed of, the actual date of disposal is disregarded and the disposal date is the end of the month prior to the month of disposal (i.e. no depreciation is taken for the month of disposal). The salvage value of an asset is an estimate made by management of what the value of an asset will be at the end of its useful life. Using the assumption that Sample County tends to utilize capital assets until they are literally worthless, a salvage value of zero (0) will be assigned to all capital assets and infrastructure to help decrease the cost of record keeping.

E. Dollar Value and Life Expectancy Tests:  
Individual assets (other than infrastructure and land) with an actual or estimated historical cost of \$10,000 or more and with a life expectancy of three years will be included in the capital asset records. Items under this dollar value will not be presented in the financial statements. All infrastructure that has an actual or estimated historical cost of \$25,000 or greater will be capitalized. All land that has an actual or estimated historical cost of \$1.00 or greater will be capitalized. While authoritative pronouncements do not require it, management will consider the grouping of large purchases of assets that individually do not meet capitalization thresholds (personal computers, library book collections, desks, etc.) if management deems the total cost of the group of assets is material in relation to the total assets of the county.

F. Asset Reduction:  
Assets no longer owned by or in the possession of the county shall be removed from the capital asset records.

1. Sold and/or Retired – These assets will be removed from the capital asset records upon formal notification from the responsible party of such disposition. Departments should be cautious about retiring assets still depreciating on books. This will result in the department having to write off a loss in the year the asset was retired.
2. Transferred Assets – Assets that are transferred to proprietary (business-type) funds will be accounted for separately from the governmental activities of the county and will be removed from the capital asset records (in relation to governmental activities) upon transfer to a proprietary fund (i.e. the asset will be accounted for in the proprietary fund).
3. Missing – Assets not seen for two consecutive annual inventories will be classified as missing and will be removed from the capital asset records upon formal notification to inventory control. These assets no longer will be searched for in regular annual inventories. However, if an asset is located at some time in the future, it will be reactivated in the system. A list of missing assets by departments should be presented to the county commission on an annual basis.

G. Surplus Equipment:  
1. Existing county policy regarding the sale/disposal of surplus equipment will continue to be followed. A complete accounting of the assets and any proceeds must be reported back to the capital asset management department so that these items can be removed from the system.  
2. A list of surplus equipment removed from capital asset records will be presented to the full county commission on at least an annual basis.

H. Infrastructure

GASB Statement 34 requires counties to capitalize and report county-owned infrastructure at historical or estimated historical cost. The GASB defines infrastructure as long-lived capital assets associated with governmental activities that normally are stationary in nature and can be preserved for a significantly greater number of years than most capital assets. The county will initially capitalize its infrastructure by the following method:

1. County-owned Roads:  
Sample County will retroactively report roads at actual or estimated historical cost back to:
  - July 1, 1980, or,
  - The last time the road was upgraded on or after July 1, 1980, (gravel to oil-and-chip, etc.) or,
  - The last time the road was replaced or resurfaced in a way that it extended the original useful life of the road (i.e. not considered routine maintenance) on or after July 1, 1980.

2. Bridges:
 

Sample County will retroactively report bridges at actual or estimated historical cost back to:

  - July 1, 1980, or,
  - The last time the bridge was upgraded (wood to concrete, etc.), if this date was on or after July 1, 1980.
  - Major renovations on or after July 1, 1980, that were not considered routine repairs that extended the original useful life of the bridge, will be capitalized.
  
3. Right-of-ways and Other Easements:
 

Right-of-ways and other easement rights that the county did not incur a cost for will not be capitalized. If the easements were actually paid for by the county, it should be capitalized by actual or estimated historical cost.

**Capitalization Thresholds**

A. Capitalization and Depreciation:

The following items will be capitalized and depreciated for GASB Statement 34 reporting purposes:

1.	Land	\$ 1	(Capitalize Only)
2.	Land Improvements	\$ 10,000	
3.	Buildings	\$ 10,000	
4.	Building Improvements	\$ 10,000	
5.	Roads and Bridges	\$ 25,000	
6.	Vehicles	\$ 10,000	
7.	Machinery and Equipment *	\$ 10,000	
8.	Furniture and Fixtures *	\$ 10,000	
9.	Construction in Progress	\$ 1	(Capitalize Only)

Capital Assets of Local Governments  
Suggested Useful Lives

<u>Asset Type</u>	<u>Examples</u>	<u>Depreciable Life in Years</u>
<u>Non-Infrastructure</u>		
Furniture, office equipment	Desks, tables, chairs, file cabinets	5
Computer Hardware	Monitors, CPU, printer	5
Telephone Equipment		10
Motor Vehicles		
Cars and light trucks		5
Buses	School	8-10
Fire trucks		15
Buildings – Temporary		
Buildings	T-buildings, other portables	25
		40
HVAC Systems	Air-conditioners, heating, ventilation systems	20
Roofing		20
Carpet Replacement		7
Electrical/Plumbing		30
Kitchen Equipment	Appliances	12
Heavy Construction Equipment	Backhoes, trucks, dozers, front-end loaders, etc.	5-10
Engineering, Scientific Equipment	Lab equipment	10
Firefighting Equipment	Ladders, hoses	10
Police Special Equipment		10
Medical Equipment		5
Traffic Control Equipment	Stoplights	10
Radio, Communication Equipment	Mobile, portable radios	10
Recreational/Athletic Equipment	Weight machines, mats, golf carts, treadmills, tackling sled, pitching machines, etc.	10
Library Books	Collections	5-7
Artwork	Collections	5-7
Outdoor Equipment	Playground equipment, scoreboards, bleachers, radio towers	20
Custodial Equipment	Floor scrubbers, vacuums, other	12
Grounds Equipment	Mowers, tractors and attachments	15
Land Improvements – structure	Parking lots, sidewalks, bus ramp, fencing, running track, flagpole	20
Land Improvements – ground work	Golf course, ball field, park landscaping	30
Landfill Disposal Systems		25
Land		no depreciation
Sewage treatment plants		25
<u>Infrastructure</u>		
Easements (if actually deeded to county)		no depreciation
Drainage Systems		25
Water Systems		25
Sewage Disposal Works Systems		25
Waterway		
Levees and Canals (unlined)		no depreciation
Canal Lining		30
Dams		
Concrete		50
Steel, Sheetpile		30
Earthen Embankment		no depreciation
Roads		
Hot Mix		40
Oil & Chip		40
Gravel		50
Bridges		
Wood		20
Concrete (Box)		40

**SAMPLE COUNTY, TENNESSEE  
PERSONAL PROPERTY ACQUISITION/DISPOSITION RECORD**

LOCATION \_\_\_\_\_ TAG # \_\_\_\_\_

ACCOUNT CODE \_\_\_\_\_

ITEM DESCRIPTION \_\_\_\_\_

VENDOR \_\_\_\_\_

MAKE/MODEL \_\_\_\_\_ SERIAL # \_\_\_\_\_

PURCHASE PRICE \$ \_\_\_\_\_ OR APPRAISED VALUE \$ \_\_\_\_\_

**ACQUISITION**

DATE RECEIVED \_\_\_\_\_ PURCHASE ORDER # \_\_\_\_\_

RECEIVED BY \_\_\_\_\_ CONDITION CODE \_\_\_\_\_

TRANSFERRED FROM \_\_\_\_\_ STATUS CODE \_\_\_\_\_  
STATUS CODE (U=IN USE; R=HELD IN RESERVE; S=IN STORAGE)

DONATED BY \_\_\_\_\_

**DISPOSITION**

\_\_\_\_\_ TRANSFER \_\_\_\_\_ STOLEN/LOST \_\_\_\_\_ SURPLUS \_\_\_\_\_ SCRAP

OTHER \_\_\_\_\_

TRANSFERRED TO \_\_\_\_\_

I certify the above described equipment has been transferred, stolen/lost, declared surplus, scrapped, or disposed of by other means as indicated above. If the item was declared surplus, it is available for use by other county offices or can be sold in the prescribed manner as surplus. If stolen, a stolen property report has been **filed with the police/sheriff's department.**

\_\_\_\_\_  
SIGNATURE DEPT HEAD                      DATE