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| Policy No. | FCA-FR-CAP ASSETS |
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| Written/Revised By | Robert Caldwell |

**Approved by: Franklin County Auditor**

# POLICY

## Subject: Capital Assets

## I. Purpose

To maintain sufficient information about the capital assets of the Franklin County financial reporting entity to permit the preparation of the financial statements in conformity with generally accepted accounting principles (GAAP).

## II. Roles/Responsibilities

The Auditor's Office establishes policy for the recording, classification, depreciation, and reporting of capital assets in the County's financial statements.

## III. Policies

### A. Criteria/Capitalization Thresholds

Capital assets can be tangible or intangible, and must meet the following criteria:

1. The item is used in operations and has a useful life that extends beyond one year.
2. The cost or fair value is meets or exceeds the amounts listed below.

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| Land, including easements | All, regardless of cost |
| Land improvements | $ 15,000 |
| Buildings | $ 15,000 |
| Building improvements | $ 100,000 |
| Machinery and equipment | $ 15,000 |
| Vehicles | $ 15,000 |
| Infrastructure | $ 100,000 (beginning in calendar year 2009) |
| * Federal grant purchases | $ 5,000 |

### B. Classification

1. **Land**: Real property, which generally includes both the surface and contents of the land. Rights to land may include full ownership, rights of passage and air rights. Includes land currently in public use, being held for public use or available for sale. Land purchased for the purpose of building infrastructure is included in this classification.

2. **Buildings**: Structures erected above or below the ground for the purpose of sheltering persons or property.

3. **Improvements other than buildings**: Improvements not attached or mounted in or on a building, such as parking lots, fences, underground storage tanks, park developments, outdoor lighting, and statues.

4. **Infrastructure**: Roads, bridges, drainage systems, streetlights, water and sewer systems.

5. **Machinery and equipment**: Personal property that is not attached to land, buildings, or improvements and remains moveable. Examples are vehicles, EDP equipment and office machines.

6. **Construction/projects in progress**: Expenditures accumulated to the balance sheet date relative to the construction of capital assets. Expenditures include construction costs, contractor payments, interest costs incurred applicable to the period of construction, and other costs required to finish the project.

7. **Intangible assets**: Assets that have value, but no physical being, such as software, including software as a service subscription and right to use leased assets.

## C. Valuation

Capital assets shall be valued at historical cost or, if that amount is not practicably determinable, at estimated historical cost. Sources of historical cost can include invoices, canceled checks, contracts, accounting records, real estate closing documents, tax records, appraisals, and back-trend multipliers (consumer price indexes). Donated capital assets are recorded at their fair market value as of the date received.

Inclusions to cost shall be analyzed during the valuation process to ensure the capital asset is recorded at the appropriate amount. Costs to be included in the amount capitalized are as follows (by asset classification):

1. **Land**: The cost shall include the original purchase price and related costs such as liens assumed, legal and title fees, appraisal fees and site preparation, including demolition of existing building, filling, grading and other costs of preparation. In general, all expenditures made to acquire land to ready it for its intended purpose shall be considered as part of the land cost. Any proceeds obtained in the process of getting the land ready for its intended use, such as salvage receipts from the demolition of old buildings, shall be treated as reductions in the price of the land.

2. **Buildings and improvements**: The cost of buildings shall include all expenditures related directly to their acquisition or construction. Costs include purchase price or construction fees, contractor payments, in-house labor, professional fees of architects, attorneys, appraisers, financial advisors, building permits, damage claims, interest and insurance, purchase costs and permanent fixtures. Generally, all costs incurred from excavation to completion of the building are capitalized.

3. **Infrastructure**: Assets in existence prior to December 31, 2000, have been valued at estimated historical cost. Assets acquired after that date, including construction in progress at December 31, 2000, have been capitalized using actual cost. Infrastructure components that are capitalized include land and right of way purchases, land improvements, architectural and engineering design, installation of traffic signals, construction contracts, and relocation of utilities.

4. **Machinery and equipment**: The cost of machinery and equipment includes the purchase price, freight and handling charges, insurance on the equipment while in transit, cost of special foundations if required, assembling and installation costs, and costs of conducting trial runs. Cost thus includes all expenditures incurred in acquisition and preparing it for use, plus the market value of any trade-ins or exchanges. Some office machinery is leased from outside firms. For lease agreements with monthly payments in excess of $1,250 per month or $15,000 annually, a determination will be made as to whether the item should be recorded as an asset purchased through financed purchase arrangement, a right-to-use asset or treated as a current period expense.

5. **Construction/projects in progress**: Construction and other projects in progress is used to account for cumulative costs incurred up to the balance sheet date relative to the construction of capital assets. Projects are recorded as separate assets when complete. The County views a project as complete when all payments have been issued, except for retainage, and the asset is in active use.

6. **Intangible assets**: The value of software includes external direct costs of materials and services consumed in developing or obtaining the software, and payroll-related costs devoted directly to the project, if developed internally. The asset value for software as a service and right to use assets are equal to the liability computed from the present value of payments for the software or the leased asset. The asset value of the right to use asset may also include payments made to the lessor at or before commencement of the lease, plus the liability amount for the right to use asset. The asset value of software as a service may also include payments made at the commencement of the subscription term, the initial implementation costs and incentives, plus the liability amount for the subscription.

## D. Costs subsequent to acquisition

Additions, improvements, and replacements that increase the future service potential, functionality, or prolong the useful life of a capital asset shall be capitalized. Normal maintenance and repairs that do not add to the value of the asset nor materially extend the asset's life shall be recorded as expenditures/expenses, and not capitalized. Items such as HVAC and roof replacements will generally be considered repairs.

A significant, unexpected decline in the service utility of a material capital asset shall be recorded in the financial statements as a loss from impairment.

## E. Unit group accountability

Individual treatment shall be given to all assets, whenever feasible and practical.

Consideration will be given to grouping assets, based on judgment, in situations where the asset cost or value individually does not meet capitalization criteria, but does so when grouped and/or in cases where the assets are only capable of being used together, are connected, and are not intended to be dislocated or used individually. Standard descriptions shall be used wherever possible to maintain consistency and indicate the comparability among assets.

## F. Depreciation and amortization

Capital assets shall be depreciated over their estimated useful lives unless they are either inexhaustible or are infrastructure assets using the modified approach as set forth in GASB Statement 34. Inexhaustible assets, such as land and land improvements, shall not be depreciated. Depreciation expense shall be reported in the government-wide statement of activities and the proprietary fund statement of revenues, expenses, and changes in net position. Depreciation will begin in the month of purchase. Assets with a value of over $1,000,000, and all infrastructure purchases, will have a ten percent (10%) salvage value.

Depreciation and amortization are computed on a straight-line basis over the useful lives per Attachment A.

## G. Records retention

The County's Schedule of Records Retention and Disposal does not specifically identify capital asset records. However, workpapers for the preparation of the Annual Comprehensive Financial Report (ACFR) are to be retained for four years post audit. Included in those workpapers is a cumulative schedule of capital assets. Invoices for the purchases of capital assets will follow the retention period set for invoices paid on county warrants.

## H. Tagging

Capital assets will be tagged with a Franklin County identification tag. The primary purpose of a tagging system is to maintain a positive identification of assets owned by Franklin County. Effective tagging results in:

1. Providing an accurate method of identify assets;
2. Facilitating the inventory process on a periodic basis;
3. Controlling the location of all physical assets; and
4. Providing a common ground of communication for both the County Auditor and the asset users.

For most agencies, assets are tagged after invoice payment. An employee of the County Auditor's Office will schedule a mutually convenient time to tag assets.

## I. Removal from database

A Fixed Asset Transfer Form should be used to inform the County Auditor's office of an assets transfer, disposal, or move to surplus. Once the County Auditor's office has been informed of an asset's disposal or move to surplus, it will be removed from the capital asset database. As infrastructure is annexed to other local jurisdictions, the effective date will be considered January 1 of the year that it is transferred.

# IV. Attachments

A. Estimated Useful Lives
B. Fixed Asset Transfer Form