



# 2017 COLLIN COUNTY CAPITALIZATION POLICY



# Introduction

The Capital Asset Policy is intended to establish policies so reporting requirements can be met for capital assets, infrastructure assets, and depreciation of assets. Reporting requirements are established by the Governmental Accounting Standards Board (GASB). Included in this policy are asset category definitions, capitalization thresholds, depreciation methodologies, and examples of acquisitions for each asset class. Additionally, guidelines for construction in progress have been included.

The County Auditor in conjunction with the County Purchasing Agent may develop written procedures to clarify and implement this policy. The County Auditor has the authority to interpret this policy.

## I. Capital Asset Definitions and Guidelines

Capital assets are real or personal property that have a value equal to or greater than the capitalization threshold for the particular classification of the asset and have an estimated useful life of greater than one year.

The county has invested in a broad range of capital assets used in the county's operations, including:

- Land and land improvements
- Historical treasures
- Buildings
- Improvements other than buildings
- Machinery and equipment
- Infrastructure
- Construction in progress

### Capital Asset Classification

Assets purchased, constructed, or donated that meet or exceed the established capitalization thresholds as set by this policy must be uniformly classified, utilizing the county defined account code structure. Included in the account code structure are codes that can be used to accurately define the components of buildings or other assets as required by GASB.

Each asset class contains an estimated useful life value (expressed in years). The values are based upon historical state or federal data for each asset class. Collin County will follow the appropriate accounting standards for establishing the historical cost for each asset.

### Capitalization Thresholds

Standard capitalization thresholds for capitalizing assets have been established for each major asset class. Any asset received by the county that exceeds the following thresholds must be treated as capital assets.

<b>Asset Classes</b>	<b>Threshold</b>
Land	Capitalize All
Historical Treasures/Works of Art	\$5,000
Buildings	\$50,000
Improvements other than Buildings	\$50,000
Machinery and Equipment	\$5,000
Purchased Software	\$25,000
Software developed for internal use	\$100,000
Infrastructure	\$200,000

If a grant agreement requires an asset to be accounted for as a capital asset and does not meet the thresholds above, then that asset must be accounted for as a capital asset.

### **Capital Asset Acquisition Cost**

Capital assets should be recorded and reported in the capital asset ledger at historical cost. This includes the vendor's invoice (plus the value of any trade-in), ancillary charges such as freight and transportation charges, site preparation costs, professional fees, initial installation costs (excluding in-house labor), modifications, attachments, accessories, and apparatus necessary to make the asset usable and render it in service.

### **Capital Asset Donations**

GASB Statement No. 33, *Accounting and Financial Reporting for Non-Exchange Transactions*, defines a donation as a voluntary non-exchange transaction entered into willingly by two or more parties. Both parties may be governments or one party may be a non-governmental entity, including an individual.

The Commissioners Court must approve acceptance of all capital donations. Donated capital assets should be reported at their estimated fair value at the date of donation.

### **Depreciating Capital Assets**

Most capital assets are depreciated over their estimated useful lives. Land and land improvements as well as historical treasures and works of art have an indefinite useful life and are not depreciable.

The straight-line depreciation method (historical cost divided by useful life) will be used. The acquisition date will govern when an asset is placed in service, subject to the use of a full-month of depreciation for the first month (regardless of the date placed in service). An asset is considered placed in service on the date it became available for use and is being used for the purpose intended when purchased or constructed.

Depreciation data will be calculated and maintained by the County Auditor for each capital asset.

**High-Risk Equipment**

Each elected official or department head is responsible for identifying and accounting for non-expendable capital and non-capital equipment that tends to have a high risk of loss or theft. Procedures to account for these items should be established in each department that possesses high-risk equipment.

Examples of high-risk equipment are provided in Appendix B.

**Allocated Equipment**

Each elected official or department head is responsible for accounting for non-expendable capital or non-capital equipment that is provided to other departments, employees, volunteers, other governmental entities, or organizations for use that is of benefit to the County. Procedures or accounting for these items should be established in each department that allocates equipment.

**Annual Inventory**

In accordance with Section 262.011(i) of the Local Government Code, the County Purchasing Agent will conduct an annual inventory of all capital assets to be submitted to the County Auditor by July 1<sup>st</sup>. The County Auditor will carefully examine the inventory and make an accounting for all property purchased or previously inventoried and not appearing in the inventory.

## **II. Capital Asset Classes**

### **Land**

#### **Land Definition**

Land is the solid part of the earth's surface whether improved or unimproved, which can be used to support structures, and may be used to grow crops, grass, shrubs, and trees. Land is characterized as having an unlimited life (indefinite).

#### **Land Improvement Definition**

Land improvements consist of betterments, site preparation, and site improvements (other than buildings) that ready land for its intended use.

#### **Depreciation Methodology**

Land and land improvements are inexhaustible assets and do not depreciate.

#### **Capitalization Threshold**

All acquisitions of land and land improvements will be capitalized.

Examples of acquisitions to be capitalized as land and land improvements:

- Purchase price or fair market value at time of gift
- Commissions paid in purchasing land
- Professional fees (title searches, architect, legal, engineering, appraisal, surveying, environmental assessments, etc.)
- Land excavation, fill, grading, drainage
- Demolition of existing buildings and improvements (less salvage)
- Removal, relocation, or reconstruction of property of others (railroad, telephone, and power lines)
- Interest on mortgages accrued at date of purchase
- Accrued and unpaid taxes at date of purchase
- Other costs incurred in acquiring the land
- Water wells (includes initial cost for drilling, the pump, and its casing)
- Right-of-way

### **Buildings**

#### **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.

## **Depreciation Methodology**

The straight-line depreciation method (historical cost divided by useful life) will be used for buildings, improvements, and other components.

Buildings designated “historical” by the Texas Historical Commission will not be depreciated unless used in the operations of the county. However, any improvements not deemed “historical” by the Texas Historical Commission will be depreciated the same as any other improvement made to a building.

## **Capitalization Threshold**

The capitalization threshold for buildings is \$50,000.

Examples of acquisitions to be capitalized as buildings:

### **Purchased Buildings**

- Original purchase price
- Expenses for remodeling, reconditioning, or altering a purchased building to make it ready to use for the purpose for which it was acquired
- Environmental compliance (i.e., asbestos abatement)
- Professional fees (legal, architect, inspections, title searches, etc.)
- Payment of unpaid or accrued taxes on the building to date of purchase
- Other costs required to place or render the asset into operation

### **Constructed Buildings**

- Completed project costs
- Cost of excavation, grading, or filling of land *for a specific building*
- Expenses incurred for the preparation of plans, specifications, blueprints, etc.
- Cost of building permits
- Professional fees (architect, engineer, management fees for design, supervision, and legal)
- Costs of temporary buildings used during construction
- Unanticipated costs such as rock blasting, piling, or relocation of the channel of an underground stream
- Permanently attached fixtures or machinery that cannot be removed without impairing the use of the building
- Additions to buildings (expansions, extensions, or enlargements)

## **Building Improvement Definition**

Building improvements are capital events that materially extend the useful life or increase the value of a building. A building improvement should be capitalized as betterment and recorded as an addition of value to the existing building if the expenditure for the improvement is at the capitalization threshold, or the expenditure increases the life of the building. Determinations must be made on a case-by-case basis.

Examples of acquisitions to be capitalized as building improvements:

- Structures *attached* to the building such as covered patios, sunrooms, garages, carports, enclosed stairwells, etc.
- Other improvements may be reviewed on a case by case basis

### **Building Maintenance Expense**

The following are examples of acquisitions *not* capitalized as improvements to buildings. Instead, these items should be expensed at the time of acquisition.

- Conversion of attics, basements, etc., to usable office, clinic, or classroom space
- Adding, removing and/or moving of walls relating to renovation projects that are not considered major renovation projects and do not increase the value of the building
- Upgrade of wall, floor, 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
- Installation or upgrade of window or door frame, built-in closet or cabinets
- Interior renovation associated with casings, baseboards, light fixtures, ceiling trim, repainting, touch-up plastering, replacement of sink or fixtures, etc.
- Exterior renovation such as installation or replacement of siding, repainting, roofing, masonry, etc.
- Installation or upgrade of phone or closed circuit television systems, networks, fiber optic cable, or wiring required in the installation of equipment that will remain in the building
- Plumbing or electrical repairs
- Cleaning, pest extermination, or other periodic maintenance
- Interior decoration, such as draperies, blinds, curtain rods, or wallpaper
- Exterior decoration, such as detachable awnings, uncovered porches, decorative fences, etc.
- Replacement of a part or component of a building with a new part of the same type and performance capabilities, such as replacement of an old boiler with a new one of the same type and performance capabilities
- Upgrade of heating and cooling systems, including ceiling fans and vents
- Upgrade of plumbing and electrical wiring
- Purchase of maintenance-type equipment or supplies during the construction phase that would not be otherwise capitalized if purchased after the project is placed in service (i.e. handcuffs, mops, brooms, cleaning supplies, etc.)
- Any other maintenance-related expenditure which does not increase the value of the building

## **Improvements other than Buildings**

### **Improvements other than Buildings Definition**

Permanent Improvements other than buildings that add value to land, but do not have an indefinite useful life.

## **Depreciation Methodology**

The straight-line depreciation method (historical cost divided by useful life) will be used.

## **Capitalization Threshold**

The capitalization threshold for improvements other than buildings is \$50,000.

Examples of acquisitions to be capitalized as improvements other than buildings:

- Fencing and gates
- Retaining walls
- Parking lots/driveways/parking barriers
- Landscaping
- Outside sprinkler systems
- Recreation areas and athletic fields (including bleachers)
- Paths and trails
- Septic systems
- Fountains
- Plazas and pavilions

## **Infrastructure**

### **Infrastructure Definition**

Assets that are long-lived capital assets, are normally stationary in nature, and can be preserved for a significantly greater number of years than most capital assets.

### **Infrastructure Improvements**

Infrastructure improvements are capital events that materially extend the useful life or increase the value of the infrastructure. Infrastructure improvements are capitalized as betterment and recorded as an addition of value to the infrastructure if the improvement or addition of value is at the capitalization threshold or increases the life.

### **Jointly Funded Infrastructure**

Infrastructure paid for jointly by the county and other governmental entities should be capitalized by the entity responsible for future maintenance if there is no clear title to the asset.

### **Maintenance Costs**

Maintenance costs allow an asset to continue to be used during its originally established useful life. Maintenance costs are expensed in the period incurred.

## **Depreciation Methodology**

The straight-line depreciation method (historical cost divided by useful life) will be used for infrastructure assets.

## **Capitalization Threshold**

The capitalization threshold for infrastructure is \$200,000.

Examples of acquisitions to be capitalized as infrastructure:

- Streets, curbs, gutters, and sidewalks
- Bridges
- Ditches, waterways, docks, bulkheads, and boardwalks
- Dams, and drainage facility
- Transmitting tower

## **Machinery and Equipment**

### **Machinery and Equipment Definition**

Machinery and equipment is defined as tangible property other than land, buildings, or infrastructure used in the operations of the county, the benefits extend beyond one year from date of acquisition, and is rendered into service. Improvements or additions to existing machinery and equipment that constitute a capital outlay or increase the value or life of the asset should be capitalized as betterment and recorded as an addition of value to the existing asset.

### **Depreciation Methodology**

The straight-line depreciation method (historical cost divided by useful life) will be used for machinery and equipment.

### **Capitalization Threshold**

The capitalization threshold for machinery and equipment is \$5,000.

Examples of acquisitions to be capitalized as machinery and equipment:

- Original contract or invoice price
- Freight charges
- Import duties
- Handling and storage charges
- In-transit insurance charges
- Sales, use, and other taxes imposed on the acquisition
- Installation charges
- Charges for testing and preparation for use
- Costs of reconditioning used items when purchased
- Parts and labor associated with the construction of equipment

## **Computer Software**

### **Computer Software Definition**

Computer software is defined as the operating systems, programs, drivers, networking, or other internal instructions used to accumulate, report, or facilitate the financial, fiscal, operating, and maintenance requirements for information used by the county.

Purchased software – Computer software developed by a vendor not affiliated with the county and for which the product is generally sold and maintained by that vendor or an independent third party.

Developed software – Computer software that is designed, programmed, installed, and implemented by a contractor or county personnel to be used exclusively by the county and maintained internally.

### **Depreciation Methodology**

The straight-line depreciation method (historical cost divided by useful life) will be used for purchased and developed software.

### **Capitalization Threshold**

Purchased Software - The threshold for purchased software is \$25,000.

Developed Software - The threshold for software developed for internal use is \$100,000.

Examples of software acquisitions to be capitalized:

- External direct costs of materials and services (third party fees for services)
- Costs to obtain software from third parties
- Travel costs incurred by employees in their duties directly associated with development

## **Historical Treasures and Works of Art**

### **Historical Treasures and Works of Art Definition**

A building, structure, area, or property with recognized cultural, aesthetic, or historical value that is significant in the history, architecture, archeology, or culture of the county.

### **Depreciation Methodology**

Historical treasures and works of art are normally inexhaustible assets and do not depreciate over time.

### **Capitalization Threshold**

The capitalization threshold for historical treasures and works of art is \$5,000.

Examples of acquisitions to be capitalized as historical treasures and works of art:

- Works of art such as paintings, sculptures, statues, and memorials
- Artifacts, memorabilia, exhibits
- Unique or significant structures

## **Construction in Progress**

### **Construction in Progress Definition**

Construction in progress is capitalized costs related to a tangible capital asset that is not yet substantially ready to be placed in service.

**Depreciation Methodology**

Depreciation is not applicable while assets are accounted for as construction in progress. See appropriate capital asset category when asset is capitalized.

## APPENDIX A.

### Depreciable Life in Years

<b>Asset Classes</b>	<b>Life in Years</b>
Land	0
Historical Treasures/Works of Art	0
Buildings	30
Improvements other than Buildings	10 - 20
<b>Machinery and Equipment:</b>	
Computer Equipment	5
Heavy Machinery and Equipment	8 - 13
Law Enforcement Equipment	5 - 7
Office Equipment	7 - 10
Patrol Vehicles	1 - 2
Vehicles	5 - 7
<b>Infrastructure:</b>	
Infrastructure - Asphalt	7
Infrastructure - Bridge	25 - 30
Infrastructure - Concrete	12
Infrastructure - Radio Tower	20

## Appendix B.

### **Property Controlled But Not Capitalized (High Risk Equipment)**

High risk equipment controls are required to be established by each elected official or department head that is responsible for this equipment. The list below includes examples of high risk equipment.

<b>High Risk Equipment Examples:</b>
audio/video equipment, such as televisions or projectors
mobile devices
grounds equipment, such as mowers or trimmers
medical equipment, such as AEDs
power tools
weapons

If a single unit's acquisition cost is \$5,000 or greater, the item is reported as a capitalized item. Only capitalized items are included in Capital Assets. The elected official or department head is still responsible for securing and tracking all equipment provided by the county, regardless of whether or not an asset is capitalized.

## Appendix C.

### Terms

**Accumulated depreciation** – The portion of the cost of a tangible capital asset that has been recognized as depreciation expense.

**Acquisition costs** – Costs incurred to purchase, construct, or develop a capital asset.

**Betterment** – A popular term used to describe improvements, which add value to an existing capital asset either by lengthening its estimated useful life or increasing its service capacity.

**Book value** (aka carrying value) – The recorded value of a capital asset less accumulated depreciation.

**Capitalization threshold** – The dollar amount below which items are not capitalized because the benefits of capitalization would not exceed the costs.

**Depreciation** – The systematic and rational distribution of the cost of a tangible capital asset over its estimated useful life.

**Depreciation expense** – The portion of the cost of a tangible capital asset allocated to the current period.

**Fair value** – The amount that could reasonably be expected to result from a sale of a capital asset between a willing buyer and a willing seller.

**Historical cost** – The cost actually incurred to acquire a capital asset.

**Indefinite useful life** – A situation in which there is no foreseeable limit to the period over which a capital asset is expected to provide service capacity to the government.

**Straight-line** – A method of depreciation that allocates the cost of a capital asset equally over its estimated useful life.

**Tangible capital asset** – A capital asset with a physical form.

**Useful life** – The period during which a capital asset provides service.