APPENDIX 98

COUNTY OF YELLOW MEDICINE

Guide to Capital Assets

APPENDIX 98

Table of Contents

Introduction

The Yellow Medicine County Capital Asset Guide is based off the *State of Minnesota Guide to Local Government Capital Assets*. Therefore, if this guide does not give the information needed for handling any capital asset acquisition, disposals, or depreciation, please refer to the State guide. The State guide provides definitions for terms used, examples of journal entries for recording purchases, sales and/or trades of capital assets, and expands on the theory behind the policies set forth in this Capital Asset Guide.

Accounting personnel from the Road & Bridge Fund, Human Services Fund, and the Finance & Administration's office (for all other funds) will be responsible for tracking capital assets over the capital asset threshold (see Table III-I). Assets will be recorded in a computerized program which will not only track capital assets but will also calculate and accumulate depreciation and amortization.

Each fund will be responsible for recording capital assets purchased, transfers of capital assets between departments/funds, disposals, sales, and/or trade-ins of capital assets. Each fund will also be responsible for determining useful lives and salvage values of assets that are over the capital asset threshold (see Table III-I). In addition, each fund will review annually its capital asset records to determine a physical count of capital assets.

I. Information Needed for an Inventory Record

The County should ensure that there is an accurate, complete, and up-to-date record of capital assets. Department heads should report capital asset additions and deletions to the person maintaining the capital asset records at least annually.

The County should have an inventory of all capital assets over the capital asset threshold for tracking and inventory (see Table III-I). Each inventory record should include: description, year of acquisition, method of acquisition (e.g., purchase, donation, transfer etc.), funding source, original cost or estimated cost, salvage value, and estimated useful life and classification type. The inventory record will also need to identify the function(s)/activities and/or department(s) using the asset.

Physical Inventory

Annually each department head will receive a list of assets coded to their department. The list will be reviewed for missing items, items that are obsolete, or items transferred to other departments. Additions or deletions will be marked on the list. When the review is complete the person reviewing the list will sign and date it and return it to the Finance & Administration Office.

At least once every four years each department will do a physical count of their inventory over a cost of $5,000. The department head or designee will place a check mark next to each item on the list as it is physically counted. When completed, the list is dated, signed and filed in the Finance & Administration Office, Human Services Office, or Highway Department where it is retained for 5 years.

II. Recording Capital Assets

In general, capital assets should be recorded and reported at their historical costs, which includes the vendor's invoice (plus the value of any trade-in), sales tax, initial installation cost (excluding in-house labor), modifications, attachments, accessories, or apparatus necessary to make the asset usable and render it into service. Historical costs also include charges such as freight and transportation charges, site preparation costs, and professional fees. See Table II-I for examples of costs the county should capitalize as part of capital assets.

When the County cannot practicably determine the historical cost of a capital asset, appropriate methods should be used to determine and record estimated historical cost of the asset. Estimated historical costs should be so identified in the records and the basis of determination established in the responsible fund's records. The basis of valuation for capital assets constructed by County personnel should be the costs of material, direct labor, and overhead costs identifiable to the asset.

Capitalized Interest

Interest costs incurred during the period of construction of proprietary fund capital assets should be capitalized. The costs of capital assets for *governmental activities* do not include capitalized interest. The *State of Minnesota Guide to Local Government Capital Assets* will be referenced for information on capitalizing interest if the County has any proprietary funds.

Capital Asset Donations

Donated capital assets should be reported at fair value[1] at the time of acquisition plus freight and transportation charges, site preparation costs, and professional fees, if any. Refer to the *State of Minnesota Guide to Local Government Capital Assets* to determine the proper reporting of these donations.

Disposal of Capital Assets

If a capital asset no longer meets the needs of a particular fund/department, the following procedures will be followed except for disposal of computers. For computer disposal, the policies developed by the IT committee will be used.

- The asset may be traded-in on the purchase of a replacement asset.
- The asset may be transferred to another governmental fund/department within the County.
- The asset may be given to another governmental unit that is a subsidiary of the County (i.e. the YMC Museum).
- If an asset can not be used by another fund/department or unit, the asset may be sold to the general public (except for employees) if the asset has an estimated fair market value of under $300 and notice is posted on a public bulletin board in the building where the asset is located. The notice should state the asset is for sale by sealed bid and will be awarded to the person with the highest bid. It should also give the location and timeline for submitting a bid and when the bids will be opened and awarded. *NOTICE: An asset*

[1] Fair value is the amount at which an asset could be exchanged in a current transaction between willing parties.

may be sold to an employee only if at least one week's published notice is given and that employee is not directly involved in the process pertaining to the administration and collection of the sealed responses.

- The asset may be sold at public auction if the asset does not meet the needs of any other fund/department, and/or any other governmental unit that is a subsidiary of the County.
- If an asset is not in working condition and it would not be feasible to repair, the asset will be scrapped.

When an asset is disposed, it should be removed from the Capital Asset System.

Table II-I. Examples of Capital Asset Costs to be Capitalized

Type of Capital Assets	Examples
Land and Land Improvements	· **Purchase price or fair market value at time of gift** · **Commissions** · **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 (permanent)**
Other land improvements	· **Fencing and gates** · **Landscaping** · **Parking lots/driveways/parking barriers** · **Outside sprinkler systems** · **Recreation areas and athletic fields (including bleachers)** · **Paths and trails** · **Septic systems** · **Retaining walls**

Table II-I. Examples of Capital Asset Costs to be Capitalized

Type of Capital Assets	Examples
Infrastructure	· Highways and rest areas · Roads, streets, curbs, gutters, sidewalks, fire hydrants · Bridges, trestles · Canals, waterways, docks, bulkheads, boardwalks · Dam, drainage facility · Radio or television transmitting tower · Fiber optic and telephone distribution systems (between buildings) · Light system (traffic, outdoor, street, etc.) · Signage
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 (e.g., asbestos abatement) · Professional fees (legal, architect, inspections, title searches, etc.) · Payment of unpaid or accrued taxes on the building to date of purchase · Cancellation or buyout of existing leases · Other costs required to place or render the asset into operation
Constructed Buildings	· Completed project costs · Interest accrued during construction[2] · Cost of excavation or 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, 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)

[2] Interest is capitalized only on proprietary (business-type) fund capital assets.

Table II-I. Examples of Capital Asset Costs to be Capitalized

Type of Capital Assets	Examples
Equipment, machinery, vehicles, furniture	· **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**
Works of Art and Historical Treasures	· **Collection of rare books, manuscripts** · **Maps, documents and recordings** · **Works of art such as paintings, sculptures, and designs** · **Artifacts, memorabilia, exhibits** · **Unique or significant structures**
Capitalized Software	· **Computer software** · **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** · **Payroll and payroll-related costs of employees directly associated with or devoting time in coding, installing or testing** · **Interest costs incurred during the application development** · **Wetland Credits** · **License and Permits**

Improvements vs. Repairs/Maintenance

The County will need to analyze material expenditures incurred to determine if the tests are met for capitalization. County personnel should apply the following criteria to determine whether or not to capitalize.

The following guidance is to be used for capitalizing costs as improvements.

Capital asset improvement costs should be capitalized if:

1. The costs exceed the capitalization thresholds, and
2. One of the following criteria is met:
    a. The estimated life of the asset is extended by more than 25%, or

b. The cost results in an increase in the capacity of the asset, or

c. The efficiency of the asset is increased by more than 10%., OR

3. The first time a major change in a road has been resurfaced it would be considered an improvement and should be capitalized.

Otherwise, the cost should be recorded as a repair and maintenance expense within the appropriate expense function.

It is likely that any of the above parameters could be adjusted based on the professional judgment of a qualified individual making the decision of whether to capitalize or expense a given cost. The criteria is meant as a matter of policy and to be applied as guidance, not absolutes. For more help in this area refer to page 15 of the *Minnesota Guide to Local Government Capital Assets.*

The following are examples of expenditures *not* to capitalize as improvements to buildings. Instead, these items should be recorded as repairs and maintenance expense.

- Adding, removing and/or moving of 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
- Plumbing or electrical repairs
- Cleaning, pest extermination, or other periodic maintenance
- Interior decoration, such as draperies, blinds, curtain rods, wallpaper
- Exterior decoration, such as detachable awnings, uncovered porches, decorative fences, etc.
- Maintenance-type interior renovation, such as repainting, touch-up plastering, replacement of carpet, tile, or panel sections; sink and fixture refinishing, etc.
- Maintenance-type exterior renovation such as repainting, replacement of deteriorated siding, roof, or masonry sections
- 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
- Any other maintenance-related expenditure which does not increase the value of the building

Leased Equipment

Equipment should be capitalized if the lease agreement meets any one of the following criteria:

- ♦ The lease transfers ownership of the property to the lessee by the end of the lease term.
- ♦ The lease contains a bargain purchase option.
- ♦ The lease term is equal to 75 percent or more of the estimated economic life of the leased property.
- ♦ The present value of the minimum lease payments at the inception of the lease, excluding executory costs, equals at least 90 percent of the fair value of the leased property.

Leases that do not meet any of the above requirements should be recorded as operating leases and reported in the notes of the financial statements.

Capital-Related Debt

The County should capitalize assets purchased with debt proceeds. Capitalizing these assets would minimize the potential of negative net assets being reported in the S*tatement of Net Assets*.

Works of Art, Historical Treasures & Similar Assets

The County will capitalize this type of asset provided there is a reasonable way to devise a cost for it and the amount is significant.

Assets Transferred Between Funds or Departments

The date of acquisition, historical cost, previous accumulated depreciation, salvage value, useful life and any other inventory record information pertinent to the asset being transferred from one Fund/Department to another Fund/Department will be brought forward with the asset. Depreciation will continue on from that point until the asset is fully depreciated. A comment should be made on the individual asset record as to which Fund and/or Department is transferring the asset.

III. The Threshold Levels for Recording Capital Assets

Table III-I is the capitalization thresholds the County will use.

Table III-I Capitalization Thresholds

Capital Asset Type	Tracking and Inventory	Capitalize and Depreciate for Financial Reporting
Land	$1	Capitalize only
Land Improvements	$1	$5,000
Building and Building Improvements	$1	$5,000
Building Improvements	$1	$5,000
Construction in Progress	$1	Capitalize only
Machinery, Equipment, Vehicles, Software	$300	$5,000
Infrastructure	$5,000	$5,000

Exceptions

♦ Unique items which the County wants to track in inventory regardless of the cost (i.e.

weapons for sheriff's department).

- ♦ Groups/classes of assets in which individual asset items are less than the capitalization limit, but when all assets of that group are added together the dollar amount **far** exceeds the capitalization limit (i.e. phones in a complete phone system). The County should capitalize and depreciate groups/classes of capital assets if those assets have no individual values if separated from the group.

IV. Depreciation and Amortization

This section will provide guidance on which capital assets to depreciate or amortize, the method to use, how to calculate depreciation and amortization in the year of acquisition or year retired, and the information needed to calculate depreciation and amortization.

Determining Depreciable and/or Amortizable Capital Assets

Table IV-I identifies if the different types of capital assets would typically be depreciated.

Table IV-I **Type of Capital Asset**	**Depreciate/ Amortization?**	
	Yes	**No**
Land		**X**
Land improvements-inexhaustible		**X**
Land improvements-exhaustible	**X**	
Infrastructure and infrastructure improvements	**X**	
Buildings and building improvements	**X**	
Furniture, vehicles, equipment, machinery, software	**X**	
Works of art and historical treasures-exhaustible[3]	**X**	
Works of art and historical treasures-inexhaustible		**X**
Leasehold improvements	**X**	
Capital leased property	**X**	
Easements[4]	**X**	**X**

[3] The cost of capitalized works of art and historical treasures should be depreciated over the estimated useful lives unless the works of art and historical treasures are inexhaustible. An inexhaustible capital asset is one whose economic benefit or service potential is used up so slowly that its estimated useful life is extraordinarily long

[4] Easements that have a defined useful life could be depreciated.

Table IV-I Type of Capital Asset	Depreciate/ Amortization?	
	Yes	No
Construction in progress[5]		X

Information Needed to Calculate Depreciation or Amortization

To calculate depreciation or amortization on a capital asset, the following five factors must be known:

· the date the asset was placed in service

· the asset's cost or acquisition value

· the asset's salvage value

· the asset's estimated useful life, and

· the depreciation or amortization method.

Depreciation and/or Amortization Method

The County will use straight-line depreciation or amortization and the full-month convention.
Any depreciation or amortization expense not recognized prior to disposal of the asset will be recognized at disposal. The appropriate amount of gain is also recognized on disposal. The County Highway Department also calculates depreciation expense for cost and reimbursement purposes. This depreciation expense for costing purposes may not be identical to the depreciation expense for GASB 34 reporting purposes.

Salvage Value

At the end of the asset's estimated life, the salvage value will remain. Some types of capital assets are more likely to have salvage values, such as vehicles or construction equipment which tend to have trade-in values of three to ten percent of the historical cost. Salvage value should be determined by the County's own experience, information from state agencies such as the Department of Transportation, other professionals and/or other governmental entities.

V. Estimated Useful Life

Estimated useful life means the estimated number of months or years that an asset will be used for which it was purchased. The County's capital assets should be depreciated over their estimated useful lives and based on (1) Suggested Useful Lives Table V-I; (2) information from state agencies such as the Department of Transportation and other governmental entities; (3) the County's own experience; or (4) professionals such as engineers, architects, etc.

The County should consider these factors when determining the estimated useful life of an individual asset or class of capital assets.

[5] Construction in progress assets are not depreciated until the asset is placed into service for its intended purpose

a. **Present condition.** What is the current condition of the capital asset?
b. **Construction type.** What is the quality and expense of the construction type?
c. **Maintenance policy.** What is the entity's maintenance policy?
d. **Climatic conditions.** What effect does the local climate have on capital assets?

Table V-I Useful Lives

Capital Asset Type	Useful Life
Data Processing Equipment - Small Mainframe and Peripheral Equipment - LAN file servers, small mainframe computers, workstations, storage units, communication systems, software (developed and purchased), personal computers (PCs), printers, plotters, and other peripheral equipment that is an integral part of the data processing operation. *Small mainframe, peripheral equipment, and software will be revalued at 2-5 years. If it is expected to last another 3-10 years it will be determined whether an increase to estimated useful life will have a material effect to the financial statements. If it is determined to be material the estimated useful life will be adjusted. No second revaluation will be made.*	**3-10 years**
Data Processing Equipment - Large Mainframe – Large mainframe computers and other peripheral equipment as listed above. *Large mainframe equipment will be revalued at 2 years. If the equipment is expected to last another 4 years it will be determined whether an increase to estimated useful life will have a material effect to the financial statements. If it is determined to be material the estimated useful life will be adjusted. No second revaluation will be made..*	**3-4 years**
Data Processing Equipment - Special Systems - Air Conditioning systems, fire protection systems, raised flooring, special sound proofing, microwave towers, etc. should be recorded as Building Improvements unless these assets are removable. *Special systems will be revalued at 3-6 years. If the equipment is expected to last another 4-7 years it will be determined whether an increase to estimated useful life will have a material effect to the financial statements. If it is determined to be material the estimated useful life will be adjusted. No second revaluation will be made.*	**5-10 years**
Furniture and Equipment - Includes furniture and fixtures which are not a structural part of a building such as small office equipment, copiers, office furniture including desks and chairs, household, laundry and refrigeration equipment, educational and recreational equipment, fire fighting equipment, medical and lab equipment, agricultural and landscaping equipment, firearms, shop and plant equipment, and signs, signals and safety devices. *Furniture and equipment will be revalued at 3-9 years. If the equipment is expected to last another 4-9 years it will be determined whether an increase to estimated useful life will have a material effect to the financial statements. If it is determined to be material the estimated useful life will be adjusted. No second revaluation will be made.*	**5-15 years**

Automobiles - Passenger - All transportation vehicles other than trucks. *Squad cars will be revalued at 3 years and passenger cars will be revalued at 6 years. If the vehicle is expected to last another 4-7 years, respectively, it will be determined whether an increase to estimated useful life will have a material effect to the financial statements. If it is determined to be material the estimated useful life will be adjusted. No second revaluation will be made.*	**5-10 years**
Light General Purpose Trucks - Includes trucks with unloaded weight less than 13,000 pounds (pick-ups, vans). *Light general purpose trucks will be revalued at 4-6 years. If the vehicle is expected to last another 4-7 years it will be determined whether an increase to estimated useful life will have a material effect to the financial statements. If it is determined to be material the estimated useful life will be adjusted. No second revaluation will be made.*	**6-10 years**
Heavy General Purpose Trucks - Includes trucks with unloaded weight more than 13,000 pounds. The life of the vehicles is dependent upon actual use. Trucks for construction purposes will have a shorter life. Trucks used strictly for highway use should have a longer life. *Heavy general purpose trucks will be revalued at 3-6 years. If the vehicle is expected to last another 4-7 years it will be determined whether an increase to estimated useful life will have a material effect to the financial statements. If it is determined to be material the estimated useful life will be adjusted. No second revaluation will be made.*	**5-10 years**
Heavy Equipment - Includes forklifts, front loaders, graders, etc. *Heavy equipment will be revalued at 6-13 years. If the equipment is expected to last another 7-12 years it will be determined whether an increase to estimated useful life will have a material effect to the financial statements. If it is determined to be material the estimated useful life will be adjusted. No second revaluation will be made.*	**10-20 years**
Other Equipment & Small Buildings - Includes shop and plant equipment, construction and maintenance equipment, boats, trailers, sheds, etc. *Other equipment and small buildings will be revalued at 3-6 years. If they are expected to last another 4-7 years it will be determined whether an increase to estimated useful life will have a material effect to the financial statements. If it is determined to be material the estimated useful life will be adjusted. No second revaluation will be made.*	**5-10 years**
Office Buildings, Building Improvements, Warehouses, and Garages - New construction *New construction will be revalued at 25 years. If the building is expected to last another 25 years the building will be revalued. Anything beyond a 10 year increase to estimated useful life will become immaterial to the financial statements at that time, so, no second revaluation will be made.* Existing buildings and new building improvements	**15-40 years** **Up to 30 years more**

Collections - Works of Art, Historical Treasures, Monuments, Statues, etc., are not depreciated if the collection meets all of the following conditions: Held for public exhibition, education, or research in furtherance of public service rather than financial gain. Protected, kept unencumbered, cared for, and preserved. Subject to an organizational policy that requires the proceeds from sales of collection items to be used to acquire other items for collections. Year life for collections that should be depreciated will be evaluated on a case by case basis.	
Land Improvements Land Improvements consist of betterments, other than buildings, that ready land for its intended use. Includes site improvements such as excavation, fill, grading, and utility installation; removal, relocation, or reconstruction of existing property or property of others, such as railroads and telephone and power lines; retaining walls; parking lots; fencing; and landscaping. Land improvements that readies land for Infrastructure should be recorded as Infrastructure, not Land Improvements for example, excavation, fill and grading in preparation of a road bed is Infrastructure. Improvements that produce permanent benefits for example, fill and grading costs that ready land for the erection of structures and landscaping are not depreciable. Alternatively, improvements that are considered part of a structure or that deteriorate with use over the passage of time, such as parking lots and fencing, should be considered depreciable. *Land improvements will be revalued at 3-20 years. If the improvement is expected to last another 4-15 years it will be determined whether an increase to estimated useful life will have a material effect to the financial statements. If it is determined to be material the estimated useful life will be adjusted. No second revaluation will be made.*	**5-40 years**
Infrastructure - Infrastructure assets are long-lived capital assets that normally are stationary in nature and can be preserved for a significantly greater number of years than most capital assets. Includes roads, bridges, tunnels, drainage systems, water and sewer systems, dams, lighting systems, noise abatement walls, and ancillary buildings. *The County will follow MNDOT's recommendation for revaluing Infrastructure.*	**20-80 years**

VI. <u>Infrastructure Assets</u>

The County Infrastructure assets will be reported as a part of capital assets in the *Statement of Net Assets*. They will be reported at historical cost (if purchased or constructed) or estimated fair value (if donated) at the time of acquisition. In addition, all general infrastructure assets that were acquired after 1979 will be reported at historical cost (if purchased or constructed) or estimated fair value (if donated).

The first time a major change in a road has been resurfaced it would be considered an improvement and capitalized. The second time it is resurfaced it is considered a repair and expensed.

Roads and bridges are reported as a single value for each year for each road system. The five road "systems" used for summary and reporting will be CSAH Regular, CSAH Municipal, County Roads, Bridges, and Easements. Work in progress will be reported as part of the road system when the road and/or bridge is 95% paid for and drivable. Each road system will be entered into the capital asset system for inclusion in the current year's infrastructure asset values.

Easements or right-of-ways exist when the County holds some permanent property rights to land. Recorded easements or right-of-ways for GASB 34 purposes must meet the stated threshold and are not depreciated. Acquisition will be assumed to be at the same time that the resultant road or other asset was built.

Each year's improvements to infrastructure will be recorded as a new infrastructure asset, with its own value and life. No change will be made to the value or depreciation of the original asset unless it is completely destroyed or replaced in the improvement process.

VII. Financial Reporting Requirements

Reporting Depreciation and Amortization Expense in the Financial Statements

For general capital assets, depreciation and amortization are reported only on government-wide financial statements. Depreciation and amortization expense are reported within the *Statement of Activities*. Depreciation and amortization for assets specifically identified with specific functions are to be included in the direct expenses of those functions. Capital assets serving multiple functions will be reported within General Government.

Infrastructure depreciation is reported as a direct expense of the responsible Function – primarily the Highway Department. Each road system will begin depreciation January 1st of the year following entry in to the Capital Asset system.

Reporting Capital Assets in the Financial Statements

Capital assets (including infrastructure assets) that are being or have been depreciated or amortized will be reported net of accumulated depreciation on the face of the *Statement of Net Assets*. Capital assets that are not being depreciated, such as land, will be reported separately if the County has a significant amount of these assets. Intangible assets will be grouped with similar capital assets and reported as such.

Capital Assets of Proprietary Funds are reported within both the Proprietary Fund Statements and the Government Wide Statements.

Capital Assets of Fiduciary Funds are reported only in the Fiduciary Fund Statements. All other capital assets are considered General Capital Assets and are reported only in the Governmental Activities' portions of the Government Wide Statements.