

**Subject:** CAPITAL ASSETS

**Date:** Effective as of July 1, 2009

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**Replaces Policy Dated:** January 12, 1981, and subsequent revisions to date

**Purpose:**

The purpose of the Capital Asset Policy is to establish policies and procedures governing the capital asset activities for Elected Officials, Special Districts, and employees in Pinal County that will ensure consistent management of all capital asset activity. This policy is intended to accomplish the following:

- Safeguard the assets of the citizens of Pinal County.
- Assign responsibility for the custody of assets.
- Provide a basis for formulating capital asset acquisition and valuation, maintenance, and retirement processes.
- Ensure compliance with various accounting and financial reporting standards including generally accepted accounting principles (GAAP) and applicable State and Federal capital asset regulatory and reporting requirements related to property.

**Definitions:**

**Acquisition:** A newly acquired, constructed, donated or seized capital asset.

**Asset System:** Several different components that when separate are incomplete or not functional for the intended purpose, but when used together make up one complete asset. (i.e. a security system composed of cameras and sensors and central control equipment.)

**Capital Asset:** Assets of a relatively fixed or permanent nature owned by the County/Special District that have initial useful lives extending beyond a year, and meet the County's defined dollar threshold. This includes:

- equipment, machinery, and vehicles
- improvements other than buildings (i.e. fencing, parking lots)
- buildings
- all land parcels regardless of value, including easements and right-of-way.
- infrastructure assets, such as roads and bridges
- intangible assets, such as software.

Upgrades and/or enhancements of existing capital assets that extend the useful life or the functionality (effectiveness or efficiency) of that asset are also considered a capital asset.

**Construction in Progress:** Asset account that includes and tracks costs incurred to construct or develop a tangible or intangible asset before it is substantially ready to be placed into service.

**Department Head:** The Elected Official, Presiding Judge, Department Director or other Appointed Authority serving as the responsible party for conducting business on behalf of the County/Special District.

**Depreciation/Amortization:** The allocation of the cost of the property over its economic (useful) life.

**Depreciation Method:** The method used to allocate the cost of property over its economic (useful) life. Pinal County uses the straight line method.

**Disposal:** The process of eliminating an asset from the financial system due to sale, destruction, obsolescence, loss/theft, etc. This process is initiated by the owner department.

**Actual Cost (Historical Value):** The original cost of a capital asset. If the original cost of a capital asset is unavailable, the estimated fair market value is to be utilized.

**Infrastructure Assets:** Long-lived capital assets that normally are stationary in nature and normally can be preserved for a significantly greater number of years than most capital assets. Examples of infrastructure assets include roads, bridges, tunnels, drainage systems, water and sewer systems, dams, and lighting systems.

**Intangible Assets:** Assets that lack physical form, are identifiable, nonfinancial (i.e. not investments), and have an initial useful life that extends beyond one year. An asset is identifiable if the asset is separable or the asset arises from contractual or other legal rights. Examples of intangible assets include computer software, water rights, easements, and patents.

**Owner Department:** The department responsible for the safekeeping and tracking of a capital asset as indicated on the capital asset inventory.

**Sensitive Items:** Items that do not meet the capital asset dollar threshold and are not capitalized, but are still tracked due to the likelihood of their being lost or stolen. (Examples may include laptops, etc., as determined by the owner department)

**Salvage Value:** The estimated amount that can be realized from the disposition of a retired asset at the end of its estimated useful life. Salvage value for all County/Special District assets is zero.

**Special District:** Pinal County Flood Control District, Pinal County Library District, Public Health Service District, or other district that may be established in accordance with rules and regulations.

**Useful Life:** The time period, in years, over which a capital asset is expected to remain valuable to the County/Special District.

## **Responsibilities:**

### Department Heads:

- Safekeeping, tracking and management of capital assets procured, constructed, donated, transferred, or located within their respective department(s). Some or all of these responsibilities may be delegated or assigned to a person designated by the Department Head.
- Notify the Finance Department of the name of the individual(s) delegated or assigned any capital assets responsibilities.

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- Notify the Finance Department of any new capital asset acquired by either seizure or donation within their department and to ensure that all capital assets are properly tagged.
- Ensure that the Capital Asset Inventory is completed accurately and to review and certify the Capital Asset Inventory.
- Review and sign for all Capital Asset Disposition(s) and Transfers within their respective department(s) and ensure that the Finance Department receives a completed signed copy of the Capital Asset Change Report Form at the time of the event. See Appendix A. (Form is also available online at the Finance Department website.)
- Ensure that all capital assets assigned to employees are accounted for when that employee ends their employment with the county for any reason.
- Responsible to review all Capital Asset reports and policies distributed by the Finance Department.

### The Finance Department:

- Provide numbered asset tags.
- Provide a complete listing of capital assets on an annual basis, or upon request.
- Provide training and guidance to departmental staff regarding capital asset management.
- Maintain the financial system to ensure accurate and timely financial reporting.
- Maintain documents supporting the acquisition and disposal of capital assets.
- Review the Internal Audit Office compliance with the Capital Asset Policy

### Internal Audit

- Review the department/Special District compliance with the Capital Asset Policy.

## **Policy:**

### **A. Reporting**

- The Finance Department will utilize the financial and capital asset system and other supplementary information to capture and report the data associated with capital assets and expenditures.
- Public Works will be responsible for tracking and reporting all infrastructure capital asset activity including roads, bridges, rights of way, and easements.

### **B. Acquisitions**

- All assets to be capitalized and entered into the financial system by the Finance Department must be expended out of a capital asset object code. These accounts are intended for capital assets only. For further clarification of the specific capital asset object codes to utilize (i.e. 56xxx), please contact the Finance Department.

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- All Capital assets that are recorded into the on-line financial system must have a unique asset number assigned.
- Assets are capitalized on an individual basis or as a system.
- Constructed or purchased capital assets will be recorded at actual cost. Actual cost includes all charges necessary to place the item in its intended location and condition for use. Actual cost includes, but is not limited to, purchase price, taxes, freight, title search fees, and installation charges. Maintenance and repairs, and maintenance agreements, are not a part of actual cost and should not be capitalized.
- Any renovation or alteration to an existing asset, that costs less than the applicable threshold, shall be classified as maintenance and repairs and will not be capitalized. Asset renovations that do not increase the assets utility, or significantly extend the asset's useful life, but only return the asset to its normal operating condition, shall be classified as maintenance and repairs and will not be capitalized.
- The Board of Supervisors must approve and accept all donations via the agenda process. Donated and Forfeiture assets should be recorded at the estimated fair market value at the date of the gift or seizure. Each individual department/Special District is responsible to report all donations or forfeitures that are equal to or exceed the applicable capitalization level to the Finance Department. The department must submit a Capital Asset Change Report Form along with all other available documentation to ensure these assets are included in the capital asset system, tagged, and appropriately recorded in the financial records.
- Assets acquired with federal monies must be used and disposed of in accordance with program/grant requirements.
- The following capitalization thresholds (the dollar value above which assets are added to the capital asset accounts), depreciation methods and useful lives are utilized by the County/Special Districts:

	<b>Capitalization Threshold</b>	<b>Depreciation Method</b>	<b>Estimated Useful Life</b>
Land	All	N/A	N/A
Machinery & equipment	\$5,000	Straight line	3-21 years
Buildings & improvements	\$25,000	Straight line	10-40 years
Intangible assets	\$50,000	Straight line	10 or more years
Infrastructure	\$100,000	Straight line	20-50 years

Examples of asset categories:

Land includes tracts and parcels of land, rights-of-way and easements owned by the County or Special Districts.

Improvements other than buildings may include land improvements, leasehold improvements, retaining walls, fences, flagpoles, gateways, and surfacing recreation areas such as tennis courts.

Buildings should be recorded at actual cost when acquired. Building renovations and alterations should only be capitalized when they are not classified as maintenance and repairs. Any renovation or alteration to an existing building that costs less than \$25,000 shall be considered as maintenance and repairs rather than a capital asset. Equipment or renovations that do not add

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value to a building or extend its useful life will not be capitalized. Costs such as land acquisition and demolition are considered a cost of the land.

Intangible assets include software, water rights, mineral rights, copyrights, and patents. (Easements and rights-of-way will be reported under land as noted earlier.)

### C. Construction In Progress

Construction in Progress includes those projects that are not completed at fiscal year-end for construction of buildings, improvements, and other projects. The threshold limits for individual asset groups apply to each construction in progress project. This account represents a temporary classification of capitalized interest, labor, materials, equipment and overhead costs of a construction project. At year-end, if the project is not complete, the amount is recorded as Construction in Process (CIP) and reported in the financial statements. At the completion of a project, the amount is capitalized and an asset is entered into the capital asset system. Each department/Special District must inform the Finance Department of all construction in progress and completed projects to ensure they are included in the fixed asset system and accurately reported in the financial statements.

### D. Interdepartmental Transfers and Disposition of capital assets:

The Board of Supervisors acts in all matters pertaining to the disposition of capital assets and surplus materials.

- Transfers: Transfer of excess or surplus materials between Pinal County departments is the responsibility of the transferring department. The department transferring a capital asset to another department within the County organization shall fill out a Capital Asset Change Report Form. Authorized signatures are required from both the transferring department and the receiving department. The form should be sent to the Finance Department within fifteen (15) days of the occurrence.
- Trade-Ins: Before surplus materials are disposed of by trade-in to a vendor for credit on an acquisition, the Chief Financial Officer must approve such disposal (per Pinal County Procurement Code). A Capital Asset Change Report Form and an invoice showing a credit to the new asset that replaced the old asset should be submitted to the Finance Department upon completion of the transaction.
- Returns: The owner department shall submit a Capital Asset Change Report Form to the Finance Department accompanied by a credit invoice or other appropriate documentation from the vendor showing that the asset was returned within fifteen days of the occurrence.
- Lost, Stolen, or Destroyed: Lost, stolen, or destroyed assets will be investigated by the Department Head, the Risk Management Office and/or the appropriate law enforcement agency.

Stolen: Within thirty (30) days of date of loss, the department shall submit a Capital Asset Change Report Form, a Police Report, and where applicable an Insurance claim, to the Finance Department.

Destroyed or Lost: Within fifteen (15) days of the date of loss, the department shall submit a Capital Asset Change Report Form to the Finance Department. The report must be supported by a satisfactory explanation from the Department Head and where applicable accompanied by an insurance claim.

- Damaged or Obsolete: Before damaged or obsolete capital assets are salvaged/disposed, a Capital Asset Change Report Form must be submitted to the Finance Department.

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- Disposition: Disposition of capital assets will be arranged by the Finance Department in accordance with sale requirements prescribed in the Arizona Revised Statutes, or Federal Regulations, when applicable.

### **E. Property Control Procedures for Capital Assets**

- Inventories – A complete physical validation (inventory) of all capital assets will be taken by each department/Special District annually as directed by the Finance Department. The Finance Department or Internal Audit Office will, at their discretion, ensure that each department is accurately completing their inventories by doing random inventory inspections.
- In addition, a complete inventory of all capital assets will be taken anytime there is a change of Department Head or when there is a change in the person assigned capital asset responsibilities as may be designated by the Department Head.

### **F. Property Control Procedures for Sensitive Items that are not Capital Assets**

- Departments are responsible for all of the property in their possession. In order to safeguard equipment, it may be necessary that departments develop and maintain a Departmental Inventory Control List. It will be the responsibility of each department to determine which items they wish to control; however, the Information Technology Department (IT) will be primarily responsible for tracking IT equipment below the \$5,000 threshold. All departments should comply with the IT Standard Operating Procedures in regards to IT equipment. It is important that each department understands that IT will only be tracking this equipment, and responsibility for the safekeeping of the equipment rests with the owner department. Departmental Inventory Control lists should include those items that are considered “sensitive” or “high-theft” items but fall under the \$5,000 threshold. Internal Audit may, at their discretion, ensure that each department is effectively and accurately safeguarding and tracking their sensitive equipment.

### **G. Depreciation**

- All assets, with the exception of Construction in Progress and Land Assets shall be depreciated using the straight-line method with no allowance for salvage values.

# Appendix A

## Pinal County Capital Asset Change Report

Department: \_\_\_\_\_

Type Of Transaction:

Disposal: Salvaged  Trade-In  Returned  Sale   
(Check One) Lost  Stolen  Destroyed  Other

Transfer:  
Receiving Department: \_\_\_\_\_

Reason for Designated Action: \_\_\_\_\_

Tag Number	Description	Serial Number

Authorized Approval Signatures:

\_\_\_\_\_  
Originating Department (Signature) (Print) Date

\_\_\_\_\_  
Receiving Department (Signature) (Print) Date

\_\_\_\_\_  
Chief Financial Officer (Signature) Date  
Approval for Surplus Disposals or Trade-Ins

In order for the form to be valid, please ensure the following:

1. Authorizing department is clearly notated. (This is the department in current possession of the asset.)
2. If disposing of equipment, a disposal method is checked. (For example Returned, Trade-In, etc.)
3. If transferring an asset, the receiving department is clearly designated.
4. A brief explanation of the reason for the transfer or disposal is included. (i.e. broken, obsolete, etc.)
5. The tag number is noted along with a brief description of the asset. A serial number is included if available.
6. The form is approved and signed by someone in the originating department who is authorized to make fixed asset changes. If the form is for a transfer, an authorized signature from the receiving department is required as well.

When the change report is completely filled out, please return the form to the Finance Department. The CFO will review and approve all surplus disposals and trade-ins.