ATTACHEMENT 1

# BENTON COUNTY
# CAPITAL POLICIES AND PROCEDURES

Prepared by the Benton County Commissioners' Office
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SECTION I. PURPOSE

To prescribe a policy for the definition, appropriation, and accounting of capital outlays in order to comply with disclosure set by GAAP (Generally Accepted Accounting Principles).

SECTION II. DEFINITIONS

2.1 Revenue Expenditures/Supplies

The charge to an expense account is based on the assumption that the benefits from the expenditures will be used up in the current period. A purchase may benefit several periods, but have a relatively low cost. Such items are theoretically capital expenditures, but since their costs are immaterial, they are classified as revenue expenditures.

2.2 Capital Expenditures/Fixed Assets

Real and personal property intended to be held or used longer than one year. This includes land and land rights; improvements and infrastructure; buildings, their furnishings, fixtures, and furniture; equipment, machinery, vehicles, and tools.

2.3 Capital Versus Revenue Expenditures

Expenditures to improve the efficiency or extend the asset life should be capitalized and charged to future periods. Improvements in efficiency should be charged to the asset account, and improvements extending the asset life should be charged to the accumulated depreciation account. The rationale is that improvements extending the asset life will need to be depreciated over an extended period of time, requiring revision of the depreciation schedule.

2.4 Infrastructure

Infrastructure refers to roads, bridges, sidewalks, water lines, sewers, drainage systems, lighting systems, and similar assets that are immovable and of value only to the government unit.

## 2.5 Proprietary Funds

A proprietary fund is used to account for governmental activities that are similar to activities that may be performed by a commercial enterprise.

## 2.6 High-Risk

A description given to items which are relatively valuable, small, easily transportable and adaptable and have a higher susceptibility to theft and other loss.

## 2.7 Depreciation

The method by which the cost of an asset is allocated over the useful life of the asset therefore the cost is matched with the productive output over the asset's life.

## 2.8 Tangible Property

Any physical or substantive property, literally, anything which can be touched, which has an intrinsic value because of its substance, origin, license, copyright, patent, and etc.

## 2.9 Improvements

Property or equipment which is an integral part of a larger item of property or equipment, the addition of which either increases the cost or the useful life of the larger item.

## 2.10 Original Cost/Historical Cost

The total original amount paid to a vendor or supplier for the item purchased.

## 2.11 Inventory

Tangible property or goods held for sale or consumption concurrent with the normal activity of a business or enterprise.

# SECTION III. POLICY

## 3.1 Applicability

Capital outlay under this policy applies to the appropriation and expenditure of funds for capital assets, high-risk items, and improvements subject to the limits prescribed below. Capital leases will also be addressed in the following policies.

To qualify under capital outlay, the item must provide a predictable and tangible future benefit over a specified period of time.

For the purposes of this policy, capital outlay does not include inventory or infrastructure.

## 3.2 Budget

Capital outlay disbursements must be specifically appropriated in item and amount by the BOCC in the biennial budget process, or in a regular public hearing as an amendment to the biennial budget.

Substitutions of capital outlays for previously approved appropriations must be approved by the BOCC. Appropriations for capital outlay lapse at the end of each budget cycle, and must be specifically approved in the following year budget process.

## 3.3 Control

All disbursements for capital outlay shall be accounted for in accordance with the provisions of the most current State of Washington Budgeting, Accounting, and Reporting Systems (BARS) as prescribed by the State Auditor.

A serial number or parcel number will record all capital outlay expenditures in a separate fixed asset ledger.

The fixed asset ledger will be maintained by the Auditor's Accounting Department. Departments must notify the Auditor's Accounting Department each time a capital asset is acquired, transferred, sold, or otherwise modified.

At the beginning of each year, a physical inventory will be performed of all capital assets, improvements, and high-risk assets. The inventory will verify identifying characteristics, location, and condition.

The information contained in the fixed asset system will be compared to the physical inventory. Additions, deletions, and adjustments will be to the fixed assets control records as necessary. A summary of said additions, deletions, and adjustments will be provided to the BOCC.

3.4 Capital Leases

A lease agreement is classified as a capital lease when substantially all of the risks and benefits of ownership are assumed by the lessee. A capital lease is, for the most part, viewed as an installment purchase of property rather than the rental of property.

FASB-13 requires that a lease be capitalized if any one of the following four criteria is a characteristic of the lease transaction:

a. Transfer of ownership to the lessee by the end of the lease term.

b. A bargain purchase option is included in the lease. This is an option that allows the lessee, upon termination of the lease, to purchase the leased asset at a price significantly lower than the expected fair market value of the asset.

c. The lease term is equal to 75% or more of the estimated economic life of the leased asset.

d. The present value at the beginning of the lease term of minimum lease payments equals or exceeds 90% of the excess of the fair value of the leased property at the inception of the lease.

3.5 Depreciation

Except for lands and infrastructure, all capital assets with an original cost (per item) equal to or greater than $5,000 must be depreciated. Scrap value can be ignored in establishing the amount to depreciate, unless it is expected to exceed 10% of the cost.

Depreciation must be based on a reasonable estimate (see Section IV. Asset Tables on pages 7 and 8) of expected useful life; that is number of years, miles, service hours, etc., that each department expects to use that asset in operations. The straight-line method of depreciation will be used for all assets based on useful life.

Depreciation expense should be recorded in the financial statements using depreciation accounting and reporting standards applicable to commercial enterprises.

3.6 Grants

Title to equipment and real property acquired under a grant is subject to the obligations and conditions set forth in the original contract. In most cases, proceeds from sale of the asset will be returned to the agency, which supplied the grant.

In order to simplify the grant process, a copy of each grant should be sent to the accounting department. Each asset purchased with grant money should be clearly marked in order to notify personnel upon disposal of each particular asset.

3.7 Dollar Limits

This policy applies to the following categories:

a. Capital assets and improvements to capital assets with an original cost (per item) equal to or greater than $5,000.

b. Capital assets and improvements to capital assets with an original cost (per item) equal to or greater than $5,000 will be tracked separately and depreciated to meet GASB 34 reporting requirements.

c. Major component parts, of an existing fully depreciated asset, with an original cost (per item) equal to or greater than $5,000. These component parts must extend the useful life of an asset, which will not function or has no value other than scrap. Example: a complete remodel of an existing structure would be capital; a repair of a leak in the roof would not.

d. High risk items with an original cost (per item) greater than $500 and less than $5,000. (See Section IV for a list of assets that may fall into this category).

e. The Benton County system of roads is public infrastructure assumed to have an infinite life and a maintenance program to assure its permanent usefulness. All improvements to the road system are to be capitalized, and all maintenance costs are to be expensed. Each road project will be evaluated if it is an improvement or maintenance. All improvements to the road system, including contributions from private parties (roads built by developers, local improvement district assets, etc.) are to be capitalized, regardless of dollar amount.

SECTION IV. ASSET TABLES

| ASSET | USEFUL LIFE | SALVAGE % |
|---|---|---|
| Computers (do not tag keyboards or standard monitors). Printers, Scanners, and File Servers | 4 years | 5% |
| Automobiles, Light Trucks, Telephone, Equipment, Fax Machines, and Radio Equipment | 5 years | 5% |
| Heavy Duty Trucks, Light Road Equipment, Firearms, Cleaning and Maintenance Equipment | 7 years | 5% |
| Office Furniture, Heavy Road Equipment | 10 years | 5% |
| Buildings, Parking Lots, Major Improvements to Buildings | 20 years | 5% |

<u>High Risk Assets:</u> These items are to be coded under the object line #3501 on the voucher and are expenses in the year of the purchase. They are to be tagged and reported to the County Auditor at the time of payment. No payment will be made on these items until an inventory number has been attached to the asset and reported to the County Auditor. These items must have a purchase price (including tax) of at least $500 and no more than $5,000. They are listed as follows:

Camera, Television, Video Camera, VCR, Cellular Phone, Portable Radio, Typewriter, Tape Recorder, Firearms, Stereo Equipment, Chain Saw, Power Tools, and any other asset which may fit the criteria for High Risk Assets in Section 2.6.