

Lewis County Capital Asset Guidance

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Introduction

The following Capital Asset Guide was created to assist in the implementation of requirements established by Governmental Accounting Standards Board (GASB) Statement No. 34, No. 51 and No. 87. It includes asset category definitions, capitalization thresholds, depreciation methodologies, and examples of expenditures for each class of assets.

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 that particular classification of asset and have an estimated life greater than one year.

The county has invested in a broad range of capital assets that are used in the county's operations, which include:

- Land and land improvements
- Buildings and building improvements
- Improvements other than buildings
- Infrastructure
- Construction in progress
- Personal property
 - Furniture and equipment
 - Vehicles
 - Other assets
 - 1) Works of art and historical treasures
 - 2) Library books and materials
- Intangible Assets
 - Land Use Rights
 - Software developed or obtained for internal use

Capital Asset Classification

Assets purchased, constructed or donated that meet or exceed the county's established capitalization thresholds or minimum reporting requirements must be uniformly classified in conformity with the *Budgeting, Accounting, And Reporting System (BARS) Manual*.

Preconditions for Capitalization

A cost may only be capitalized if it meets the following two conditions:

- The cost can be *directly* identified with a *specific* asset.
- The cost was incurred after the acquisition of the asset became probable.

Capitalization Thresholds

Standard capitalization thresholds for capital assets have been established for each asset category. All county departments are required to use these thresholds.

Class of Asset	Threshold
Land/land improvements	Capitalize All
Land Use Rights (easements)	Capitalize All
Buildings/building improvements	\$5,000
Improvements other than buildings	\$5,000
Infrastructure	\$50,000
Personal property (equipment/furniture/vehicles)	\$5,000
Computer Software	\$500,000
Leased Equipment	\$5,000
Leased Buildings/Property	Within 15% of Market rate

Capital Asset Acquisition Cost

Capital assets should be recorded and reported at their historical costs, which include the vendor's invoice (plus the value of any trade-in), plus 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 ancillary charges such as freight and transportation charges, site preparation costs and professional fees. The cost of capital assets recorded in **governmental activities** will not include capitalized interest. However, for proprietary funds, interest is capitalized on:

- Assets that are constructed or otherwise produced for a county department's own use (including assets constructed or produced for the enterprise by others for which deposits or progress payments have been made)
- Assets intended for sale or lease that are constructed or otherwise produced as discrete projects (for example, real estate developments)

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 nongovernmental entity, including an individual. **A voluntary contribution of resources between county departments reported as part of the primary government is not a donation.** In the case of such a transfer of an asset, the capital asset transferred should be reported at the same net book value previously reported by the transferring fund (historical cost less accumulated depreciation). Assets donated by discretely presented component units or by parties outside the financial reporting entity should be reported at their fair market value on the date the donation is made. When the donated asset is a land use right, such as a right-of-way easement, fair market value may be difficult to determine if the only willing buyer is the government. In this case, the fair market value may be estimated as the outlay the government would have incurred to acquire the easement.

Leased Equipment

Assets obtained through lease agreements should follow GASB 87 guidelines for capitalization. A lease should be capitalized if all of the following criteria are met:

- The asset will not be owned at the end of the term
- The county has the right to use the asset
- The lease term is greater than 12 months
- The lease has fixed or fixed in-substance lease payments

- The payments are not significantly lower than the “market rate” (Within 15% of market rate)
- The total lease payments exceed the capitalization threshold or \$5,000

Leases that do not meet all of the above requirements should be recorded as an operating lease and reported in the notes to the financial statements.

Government-wide statements and proprietary funds:

At the start of the lease term, a lessee should recognize a lease liability and an intangible right-to-use lease asset.

- (DR) Lease Asset – Measured as the sum of the initial measurement of the lease liability – plus any initial direct costs and lease payments made prior to the start of the lease, less any lease incentives.
- (CR) Lease Liability – Initially measured at the present value of payments expected to be made during the lease term.
- (CR) Cash (possible entry) – for payment of any initial direct costs and lease payments made prior to the start of the lease.

Lease payments made to the lessor result in:

- (DR) Reduction of the lease liability
- (DR) Recognition of interest expense – a non-operating expense
- (CR) Cash

The lease asset is amortized over the shorter of the lease term or the useful life of the underlying asset:

- (DR) Amortization expense
- (CR) Lease asset accumulated depreciation

Governmental funds:

At the start of the lease term, a lessee should recognize an expenditure and other financing source:

- (DR) Capital outlay expenditure – for the amount of the lease asset, plus any initial direct costs and lease payments made prior to the start of the lease, less any lease incentives.
- (CR) Other financing source – 391.7X amount equal to the lease liability
- (CR) Cash (possible entry) – for payment of any initial direct costs and lease payments made prior to the start of the lease.

Lease payments made to the lessor result in:

- (DR) Debt service – principal
- (DR) Debt service – interest
- (CR) Cash

Lessor Accounting (GAAP)

Government-wide statements, governmental and proprietary funds:

At the start of the lease term, a lessor should recognize a lease receivable and a deferred inflow of resources.

- (DR) Lease Receivable – Initially measured at the present value of lease payments expected to be received during the lease term.
- (DR) Cash (possible entry) – for any lease payments received prior to the start of the lease.

- (CR) Deferred Inflow – Measured as the sum of the initial measurement of the lease receivable – plus any lease payments received prior to the start of the lease, less any lease incentives.

Lease payments received from the lessee result in:

- (DR) Cash
- (CR) Reduction of the lease receivable
- (CR) Recognition of interest income – a non-operating revenue. Use BARS 361.4X
- (DR) Reduction of the Deferred Inflow – in a systematic and rational manner
- (CR) Recognition of lease revenue –
All Governmental and Proprietary Funds: Use BARS 34X.XX (X = applicable function).

Proprietary funds only – use BARS 362 for non-operating leases.

Governmental funds only – use BARS 362 for leases not tied as specific operation/function or leases that are infrequent in nature.

The lessor continues to report and, if applicable, depreciate the leased capital asset.

The following example is for a 60 month lease, with payments of \$1,000 per month, at a discount rate of 3% (present value of total lease payments = \$55,791):

Lessor:			Lessee – full-accrual:			Lessee – modified accrual:		
DR -	Lease receivable	\$55,791	DR -	Lease asset	\$55,791	DR -	Cap. Outlay	\$55,791
CR -	Deferred inflow	(\$55,791)	CR -	Lease liability	(\$55,791)	CR -	Other Source	(\$55,791)
Initial recording of the lease			Initial recording of the lease			Initial recording of the lease		
DR -	Cash	\$12,000	DR -	Lease liability	\$10,613	DR -	Debt Svc. – Prin.	\$10,613
CR -	Lease receivable	(\$10,613)	DR -	Interest exp.	\$1,387	DR -	Debt Svc. – Int.	\$1,387
CR -	Int. income	(\$1,387)	CR -	Cash	(\$12,000)	CR -	Cash	(\$12,000)
First year of lease payments			First year of lease payments			First year of lease payments		
DR -	Deferred inflow	\$11,158	DR -	Amort. exp.	\$11,158			
CR -	Lease revenue	(\$11,158)	CR -	Lease asset	(\$11,158)			
First year of recognizing DI			First year amortizing lease asset					

Calculations above are based on summary amortization table (actual lease payments are made monthly):

Year	Total Payments	Principal	Interest	Lease Balance	S/L Amortization	DI/Asset Bal.
				\$55,791		\$55,791
1	\$12,000	\$10,613	\$1,387	\$45,178	\$11,158	\$44,633
2	\$12,000	\$10,792	\$1,208	\$34,386	\$11,158	\$33,475
3	\$12,000	\$11,120	\$880	\$23,266	\$11,158	\$22,317
4	\$12,000	\$11,459	\$541	\$11,807	\$11,158	\$11,158
5	\$12,000	\$11,807	\$193	\$0	\$11,158	\$0
Total	\$60,000	\$55,791	\$4,209		\$55,791	

Depreciating Capital Assets

Capital assets should be depreciated over their estimated useful lives unless they are inexhaustible (e.g. works of art or historical treasures) or indefinite (e.g. a perpetual easement).

The straight-line depreciation method will be used by all county departments. County departments should use the month convention for indicating when the asset was rendered

into service.

For estimated useful lives, county departments may use general guidelines obtained from professional or industry organizations, information for comparable assets of other governments, or internal information. In determining useful life, a county department should consider an asset's present condition and how long it is expected to meet service demands. The method of estimating the useful life should be documented by the county department.

Depreciation data should be calculated and recorded within the county department's capital asset records for each eligible asset. Accumulated depreciation should be summarized and posted to the accounting general ledger for proprietary funds only. Depreciation for county assets will be a "memo entry" and will not be funded under the Appropriation Act.

Residual Value

In order to calculate depreciation for an asset, the estimated residual value, if any, must be declared before depreciation can be calculated. The use of historical sales information becomes invaluable for determining the estimated residual value. Proceeds from sale of assets must be netted against residual value in computing net gain or loss from sale.

Sale of Capital Assets

All sales or other means of disposal of county real and personal property must follow the requirements provided in Chapter 36.34 RCW, *County Property*. When an asset is sold to a non-county entity or another government agency, a gain or loss must be recognized in the accounting records when:

- cash is exchanged and the amount paid does not equal the net book value of the asset
- cash is not exchanged and the asset is not fully depreciated or has a residual value.

A gain or loss **is not** recorded when:

- cash exchanged equals the net book value and the asset does not have a residual value
- cash is not exchanged and the asset is fully depreciated and has no residual value.

Computation of Gain and Loss from Sale of Assets

To compute a gain or loss, proceeds received must be subtracted from the asset's net book value.

Example:

Asset's Historical Cost	\$ 10,000
Less Accumulated Depreciation	<u>7,000</u>
Net book value	\$ 3,000
Proceeds Received	<u>2,000</u>
Loss from Sale of Asset	\$ 1,000

If the asset has been fully depreciated and has a residual value, then the proceeds must be subtracted from the residual value to compute the gain or loss.

Example:

Asset's Historical Cost (residual value = \$1,000)	\$ 10,000
Less Accumulated Depreciation	<u>9,000</u>
Residual value	\$ 1,000
Proceeds Received	<u>2,000</u>
Gain from Sale of Asset	\$ 1,000

Assets Acquired by the Exchange of Other Assets

All exchange of county real and personal property must follow the requirements provided in Chapter 36.34 RCW, *County Property*.

Similar assets – When recording an exchange of similar assets, departments must use a book value basis for the assets surrendered or acquired.

- When assets are exchanged and no monetary consideration is paid or received, the cost of the asset acquired is recorded at the book value of the asset surrendered.
- Where monetary consideration is given, the new asset must be recorded at the sum of the cash paid plus the book value of the asset surrendered.

Dissimilar assets – When recording an exchange of dissimilar assets, county departments must:

- Record the value of the asset being traded and the resulting transaction for acquiring the new asset, using the fair value of the asset being traded.
- If cash is used to purchase the asset, departments must record the transaction for the new asset as cash paid plus the fair value of the asset surrendered.

Assets Held in Trust

Capital assets held by a county department on behalf of a non-county entity (such as art collections owned by families, estates and others) and under the temporary control of the county department should be accounted for on the property records for accountability

purposes. This includes assets owned by the federal government and, or a state government that have been loaned to a county entity. Since these assets are not owned by the county, these assets should be recorded in the property records at a cost of zero.

Small & Attractive Assets (Tracked Assets)

Tracked assets are assets of the county which do not meet the capitalization threshold, but whose existence is tracked for accountability purposes within Lewis County departments. In particular, those assets deemed to be at-risk of theft or that are required to be tracked due to state or federal grantor policies should be included in the tracked asset database. Most tracked assets have an acquisition cost between \$300 and \$5,000; however, assets below \$300 may be included in the tracked asset database at the department's discretion.

II. Capital Asset Categories

Land and Land Improvements

Land Definition

Land is the surface or crust of the earth, 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. The costs associated with improvements to land are added to the cost of the land.

Depreciation Methodology

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

Capitalization Threshold

All acquisitions of land and land improvements will be capitalized.

Examples of Expenditures to be Capitalized as Land and Land Improvements

- Original 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

Land Use Rights

Land Use Rights Definition

A land use right is the ability to control the use of a piece of property and benefit from that property (for example, right-of-way easement, water rights, timber rights, and mineral rights). When a land use right is acquired separately from the underlying property, the right is capitalized as an intangible asset. If the underlying property is purchased, the rights associated with that land should remain aggregated and reported with the tangible capital asset.

Amortization Methodology

A land use right is considered to have an indefinite useful life if no legal, contractual, regulatory, technological, or other factors limit its useful life. Assets with indefinite useful lives are not amortized.

Capitalization Threshold

All acquisitions of land use rights will be capitalized.

Examples of Expenditures to be Capitalized as Land Use Rights

- Original purchase price or fair market value at time of gift.
- Professional fees (title searches, architect, legal, engineering, appraisal, surveying, environmental assessments, etc.)
- Removal, relocation, or reconstruction of property of others (landscaping, fencing, telephone and power lines)
- Other costs incurred in acquiring the land use right

Buildings and Building Improvements

Building Definition

A building is a structure that is permanently attached to the land and is not intended to be transportable or moveable.

Building Improvement Definition

Building improvements are capital events that materially extend the useful life of a building or increase the value of a building, or both. A building improvement should be capitalized as a betterment and recorded as an addition of value to the existing building if the expenditure for the improvement meets or exceeds the capitalization threshold and the expenditure increases the life or value of the building by 25 percent of the original life period or cost.

Depreciation Methodology

The straight-line depreciation method will be used for buildings and building improvements. Subsequent improvements that change the use or function of the building shall be depreciated. Buildings designated, as "historical" will not be depreciated unless used in the operations of Lewis County. However, any improvements or betterments not deemed "historical" will be depreciated the same as any other improvements or betterments made to a building.

Capitalization Threshold

The capitalization threshold for buildings and building improvements is \$5,000.

Examples of Expenditures 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
- Cancellation or buyout of existing leases
- Other costs required to place or render the asset into operation

Constructed Buildings

- Completed structure costs
- Interest accrued during construction (proprietary activities only)
- 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, management fees for design and supervision, legal)
- 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)

Examples of Expenditures to be Capitalized as Improvements to Buildings

Note: For a replacement to be capitalized, it must be a part of a major repair or rehabilitation project, which meets or exceeds the capitalization threshold, and must increase the life or value of the building by 25 percent of the original life period or cost. A replacement may also be capitalized if the new item/part is of significantly improved quality and higher value compared to the old item/part, such as replacement of an old shingle roof with a new fireproof tile roof. Replacement or restoration to original utility level would not. Determinations must be made on a case by case basis.

- Conversion of attics, basements, etc. to usable office, clinic, research, or classroom space
- Structures **attached** to the building such as covered patios, sunrooms, garages, carports, enclosed stairwells, etc.
- Installation or significant upgrade of heating and cooling systems
- Installation/significant upgrade of wall 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 significant upgrade of window or door frames, windows or doors, or built-in closet and cabinets
- Exterior renovation such as installation or significant upgrade of siding, roofing, masonry, etc.

- Installation or significant upgrade of plumbing and electrical wiring
- Installation or significant 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)
- Other costs associated with the above improvements

Building Maintenance Expense

The following are examples of expenditures **not** to capitalize as improvements to buildings. Instead, these items should be recorded as 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 or useful life of the building

Improvements Other Than Buildings

Improvements Other Than Buildings Definition

Assets (other than general use buildings) built, installed or established to enhance the quality or facilitate the use of land for a particular purpose. Depreciable improvements made to land should be capitalized as a betterment if the improvement is at the capitalization threshold.

Depreciation Methodology

The straight-line depreciation method will be used for improvements.

Capitalization Threshold

The capitalization threshold for improvements is \$5,000.

Examples of Expenditures to be Capitalized as Improvements Other than Buildings

- Fencing and gates
- Landscaping
- Parking lots/driveways/parking barriers
- Outside sprinkler systems
- Recreation areas and athletic fields (including bleachers)

- Golf courses
- Paths and trails
- Septic systems
- Swimming pools, tennis courts, basketball courts
- Fountains
- Plazas and pavilions
- Retaining walls

Infrastructure

Infrastructure Definition

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.

Note: the cost of land or right of way associated with the infrastructure should be capitalized separately from the infrastructure.

Infrastructure Improvements

Infrastructure improvements are capital events that materially extend the useful life and/or increase the value or capacity of the infrastructure. A change in capacity increases the level of service provided by infrastructure. For example, additional lanes can be added to a highway or the weight capacity of a bridge could be increased. Infrastructure improvements should be capitalized as a betterment and recorded as an addition of value to the infrastructure if the improvement is at the capitalization threshold and increases the life or value of the asset by 25 percent of the original cost or life period.

Maintenance Costs

Maintenance costs allow infrastructure 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 will be used for infrastructure assets.

Capitalization Threshold

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

Jointly Funded Infrastructure

Infrastructure paid for jointly by the county and other governmental entities should be capitalized by the entity responsible for future maintenance.

Examples of Expenditures to be Capitalized as Infrastructure

- Roads and streets (including curbs, gutters, sidewalks, signage and fire hydrants)
- Bridges
- Canals and waterways (including wharfs, docks, sea walls, bulkheads, and boardwalks)
- Dams and drainage facilities

- Radio and television transmitting towers
- Electricity, water and gas lines (main lines, distribution lines, and tunnels)
- Fiber optic and telephone distribution systems (between buildings)
- Lighting systems (for roads)

Personal Property

Personal Property Definition

Personal property is fixed or movable tangible assets to be used for operations, the benefits of which extend beyond one year from the date of acquisition.

Improvements or additions to existing personal property that exceeds capitalization threshold and increases the value or life of the asset by 25 percent of the original cost or life should be capitalized as a betterment and recorded as an addition of value to the existing asset.

Note: Costs of extended warranties and/or maintenance agreements, which can be separately identified from the cost of the equipment, should not be capitalized.

Depreciation Methodology

The straight-line depreciation method will be used for personal property.

Capitalization Threshold

The capitalization threshold for personal property is \$5,000. Personal property with a cost below \$5,000 but exceeding \$300 will not be capitalized, but may be accounted for as a tracked asset.

Examples of Expenditures to be Capitalized as Personal Property

- 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

Capital Asset Records

At the time of acquisition, a Capital Asset Input Form should be completed by the purchasing department and forwarded to the Auditor's Office. The information provided by the department will be added to the capital asset database and the assigned asset tag will be forwarded to the department for placement on the asset. Per RCW 36.32.210, an inventory of all capital assets held by the county must be presented to the Board of County Commissioners on the first Monday in March. A capital asset listing for each department will be sent during the first week of January. Each department is responsible for verifying the existence of all assets present on the listing and providing any necessary corrections to the Auditor's Office.

by the end of January. The results of the department inventories will be incorporated into the capital asset report submitted to the Board of County Commissioners.

Library Books and Reference Materials

Library Books and Materials Definition

A library book is generally a literary composition bound into a separate volume and identifiable as a separate copyrighted unit. Library reference materials are information sources other than books which include journals, periodicals, microforms, audio/visual media, computer-based information, manuscripts, maps, documents, and similar items which provide information essential to the learning process or which enhance the quality of academic, professional or research libraries. Changes in value for professional, academic or research libraries may be reported on an aggregated net basis.

Library Characteristics

A professional, academic or research library normally has one or more of the following characteristics:

- Information is housed in a centralized location.
- Physical security measures are in place to protect the assets.
- Checkout procedures and policies exist and are used.
- Individual item costs and supplemental information is generally contained in a supplemental database.
- Volumes assigned to libraries are typically available to employees, students, and other individuals for check-out or use.
- Existence of the library helps the department fulfill its mission.
- The value is material to the department.
- Equipment assigned to libraries typically remains under central security for on-premises use.

A library may be reported on a composite basis by making net adjustments to total value to reflect increase or decrease in total value. Net adjustments must be made at least once annually by the close of the fiscal year.

Depreciation Methodology

The straight-line depreciation method will be used.

Capitalization Threshold

The library collection should be capitalized if the entire collection exceeds \$5,000. All subsequent purchases of books and materials for a professional, academic or research library should be capitalized, as there is no minimum dollar amount. Library acquisitions are valued at cost or other reasonable basis; deletions are valued at annually adjusted average cost. The library maintains records of all books and other library items, which suffice as detailed inventory records. Books, periodicals and other materials purchased but not used in a library should be expensed unless they constitute a capital event.

Examples of Expenditures to be Capitalized as Library Books and Materials

- Invoice price
- Freight charges
- Handling
- In-transit insurance charges
- Binding
- Electronic access charges
- Reproduction and like costs required to place assets in service, with the exception of library salaries

Works of Art and Historical Treasures

Works of Art and Historical Treasures Definition

Collections or individual items of significance that are owned by a county department which are not held for financial gain, but rather for public exhibition, education or research in furtherance of public service. Collections or individual items that are protected and cared for or preserved and subject to a departmental policy that requires the proceeds from sales of collection items to be used to acquire other items for collections.

Depreciation Methodology

The straight-line depreciation method will be used for exhaustible collections. Inexhaustible items should not be depreciated. Exhaustible collections or items are items whose useful lives are diminished by display or educational or research applications. Inexhaustible collections or items are items whose economic benefit or service potential is used up so slowly that the estimated useful lives are extraordinarily long. Because of their cultural, aesthetic, or historical value, the holder of the asset applies efforts to protect and preserve the asset in a manner greater than that for similar assets without such cultural, aesthetic, or historical value.

Capitalization Threshold

All works of art and historical treasures acquired or donated will be capitalized, unless held for financial gain. If a collection is held for financial gain and not capitalized, a description of the collection and the reasons these assets were not capitalized must be available. When donated collection items are added to non-capitalized collections, program expense equal to the amount of revenues should be recognized.

Examples of Expenditures to be Capitalized as 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

Computer Software

Computer Software Definition

Computer software is typically a program or operating system stored on a tangible asset (e.g. a compact disc or computer), but whose value is distinct from the hardware on which it is located. It may be purchased or licensed and may be acquired from an outside vendor or internally generated.

Note: capitalization of other intangible assets, such as patents and trademarks, follow the same principles listed below for computer software. Guidance for the capitalization of intangible assets is provided in GASB Statement No. 51 *Accounting and Financial Reporting for Intangible Assets*.

Depreciation Methodology

The straight-line depreciation method will be used for software developed or obtained for internal use.

Capitalization Threshold

Computer software whose cost to purchase or develop is \$500,000 or greater and whose estimated useful life is more than one year should be capitalized.

Determination of useful life may include renewal periods if it is evident that the renewal will be obtained and any outlays required are nominal. If the outlays are greater than nominal, then the outlays should be treated as the creation of a new asset rather than the renewal of an existing asset. Although annual licenses are not capitalized, multi-year licenses are capitalized even if they require annual installment payments. The full amount of the contract would be capitalized and a long-term liability representing the county's obligation to make the annual payments over the life of the contract should be reported.

Computer software is considered internally generated if it is developed in-house by county personnel or by a third-party contractor on behalf of the county. Computer software which is purchased or licensed but is significantly modified before being put into operation is also considered internally generated. Special guidance is provided in GASB Statement No. 51 regarding the costs that may be capitalized when software is internally generated.

No developmental costs may be capitalized until all of the following have occurred:

- a) Determination of the specific objective of the project and the nature of service capacity the completed asset will provide
- b) Demonstration of the technical or technological feasibility for completing the project such that the asset will provide the expected service capacity (technological feasibility can be demonstrated once the system and technological requirements for the project are determined and either a commercially available software package has been selected or a development path to meet the performance requirements has been chosen.)
- c) Demonstration of the current intent, ability, and presence of effort to complete or continue developing the asset (e.g. budgetary commitments for funding, commitments to external parties related to the creation of the asset, hiring of specific personnel to work on the project, etc.)

When computer software is internally generated, the activities involved in development and installation fall into one of three project stages:

- a) Preliminary Project Stage—Activities include conceptual formulation and evaluation of alternatives, determination of the existence of needed technology, and final selection of alternatives for software development.
- b) Application Development Stage—Activities include design of chosen path, software configuration & interfaces, coding, installation to hardware, and testing.
- c) Post-Implementation/Operation Stage—Activities include application training and software maintenance.

Only outlays related to the application development stage should be capitalized.

Note: capitalization of costs is determined by activity rather than by timing—even if the project is in the application development stage, some costs may be expensed if they are activities relating to the other project stages. Capitalization should cease no later than the point at which the computer software is substantially complete and operational.

When the county enters into a licensing agreement in which the payments to the vendor contain multiple components (for instance, use of the software, development of modifications prior to being put into operation, training, routine maintenance, and rights to future upgrades and modifications), the outlays should be allocated among the individual components. Each component should be evaluated and capitalized or expensed based on the project stage with which its activity is associated.

Modification of software that is already in use may be capitalized if it results in any of the following:

- a) An increase in functionality by allowing the performance of tasks the software previously was incapable of performing
- b) An increase in efficiency by increasing the level of service the software provides
- c) Extension of the estimated useful life of the software

In general, data conversion costs are considered part of the Post-Implementation/Operation Stage and should not be capitalized. However, costs associated to data conversion that is necessary to make the computer software operational may be capitalized as an activity of the Application Development Stage.

Examples of Expenditures during the Application Development Phase to be Capitalized

- External direct costs of materials and services (third party fees for services)
- Costs to obtain software from third parties
- Payroll and payroll-related costs of employees directly associated with or devoting time in coding, installing or testing
- For proprietary funds only, interest costs incurred during the application development

Construction in Progress

Construction in Progress Definition

Construction in progress is used to account for costs incurred to construct or develop a tangible or intangible capital asset which has not been substantially completed by the end of the fiscal year.

Depreciation Methodology

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

Capitalization Threshold

Construction in progress assets should be capitalized to their appropriate capital asset categories upon the earlier occurrence of execution of substantial completion contract documents, occupancy, or when the asset is placed into service.