Starr County

Capital Asset Policy

The Capital Asset Policy is intended to comply with GASB-34 as a reporting requirement of the Governmental Accounting Standards Board that established government policies for capital assets, infrastructure assets, and depreciation of assets. This policy includes asset category definitions, capitalization thresholds, depreciation methodologies, and examples of acquisitions for each asset class.

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

Asset	Threshold	Useful Life	Method
Building	≥ $5,000	50 yrs.	Straight-line
Building Improvements	≥ $5,000	20 yrs.	Straight-line
Equipment/Vehicles	≥ $5,000	8 yrs.	Straight-line
Equipment/Machinery	≥ $5,000	5-10 yrs.	Straight-line
Land	≥ $0	Capitalize Only	N/A
Land Improvement	≥ $0	Capitalize Only	N/A
Infrastructure	≥ $5,000	40 yrs.	Straight-line

I. Definitions and Guidelines

Classification

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

Account Code No.	Capital Outlay Class
X – XXX – XXXX – 5010 – 000	Machinery and Equipment
X – XXX – XXXX – 5020 – 000	Infrastructure
X – XXX – XXXX – 5030 – 000	Buildings and Building Improvements
X – XXX – XXXX – 5040 – 000	Land and Land Improvements
X – XXX – XXXX – 5050 – 000	Construction in Progress

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

Threshold

Standard capitalization thresholds for capitalizing assets have been established for each major asset class. Any asset received by the county that exceeds the following thresholds must be treated as a capital asset. If a grant agreement requires an asset to be accounted for as a capital asset and does not meet the above, then that asset must be accounted for as a capital asset.

Acquisition Cost

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

Donation

GASB Statement No. 33, *Accounting and Financial Reporting for Non-Exchange Transactions*, defines a donation as a voluntary non-exchange transaction entered into willingly by two or more parties. Both parties may be governments or one party may be a non-governmental entity, including an individual. The Commissioners Court must approve the acceptance of all capital donations. Donated capital assets should be reported at their estimated fair value at the date of donation.

Depreciating Capital Asset

The straight-line depreciation method will be used. The acquisition date will govern when an asset is placed in service, subject to the use of a full month of depreciation for the first month (regardless of the date placed in service). An asset is considered placed in service on the date it became available for use and is used for the purpose intended when purchased or constructed. Depreciation data will be calculated and maintained by the County Auditor for each capital asset.

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

Inventory

An inventory of all county property is to be submitted to the County Auditor by July 1st of each fiscal year. The County Auditor will carefully examine the inventory and make an accounting for all property purchased or previously inventoried and not appearing in the inventory.

High-Risk Equipment

Each elected official or department head is responsible for identifying and reporting equipment that tends to have a high risk of loss or theft. Procedures to account for these items should be established in each department that possesses high-risk equipment, regardless of whether an asset is above or below the threshold amount.

Examples of high-risk items are audio/video equipment, mobile devices, power tools, and ground equipment.

II. Capital Asset Classification

❖ Machinery and Equipment ❖

– Machinery & Equipment –	– Add-ons –
A tangible item that is functionally complete to serve a specific purpose, and is durable, nonexpendable (not intended for consumption).	Any costs to place the asset into service, necessary to make it usable, ex: freight/shipping/installation costs,

Examples of acquisitions to be capitalized as machinery and equipment, including, but not limited to the following:

- Vehicles
- Tractors, graders, backhoes
- Commercial appliances
- HVAC systems
- Computer and/or telephone networks
- Radio and/or security systems
- Software

❖ Infrastructure ❖

– Infrastructure –	– Infrastructure Improvements –
Physical networks, normally stationary in nature necessary for the functioning of a modern industrial society.	Capital event that materially extends the useful life or increases the value of the infrastructure

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

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

Examples of acquisitions to be capitalized as infrastructure, including, but not limited to the following:

- Roads
- Bridges
- Railways
- Streets, curbs, gutters, and sidewalks
- Dams, and drainage facility
- Transmitting tower
- Gas lines and utility systems

❖ Buildings & Improvements ❖

– Building –	– Building Improvement –
A structure that is permanently attached to the land, has a roof, is partially or completely enclosed by walls, and is not intended to be transportable or moveable.	Capital events that materially extend the useful life or increase the value of a building. A building improvement can be recorded as an addition of value to the existing building if the expenditure for the improvement is at the capitalization threshold, or the expenditure increases the life of the building.

Examples of acquisitions to be capitalized as buildings and improvements, including, but not limited to the following:

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

Constructed Buildings
- Completed project costs
- Cost of excavation, grading, or filling of land *for a specific building*
- Expenses incurred for plans, specifications, blueprints, etc.
- Cost of building permits
- Professional fees (architect, engineer, management fees for design, supervision, and legal)
- Costs of temporary buildings used during construction
- Unanticipated costs such as rock blasting, piling, or relocation of the channel
- Permanently attached fixtures that cannot be removed w/out impairing the use of the building
- Additions to buildings (expansions, extensions, or enlargements)

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

Other Structures

- Fencing and gates
- Retaining walls
- Parking lots/driveways/parking barriers
- Outside sprinkler systems
- Recreation areas, athletic fields and bleachers
- Septic systems
- Fountains
- Plazas and pavilions

❖ Land & Land Improvements ❖

– Land –	– Land Improvement –
The solid part of the earth's surface whether improved or unimproved, which can be used to support structures, and may be used to grow crops, grass, shrubs, and trees. Land is characterized as having an unlimited life.	Consist of betterments, site preparation, and site improvements (other than buildings) that ready land for its intended use.

Examples of acquisitions to be capitalized as land and land improvements, including, but not limited to the following:

- Purchase price or fair market value at the time of gift
- Commissions paid in purchasing land
- Professional fees (title searches, architect, engineering, surveying, environmental assessments)
- Land excavation, fill, grading, drainage
- Demolition of existing buildings and improvements (less salvage)
- Removal, relocation, or reconstruction of property of others (railroad, telephone, 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 the initial cost for drilling, the pump, and its casing)
- Right-of-way

❖ Construction in Progress ❖

– Construction in Progress –
A temporary classification is used before the property is ready to be placed into service if the property is constructed or developed by the County; cost of a construction project undertaken but not completed.

Progress of the project could span through multiple periods with multiple receipts and would be considered incomplete as one or more fiscal year ends. Individual projects shall be identified on corresponding purchase orders.

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

III. Non-Capital Assets

❖ Repairs & Maintenance Expense ❖

– Repairs –	– Maintenance –
Corrects or remediates a damaged asset to its original condition rather than improving upon it.	Retains value but does not provide additional value or it simply avoids shortening the originally estimated useful life without lengthening it.

Component replacements are typically treated as repairs.

Examples of items that should be expensed at the time of acquisition, and *not* capitalized as improvements to buildings, include, but not limited to the following:

- Plumbing or electrical repairs.
- Cleaning, pest extermination, or other periodic maintenance.
- 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, and replacement of deteriorated siding, roof, or masonry sections.
- Renovation projects that add, remove, or move walls, if the project is not considered major and does not increase the value of the building.
- Improvement projects of minimal value or no added life expectancy to the building.
- Any other repair or maintenance-related expenditure, which does not increase the value of a building

❖ General Supplies Expense ❖

– Supplies –
Such items should be relatively low in value, consumable, and deteriorate through use.