FIRST 5 SAN BERNARDINO	Number 15-02
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CAPITAL ASSET POLICY	Approved: Linda Haugan Chair, Linda Haugan

PURPOSE

The purpose is to set forth the First 5 San Bernardino (F5SB) policies regarding capital asset purchases, capitalization, and depreciation in accordance with Generally Accepted Accounting Principles (GAAP), Governmental Accounting Standards Board (GASB) Statement Nos. 34 and 51, and Chapter 4, Section 4.4.5 of the First 5 California Financial Management Guide, issued March 2011.

POLICY

It is the policy of F5SB to consistently identify, depreciate, and safeguard capital assets following guidelines outlined in this policy.

GUIDELINES

Capital assets are broadly defined as tangible and intangible financial resources that have a useful life of more than one year. Capital assets include such items as land, structures and improvements, furniture, equipment and software (purchased, constructed, or developed by the Commission).

Reporting Capital Assets

Capital assets shall be reported at the historical cost to acquire, develop, or construct. Capital assets shall be expensed over their estimated useful lives in the form of depreciation (tangible) or amortization (intangible) expense.

Some real property projects may include the acquisition or construction of more than one asset class. These projects require that the costs be allocated to the proper asset class so the expenditures can be properly depreciated over their useful lives. The construction of a building would include costs allocated to the structure, but may also require the purchase of land or improvements to the land (e.g., landscaping, sidewalks).

These costs should include items that are directly attributable to the asset's acquisition or construction, such as:

- Purchase price or construction cost
- Closing costs
- Site preparation costs
- Labor
- Materials

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- Professional fees
- Installation
- Taxes

Donated capital assets shall be reported at their estimated fair market value plus any charges directly attributable to the asset on the date of acceptance by the Commission.

Improvements (betterments) add new value to existing capital assets by either 1) increasing the asset's capacity or serviceability, or 2) extending the asset's total estimated useful life.

The cost of normal maintenance and repairs that returns a capital asset to its original condition and does not add to the value of the asset or materially extend the life of the asset, regardless of amount, is not capitalized. Since maintenance and repairs provide no additional value, their costs should be recognized as an expense when incurred.

Equipment includes moveable personal property with a useful life that extends beyond a single reporting period and is not permanently installed within a structure, but is removable for trade-in, sale, transfer, etc. Equipment includes such items as furniture, machines, computers, and vehicles. Expenditures for equipment should be capitalized when the purchase price or construction cost is $5,000 or more per unit. The value of lease-purchase equipment should be capitalized upon receipt of the item even though payments will be made over several years. The amount to be recorded under a lease-purchase is the lower of the present value of the minimum lease payments of the fair value of the leased property.

Computer software, consistent with GASB Statement No. 51, should be capitalized as an intangible capital asset and amortized over its anticipated useful life if it (1) Is generated internally, for internal use, and has a cost of $100,000 or more; or (2) Is purchased or licensed at a cost greater than $5,000.

Tenant (leasehold) improvements are major improvements to property used by the Commission, under a non-cancellable multi-year operating lease, which include functional or structural changes to the leased space that revert back to the lessor. The improvements either, increase the usefulness or the value of the space, and provide benefits over an extended period of time. To capitalize the tenant improvements, the costs must meet or exceed the Commission's threshold criteria for leasehold improvements. The improvements will be amortized over the life of the lease term (taking into account probable renewals).

Depreciation

Depreciation is the systematic and rational allocation of the historical cost of a capital asset over its estimated useful life. Land and construction-in-progress are

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typically not depreciated. The Commission is responsible for establishing the useful life and depreciation method for each class of capital asset. Depreciation begins when the asset is ready or available for service. If, in the first year, the asset was not used the entire fiscal year, the depreciation deduction is prorated proportionately based on the number of months the asset was in service. The Commission uses a straight-line method.

Useful Life Ranges

Maximum useful lives were determined by considering the guidance provided in the "Guide for Capitalization and Depreciation of Capital Assets," prepared by the Office of Statewide Reporting and Accounting Policy, to comply with the requirements of GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*. Items that have useful lives of one (1) year or less are not capitalized. The Commission shall use the following useful lives:

- Office furniture & fixtures – 10 years
- Automobiles – 5 years
- Computers and peripheral equipment – 5 years
- Office machinery and equipment other than computers – 6 years
- Computer software developed or purchased for internal use – 3 years
- Leasehold improvements – the lesser of 40 years (for building improvements) or the term of the lease

Summary of Capitalization Thresholds

Although the service life of certain buildings, improvements, and equipment, may extend beyond one year, the Commission has established minimum capitalization thresholds for administrative purposes. All purchases below the applicable class threshold are to be expensed in the current period.

Class	Capitalization Threshold
Equipment, Furniture, & Vehicles	$ 5,000
Computer Software	$ 100,000
Leasehold Improvements	$ 50,000

Financial Statement Reporting

GASB Statement No. 34, requires capital assets to be reported on the government-wide Statement of Net Assets and in the Notes to Financial Statements. In accordance with Statement No. 34, the Commission shall make the following four distinctions in the Statement of Net Assets and in the Notes to Financial Statements:

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1. Capital assets related to governmental activities that must be reported separately from those related to business-type activities.
2. Different major classes of capital assets.
3. Capital assets that are not being depreciated.
4. Accumulated depreciation that must be reported separately for each major class of depreciable capital assets. In addition, the following must also be reported:
   a. The historical cost of capital assets (or their fair value at the time of donation)
   b. Accumulated depreciation
   c. Additions during the period
   d. Deletions during the period

In the format of the disclosure, the Commission shall demonstrate the change between the beginning and ending book values.

Safeguarding Capital Assets

The Commission is accountable for ensuing that capital assets are adequately protected from damage, destruction, theft, and loss. To that end, the Commission must account for all capital asset acquisitions and dispositions.

The Commission shall adhere to the following procedures to safeguard and control capital assets:

1. The Executive Director and the Operations Manager have expenditure authority for the acquisition of capital assets as specified in Contracting Authority Policy No. 02-03 A4-5, as may be amended by the Commission.
2. The fair market value as of the date of donation shall be recorded for donated capital assets.
3. All capital assets having a value of more than $5,000 and a useful life of one year or more shall be monitored through the following inventory controls:

   A. Pertinent data on capital assets (including description, vendor, object code, payment document number, cost, serial number, and Service Tag Number, if applicable) shall be recorded on an inventory control listing in the period that the expenditure is identifiable in the Financial Accounting System. If the funding source of an asset is a grant, or the asset is acquired by gift or donation, the source or donor should be identified. If multiple funding sources apply, all sources should be identified.

   B. A periodic physical inventory shall be taken of all capital assets.

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Non-Capital Asset Identification
Certain equipment, which is not classified as capital equipment, regardless of the price of acquisition, shall be tagged with the County of San Bernardino's Equipment Service Tag to aid in the identification and control of the asset. The identification number shall be recorded on the asset listing. Items tagged include:

- Computers
- Monitors
- Servers
- Audio visual equipment
- Printers
- Cameras

Responsibility for tagging of assets depends on which department receives the asset. If the asset is received by the Information Services Department (ISD), then ISD will tag the asset. If the asset is received by F5SB, then F5SB shall submit to ISD a copy of the *Purchase Order*, a copy of the invoice and any pertinent information that may be missing from the invoice, such as the make and model and the serial number of the item. ISD will issue and send the Service Tag to F5SB and the Supervising Office Assistant (SOA) shall be responsible for ensuring that the asset is tagged.

Listing of Capital Assets and Other Non-Capital Assets
A listing of all Commission assets (including assets that do not meet the dollar threshold to be classified as capital assets, but require control) shall be maintained by the Accountant III. Removals or relocation of assets shall be documented by the SOA, or the Office Assistants assigned to report to the SOA, on the *Transfer of Office Equipment* form. The information provided on the *Transfer of Office Equipment* form shall be the source document for removal or reassignment of equipment made to the equipment listing. Items that are checked out are not documented on the *Transfer of Office Equipment*. If an item is checked out, then the temporary transfer of equipment shall be documented on an *Equipment Issuance Request* and the Equipment Issuance Procedure should be followed.

The Commission shall take a periodic inventory of all tangible equipment included on the listing of capital and non-capital assets.

Disposition of Capital Assets
Capital assets may be sold, surplused, donated to contracted service providers, or traded in for new assets. Regardless of the manner of disposition or the amount of the proceeds, the asset must be removed from the capital assets listing at its recorded value. The Commission shall record any disposition proceeds in the revenue account.