



Resolution 2020-053

BOARD OF COMMISSIONERS
SARPY COUNTY, NEBRASKA

Revising Capitalization Thresholds for Capital Assets Expenditures

WHEREAS, pursuant to Neb. Rev. Stat. § 23-104(6), the County has the power to do all acts in relation to the concerns of the County necessary to the exercise of its corporate powers; and,

WHEREAS, pursuant to Neb. Rev. Stat. § 23-103, the powers of the County as a body are exercised by the County Board; and,

WHEREAS, Sarpy County established capitalization thresholds for infrastructure and fixed assets on February 15, 2005, by Resolution 2005-29, and has used the minimum threshold amount of \$5,000 for all categories of capital expenditures since July 1, 2004; and,

WHEREAS, the Sarpy County's Chief Financial Officer and administrative staff have reviewed the following: Governmental Finance Officer's Association (GFOA) Best Practices and Advisories: "Establishing Appropriate Capitalization Thresholds for Capital Assets (1997, 2001, and 2006);" Governmental Accounting Standards Board pronouncements; GASB Concepts Statement No. 4, Elements of Financial Statements; GASB Statement No. 34 - Basic Financial Statements--and Management's Discussion and Analysis--for State and Local Governments; and GASB Statement No. 51 - Accounting and Financial Reporting for Intangible Assets, and have formulated updated criteria for capitalization thresholds for infrastructure and fixed assets, as set out in the attached Capitalization Thresholds for Capital Assets, which is incorporated herein by this reference; and,

WHEREAS, these updated thresholds will be used when reporting all infrastructure and fixed assets on the County's financial statements and departmental inventory reports.

NOW, THEREFORE, BE IT RESOLVED BY THE SARPY COUNTY BOARD OF COMMISSIONERS that the capitalization thresholds for applicable capital asset classes as set out in the attached Capitalization Thresholds for Capital Assets are hereby approved for periods beginning on or after July 1, 2019.

The above Resolution was approved by a vote of the Sarpy County Board of Commissioners at a public meeting duly held in accordance with the applicable law on the 25 day of February 2020

Attest:
SEAL




Sarpy County Chairman


for Sarpy County Clerk/Register of Deeds



Capitalization Thresholds for Capital Assets

PURPOSE: To establish capitalization thresholds for capital assets, including intangible assets, and to define responsibility for tracking controllable items that fall below the capitalization threshold.

BACKGROUND: The Government Finance Officers Association recommends that capitalization thresholds for governments never be less than \$5,000. Sarpy County has used this minimum threshold amount for all categories of capital expenditures for many years.

REFERENCES:

- Governmental Finance Officer's Association (GFOA) Best Practices and Advisories: "Establishing Appropriate Capitalization Thresholds for Capital Assets (1997, 2001, and 2006)."
- Governmental Accounting Standards Board pronouncements;
- GASB Concepts Statement No. 4, Elements of Financial Statements,
- GASB Statement No. 34 - Basic Financial Statements--and Management's Discussion and Analysis--for State and Local Governments
- GASB Statement No. 51 - Accounting and Financial Reporting for Intangible Assets

DEFINITIONS:

- "Buildings and building improvements": The capital asset class that includes all buildings owned by the County. Components of a building, not normally replaced, are considered part of the building. Building improvements include subsequent additions of a new wing or extension, structural renovations and improvements, etc.
- "Capital asset": Tangible or intangible assets that meet all three of the following: a) it must have an initial useful life that extends beyond a single reporting period, i.e., one year; b) it must be used in the operations of the county; and, c) it must not be specifically excluded by policy, e.g., capitalization threshold.
- "Capitalization threshold": The minimum dollar value at which Sarpy County elects to capitalize its assets for financial reporting.
- "Capitalize": To report capital outlays as capital assets in the statement of net assets.
- "Constructed capital asset": A capital asset that is created or produced by the County or on behalf of the County. A constructed capital asset can be the installation, assembly or creation of a new

facility; an addition, expansion, improvement, or replacement of an existing facility; the relocation of a facility; or an internally generated intangible capital asset (including software).

- "Construction work-in-process (CWIP)": The capital asset class that includes the cost of assets under construction or in development. These costs are accumulated and moved to the appropriate asset class when substantially complete and/or placed in service. Depreciation does not begin until the asset has been placed in service. Construction work-in-process is also referred to as work-in-process (WIP) and construction-in-process (CIP).
- "Controllable assets": Assets that cost less than the capitalization threshold but may still require tracking due to one or more of the following: a) to ensure legal compliance; b) to protect public safety and avoid potential liability, e.g. weapons; or c) to reduce risk of loss.
- "Fair value": Estimated dollar amount at which an asset might exchange between a willing buyer and a willing seller, neither being under compulsion, each having reasonable knowledge of all relevant facts, and with equity to both. "Estimated fair value" at acquisition may be obtained from manufacturers' catalogs or price quotes in periodicals, from objective appraisals, or similar sources. Estimated fair value is used in valuing donations.
- "Historical cost": The original cost of an asset at the time of acquisition including all ancillary charges (e.g., freight, installation, site preparation, etc.) to bring the capital asset to its intended location and to get it ready for its intended use. "Estimated historical cost" is an estimate of the value of an asset where actual historical cost is not available. An estimate may be derived using an alternative cost basis (e.g. current replacement cost) that is adjusted by an economic index to arrive at an estimate of the original historical cost.
- "Improvements other than buildings": The capital asset class that includes depreciable improvements to land other than those related to site preparation or conversion to a public road. This may include items such as retaining walls, sidewalks, parking lots, landscaping, berms, fencing, outdoor lighting, etc.
- "Infrastructure": Capital assets that are stationary or immovable in nature and that have useful lives that can be preserved over a longer time period than most capital assets. Infrastructure includes roads, bridges, drainage, water and sewer systems, and tunnels.
- "Intangible assets": An asset that lacks physical substance, is nonfinancial in nature, and has an initial useful life extending beyond a single reporting period. Examples of intangible assets are easements, rights of way, other land rights, patents, trademarks, licenses, permits and software.
- "Internally generated intangible assets": Assets created or produced by the County or an entity contracted by the County, or acquired from a third party vendor requiring more than minimal incremental effort on the part of the County to begin to achieve their expected level of service capacity.
- "Internally generated computer software": Software developed in-house using County workforce or by a third party contractor on behalf of the County; or purchased/licensed from a vendor but modified or customized by the County using more than minimal incremental effort before being put into service. Internally generated computer software activities can be grouped into three stages as specified in GASB Statement No. 51:

- "Software preliminary project stage": Activities in this stage include the conceptual formulation and evaluation of alternatives, the determination of the existence of needed technology, and the final selection of alternatives for the development of the software. Outlays associated with this stage are expensed as incurred.
- "Software Application development stage": Activities in this stage include the design of the chosen path, including software configuration and interfaces, coding, installation to hardware, and testing - including the parallel processing phase, and data conversion (only to the extent it is determined to be necessary to make the computer software operational). Outlays associated with activities in the application development stage should be capitalized.
- "Software post-implementation/operation stage": Activities in this stage include application training and software maintenance. Outlays associated with this stage are expensed as incurred.
- "Land": The capital asset class which includes all non-depreciable land and all associated rights with land ownership.
- "Land use rights": Land use rights may be purchased without the transfer of title and may include temporary easements, permanent easements, right-of-way, and development, air, timber and mineral rights. Land use rights are considered intangible assets.
- "Machinery and Equipment": The class of capital assets which generally includes all movable personal property and includes plant and other fixed equipment.
- "Purchased software": Software purchased or licensed and used with minor modifications. This does not include general software applications that are needed for basic computer operations or performing routine office tasks, the cost of which are normally bundled with the hardware cost or expensed.

POLICIES:

A. Capitalization thresholds for applicable capital asset classes are established as follows:

ASSET CLASS	Current Capitalization Threshold	Proposed Capitalization Threshold, Effective July 1, 2019
Land	All	All
Easements and land rights	All	All
Machinery & Equipment	\$5,000	\$10,000
Buildings and building improvements	\$5,000	\$50,000
Improvements other than buildings	\$5,000	\$50,000
Depreciable infrastructure	\$5,000	\$50,000
System software (purchased, licensed and internally generated)	\$5,000	\$50,000
Other intangible assets (patents, trademarks, copyrights, etc.)	\$5,000	\$50,000
Internally generated intangible assets	\$5,000	\$50,000

The threshold amounts are to be applied to the historical cost of capital assets (or fair market value for contributed assets) at the time of acquisition. Acquisition includes direct purchase, construction,

donation/contribution, capital lease, or any other means by which rights or title to property transfer to the County. Land, permanent easements, permanent land rights, and governmental infrastructure are not subject to capitalization thresholds.

Purchases of capital assets with a value under the applicable capitalization threshold will be expensed in the year purchased and recorded as such on the audited financial statement.

The capitalization thresholds are generally applied to individual items (per unit basis) and not to the total cost of grouped or combined acquisitions.

Any future change in capitalization threshold shall be applied to the County's existing capital assets inventory retrospectively if immaterial and management determines this to be appropriate treatment. If applied retrospectively, all capital assets having cost or assigned values that fall below the corresponding thresholds shall be removed from the capital assets inventory and the general ledger. All "controllable" equipment that falls below the threshold shall be held in a non-capital inventory for alternative tracking.

- B. Useful lives for purposes of recording accounting depreciation and amortization of county capital asset classes are established as follows:

ASSET CLASS	Current	Proposed
Machinery & Equipment	5 – 20 years	3 – 20 years
Buildings and building improvements	20 – 50 years	20 – 50 years
Improvements other than buildings	20 – 50 years	20 – 50 years
Depreciable infrastructure	15 – 50 years	15 – 50 years
System software (purchased, licensed and internally generated)	5 years	3 years
Other intangible assets (patents, trademarks, copyrights, etc.)	5 years	3 – 10 years
Internally generated intangible assets	5 years	3 – 10 years

- C. Responsibility for tracking controllable items:

Adequate controls must still be maintained for non-capitalized but "controllable" items of personal property. Each elected official or department head is responsible for securing and tracking all equipment provided by the County, regardless of whether or not an asset is capitalized. The Sarpy County Clerk is responsible for ensuring a system is in place to track controllable items and reporting to the State.

EFFECTIVE DATE: July 1, 2019



AGENDA ITEM REQUEST 20-057

Board Meetings - Feb 25 2020

Resolution

ITEM DESCRIPTION

Revise capitalization thresholds for capital assets expenditures.

OUTSIDE SPEAKER

Bill Conley

SUMMARY AND BACKGROUND

This recommendation is to modify our policy on capitalization thresholds for capital asset purchases. Capitalization thresholds are the minimum dollar value at which the county would record the expenditure as a capital asset and depreciate over time for financial reporting purposes rather than expensing the expenditure in the current year.

STAFF RECOMMENDATION

Approval

FISCAL IMPACT

Fiscal Year

n/a

Total County cost of project:

None

Is Item in current year budget?

Yes No

Does this item commit the County to future expenses beyond this amount?

Yes No

Special Instructions:

Resolution requested

ATTACHMENTS

[Resolution 2020-053 - Revise capitalization thresholds for capital assets expenditures](#)
[Capitalization Policy Recommendation - Feb 2020](#)
