Deschutes County Administrative Policy No. F-4
(replaces prior policies F-4, F-5, F-6)
Effective Date: 07/01/2025
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Revised Adoptions: 01/29/2007, 10/11/2023, XX/XX/2025

# CAPITAL ASSET POLICY

## I. STATEMENT OF POLICY

It is the policy of Deschutes County to establish guidelines to account for capital assets and non-capital assets to achieve multiple compliance objectives. These objectives include:

- Budgetary classification of capital outlay expenditures
- Capital asset financial statement reporting
- Physical control over both capital and non-capital items that may be sensitive to theft or loss
- Other Federal, State, and local regulations where applicable

## II. APPLICABILITY

This policy applies to all County departments, offices, and County service districts under the governance of the Board of County Commissioners.

## III. DEFINITIONS

- Capital Outlay Expenditures (Budget) – Expenditures are classified by character based on the fiscal period when the benefits for those expenditures are realized. Accordingly, capital outlay is classified separately from current expenditures because they are presumed to benefit both present and future fiscal periods.
- Capital Assets (GAAP) – Land, land improvements, easements, buildings, building and leasehold improvements, vehicles, machinery and equipment, works of art and historical treasures, infrastructure, and all other tangible or intangible assets that are used in operations and that have initial useful lives extending beyond a single reporting period.
- Non-Capital Asset – A capital-type item acquired for use in the conduct of County business which does not qualify as a capital asset because it falls below the cost or useful life thresholds for capital assets.
- Capitalization Threshold – The measure of value placed on an individual asset to determine its qualification for capitalization of expense in the financial records and includes all ancillary charges necessary to place the asset in service (shipping, installation costs, etc.). See Section B. 1. below for additional information.

## IV. POLICY

### A. Capital Outlay Expenditures

Budgetary and purchasing policies for capital outlay items:

1. Budget – The estimated cost of an item must be appropriated in the capital outlay category of the department or fund for the fiscal year in which the item will be purchased. In addition, a description of the item must be included in the capital request section of the budget document explaining the need for the item.

2. Acquisition – County purchasing rules must be followed in the purchase of capital items. Purchasing requirements are dependent on the amount and type of purchase.

Documentation must be maintained in the County accounting/procurement system as evidence that all applicable compliance related to purchasing rules have been met.

3. Departments must contact the Central Budget Office for a budget adjustment if:
   a. The department unintentionally budgeted capital items within the personnel services or the material and services roll up category.
   b. The department requests to transfer budget appropriation from the personnel services or the material and services roll up category for the purchase of a non-budgeted additional capital item.
   c. The department requests to substitute a budgeted capital item with a different non-budgeted capital item of equal or lesser expense.

4. Departments must contact the Central Budget Office for a budget resolution presented before the Board of County Commissioners if:
   a. The department requests the purchase of a non-budgeted additional capital item that cannot be funded through appropriation savings within the personnel services or materials and services roll up category.
   b. The department requests to recognize increased revenue to cover the purchase of a non-budgeted additional capital item.
   c. The department requests to substitute a budgeted capital item with a non-budgeted additional capital item of greater expense and cannot cover the expense with appropriation savings within the personnel services or material and services roll up category.

5. Additional capital items and capital substitutions are subject to the County's purchasing rules.

## B. Capitalization of Expenditures

1. Capitalization Thresholds
   The Finance Department will capitalize assets which have an expected useful life of more than one (1) year and a value above the threshold for that general asset category. The County may acquire groups of smaller items that fall under the capitalization threshold individually but clearly exceed it in the aggregate. In such situations, the Governmental Accounting Standards Board (GASB) Implementation Guide No. 2021-1, which provides additional guidance on capitalization including bulk/aggregate purchases, will be followed using the applicable bulk purchases threshold for the general asset category.

| Asset Category | Asset Life (years) | Individual Item Cost (dollars) | Bulk Purchase (dollars) |
|---|---|---|---|
| Land, including permanent rights-of-way | n/a | 1 | 1 |
| Land Improvements | 10-30 | 10,000 | 100,000 |
| Buildings | 30-60 | 10,000 | 100,000 |
| Building and Leasehold Improvements | 10-15 | 10,000 | 100,000 |
| Infrastructure | 20-50 | 10,000 | 100,000 |
| Machinery and Equipment | 2-20 | 10,000 | 100,000 |
| Vehicles | 2-20 | 10,000 | 100,000 |
| Furniture | 2-20 | 10,000 | 100,000 |
| Other capital assets, including intangible assets* | 3-10 | 10,000 | 100,000 |

*Though leases under GASB Statement No. 87 and Subscription-Based Information Technology Arrangements (SBITAs) under GASB Statement No. 96 may be considered intangible, their capitalization should follow the thresholds of the applicable category of their underlying asset as described later.

Assets subject to cost recovery will be depreciated (or amortized) through the accounting system and will be appropriately reported on the County's annual financial statements. The County aligns financial reporting for specific capital asset classes with pronouncements from the GASB. This includes accounting for leases, internally developed software, and SBITAs.

Expenditures improving assets must be capitalized (amounts added to the carrying amount of the asset) when one of the following is achieved:

- Lengthening a capital asset's initially estimated useful life, or
- Increasing a capital asset's ability to provide service through greater effectiveness, efficiency or functionality (e.g. additional software modules).

2. Bulk/Aggregated Items

   According to GASB, some assets individually may fall below the capitalization threshold but may be purchased in large quantities. Agencies should aggregate such assets and consider the materiality and significance of them and if material or significant capitalize such individually or in the aggregate.

   If equipment and furniture purchases of similar items that have an aggregated value of $100,000 or more are captured as a capital asset despite per unit cost (i.e. the IT purchases 70 laptops for $5,000 per unit, these items will be deemed capital assets as a bulk purchase). This threshold is subject to change based upon management assessment.

   The aggregated items should be maintained separately in the accounting system for easier identification during inventorying and disposal.

3. Exceptions to Capitalization Thresholds
   a. An aggregated purchase greater than $100,000, where the individual items cost less than $5,000, will not be considered a bulk purchase.
   b. Capital Projects for Renovation and Remodeling – Building improvements relating to renovations or remodels that are less than $100,000 and do not extend the useful life of the asset, will not be capitalized as building improvements and will be expensed as Materials and Supplies.
   c. Grant-Funded Equipment – Many grantor agencies permit the acquisition of non-expendable equipment with project funds provided the equipment is required to perform the project. It is necessary to know who owns the equipment which is addressed in the grantor's guidelines and/or in the property clause of the agreement. It is the responsibility of the primary department receiving the grant to ascertain the specific requirements of the award prior to ordering equipment. Capitalization will follow the grantor requirements when present.
   d. Land and Leasehold Improvements – Some land improvements are inexhaustible, therefore not depreciated. Leasehold improvements will not be depreciated beyond the term of the lease, including any extensions reasonably anticipated to be exercised.

**C. Capital Assets Tracking Requirements**

Capital assets will be tracked by the County Finance Department centralized accounting and control system to help protect such assets from the danger of theft or misuse. This control system includes tracking asset serial numbers (or other identifying asset numbers), and recording information pertaining to the asset (cost, date of acquisition, manufacturer, location, and other information as required). To validate the accuracy and completeness of the database, the County Finance Department will coordinate with departments to perform a physical inspection of its capital assets, either simultaneously or on a rotating basis, so that all the County's capital assets are accounted for at least once every two fiscal years, to ensure the asset's continued value, condition and location, and to update any other information required for the asset.

**D. Capital Assets Transfers and Disposals**

A capital asset Disposal/Transfer form must be completed when a capital asset is disposed of, taken out of service, or transferred to another location or department. The department initiating the disposal, removal from service, or transfer is responsible for completing the Disposal/Transfer form and submitting it to the Finance Department.

Lost or stolen items. If a department is unable to locate an item, or if an item has been stolen, the department will give written notice to Risk Management. The notice will include a description of the effort to locate the item and the determination of the loss. Stolen assets should also be reported to the proper authority and a copy of the report forwarded to Risk Management. The Disposal/Transfer form must be completed and submitted to the Finance Department.

**E. Non-Capital Assets**

In addition to the Capital Assets for external reporting purposes and Capital Outlay for budgetary and internal reporting purposes, the County will also exercise control over its non-capital assets to ensure accountability, protect property, or to comply with regulatory or granting agencies.

At the department's discretion, non-capital assets and theft-sensitive items may be tracked at the department level. The determination of which items must be tracked may vary between County departments based on the risk and compliance environment in which the department operates. For example, a granting agency may require accountability for purchased items below the County's dollar threshold for capitalization.

Non-Capital Asset Control - Departments may maintain inventory control systems for non-capital assets and theft-sensitive items which are designed to meet departmental compliance and reporting needs.

**F. Leases (GASB 87)**

1. Lessee Agreements – Records will be maintained for each externally owned asset leased to the County.

2. Lessor Agreements – Records will be maintained for each county-owned asset leased to another party.

3. Lease Criteria – All contracts that meet the following criteria shall be reported as a lease.
   a. The contract conveys control of the right to use another entity's non-financial asset (land, buildings, vehicles, equipment).
   b. The lease term is for a period of one year or longer.

   c. The transaction is an exchange or exchange-like transaction (i.e., the market value of the leased asset is not significantly higher than the amount paid, such as a lease payment of $1).
   d. The present value of total payments over the lease term, including any renewal options, is $10,000 or more.

      The asset and corresponding liability will be reflected in the financial statements of the County.

4. Exclusions – Contracts that transfer ownership of the asset at the end of the contract are not considered leases under GASB 87.

### G. Subscription-Based Information Technology Arrangements (SBITA's) (GASB 96)

1. SBITA Agreements – Records should be maintained for each SBITA agreement.

2. SBITA Criteria – A contract will be reported as a SBITA if it meets all the following criteria:
   a. The contract conveys control of the right to use another party's software, alone or in combination with tangible capital assets, for a specified period in an exchange or exchange-like transaction.
      i. SBITA accounting applies to acquired software only (i.e., expenditures).
      ii. Common SBITAs include cloud-based and subscription software (SaaS, PaaS, etc.).
   b. The subscription term includes:
      i. The non-cancellable period of use.
      ii. Periods covered by renewal options that are reasonably certain to be exercised.
      iii. Periods covered by termination options that are reasonably certain not to be exercised.
   c. The present value of total subscription payments, including renewal options, is $10,000 or more.

3. Exclusions – Periods where both the County and vendor have the option to cancel without the other party's permission or require mutual agreement to extend (e.g., a contract with a 60-day mutual cancellation clause is considered a short-term SBITA). Fiscal funding or cancellation clauses that allow termination due to lack of appropriated funds should be ignored when determining the subscription term.

Approved by the Deschutes County Board of Commissioners on June XX, 2025.

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Nick Lelack, County Administrator