

Carter County, Tennessee
Financial Policies and Procedures Manual
Chapter 10 – Capital Assets
(Revised 2.1.2021)

Section 10.1 General

Carter County expends a substantial amount of public funds to acquire and maintain various capital assets necessary for the efficient and effective operation of county government. Capital assets must have a useful life in excess of one year and a cost or fair value as presented below in **Table 10-1**.

Capital assets include Land, Land Improvements, Construction in Progress, Buildings, Building Improvements, Equipment, Furniture and Fixtures, Vehicles, and Other Capital Assets. Intangible capital assets include software and *permanent* easements. In certain instances, leases must be recorded as capital assets (see GASB Statement No. 87 for guidance).

Accountability for County owned assets must be properly established and communicated. Ultimate responsibility lies with officeholders. County employees are responsible for the proper use and care of assets assigned to/used by them.

Section 10.2 Definitions

Construction in Progress - construction/renovation projects spanning more than one fiscal year; started but not completed at fiscal year-end (June 30).

Building Improvements – renovations or additions to existing buildings which extend the useful life or enhance the functionality of the building.

Land Improvements – permanent (non-movable) improvements to land that have a limited useful life. Examples include fences, retaining walls, parking lots, and most landscaping.

Infrastructure – long-lived capital assets that are normally stationary in nature and can be preserved for a significantly greater number of years than most capital assets. Examples include roads and bridges.

Acquisition costs – capitalizable costs incurred only after it becomes probable that an asset will be acquired. Consequently, the cost of a feasibility study is *not* capitalizable, even if the associated asset is capitalized.

Fair value – the price that would be received to sell an asset in an orderly transaction between market participants at the donation date.

Personal Property - any county-owned asset other than real property.

Estimated Useful Life – number of years an asset is estimated to be in service.

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Depreciation – assigning and expensing the cost of a capital asset as it is consumed/worn out over its estimated useful life. Recognized as an expense in the *Government-wide Statement of Activity*.

Straight-line Depreciation – the allocation of an equal amount of depreciation expense to each benefitting period. Carter County will utilize this depreciation method.

Accumulated Depreciation – cumulative depreciation up to a single point in a capital asset's life.

Carrying/Book Value – Recorded cost of a capital asset less its accumulated depreciation.

Gain or loss on disposal of capital assets – difference between the book value and the proceeds or trade-in value received from the disposition of a capital asset.

Maintenance and Repair Expense – Costs that essentially return the capital asset to its original condition/preserve the asset's utility. These costs are to be expensed in the period incurred and *not* recorded as an asset.

Physical Inventory – at least an annual inspection of assets and verification of details (existence, item description, VIN, serial number, model #, location, condition, etc.) to inventory control records. This process also includes verifying items on the inventory listing with actual assets.

Detailed Trial Balance – a report generated from Skyward for a certain time period which provides details for each disbursement posted to a specified expenditure account number. Details include payment date and amount, vendor, and brief description of the item purchased.

Expenditure Report – a summary report generated from Skyward for a specified time period (normally on a monthly and year-to-date basis) which provides amounts posted to line items within major categories (e.g. County Mayor, Sheriff, Animal Shelter, Landfill Operation and Maintenance) in County Funds, (e.g. Administration, Highway and Bridge Maintenance) in the Highway/Public Works Fund, and (e.g. Regular Instruction Program, Special Education, Transportation) in School Funds. NOTE – these reports are included in the monthly County Commission packets, are available on the County's website, can be obtained from Skyward by each officeholder, and may be provided by the Finance Department upon request.

Asset Impairment – a significant, unexpected decline in the service utility of a capital asset. An impairment must also be permanent. Indicators include: (1) physical damage; (2) changes in laws, regulations, or environmental factors; (3) technological developments or evidence of obsolescence; (4) change in the manner or duration of use; and (5) stoppage of construction or development.

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Section 10.3 Capital Asset Categories

Expenditures for capital assets are primarily charged to line items 700-799 in the Governmental Funds. See **Table 10.1** for criteria necessary for determining, recording, and depreciating Capital Assets. Carter County will account for these assets as follows:

1. Land - recorded at cost regardless of the purchase price; however, land purchased for a nominal amount (e.g. \$1) should be treated as a donation. Donated land will be recorded at fair value on the date of donation. The land under a building or road must be classified as land rather than included as part of the cost of the building or road. Preparation costs with an indefinite useful life (site improvements such as excavation, fill, grading) should be included in the capitalized cost of land. Land is a non-depreciable asset.
2. Land Improvements – actual costs shall be capitalized and depreciated (Table 10.1).
3. Construction in Progress – capitalized cost must include construction costs and architect/engineer fees. Outstanding purchase orders/contract balances as of June 30 must *not* be included in capitalized costs. Upon project completion, total accumulated costs shall be transferred to the appropriate capital asset category (e.g. Buildings). This capital asset is non-depreciable.
4. Buildings - purchases shall be recorded at acquisition or construction cost. Buildings donated to the County shall be recorded at fair value. Certain components (roofs, HVAC, and flooring, etc.) shall be recorded separately and depreciated over shorter periods than that of buildings (40 years) since these assets are used up more quickly.
5. Building Improvements - actual costs shall be capitalized and depreciated (Table 10.1).
6. Infrastructure – primarily roads and bridges which shall be recorded at actual cost (including labor and equipment costs for projects completed by the Highway Department) and depreciated in accordance with **Table 10.1**. Infrastructure donated to the County shall be recorded at fair value (i.e. acquisition value) on the date of donation; however, newly constructed roads and bridges donated to the County by the Federal Government or the State of Tennessee are to be recorded at the cost paid by the other governments. The fair value of donated roads accepted by County Commission should be determined by the Road Superintendent and the Finance Director. Costs (including labor and equipment) for paving and resurfacing of existing roads shall be depreciated over a 20-year period and must be recorded and depreciated separately from the roadbed. Costs for rehabilitating/updating bridges shall be depreciated over a 15-year period (costs for resurfacing bridges shall not be capitalized).
7. Equipment – amount capitalized shall include actual costs plus installation charges and the value received for any item(s) traded-in. Equipment types include Highway

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(dozers, graders, loaders, mowers, paving machines, backhoes, shop equipment, etc.), Law Enforcement (records management systems, radios, towers, etc.), Health Department (imaging machines, dental, etc.), Solid Waste (trailers, balers, backhoe, dozer, etc.), and School Department (bleachers, athletic equipment, instruction, special education, maintenance and shop equipment, etc.)

8. Vehicles – all vehicles for which title and license must be obtained are to be capitalized and capitalized cost shall include actual cost plus the value received for any item(s) traded-in. The cost of any add-on equipment (for police cruisers, emergency vehicles, etc.) necessary for preparing the vehicle for its intended use shall be capitalized and depreciated separately from the vehicle (using same useful life as vehicle).
9. Other Capital Assets - actual cost plus the value received for any item(s) traded-in. Items in this category include software.

Certain leased assets must be capitalized per *GASB Statement No. 87*. Qualifying leases should be categorized according to the associated asset, but it may be reported separately.

Estimated useful lives are determined for each type of depreciable capital asset; however, asset types within the same category may have different estimated useful lives. In addition, a specific life may be assigned to a certain asset if utilizing the standard term would have a significant effect on the replacement schedule or actual using up of the item. Useful life estimates should first be determined by the County's own experience with similar assets. If that information is not available (due to inadequate records or no experience with an equivalent asset), the experience of other local governments should then be considered. Guidelines established by authoritative sources such as the Tennessee Comptroller of the Treasury, Governmental Finance Officers Association, American Institute of Certified Public Accountants, and Internal Revenue Service should also be considered. Useful lives should be periodically compared with actual experience and adjustments to accounting/inventory records made if necessary.

Proper records must be maintained for all applicable asset purchases to ensure that the items are tracked from acquisition through proper disposition. TCA 10-7-404(a) requires that a comprehensive inventory of all capital assets be retained for at least five years.

All asset acquisitions are reported as current year line item expenditures on the County's financial statements (*Expenditure Reports*) for the Governmental Funds (General, Solid Waste/Sanitation, Health Department, Drug Control, Sports and Recreation, Highway/Public Works, General Purpose School, School Federal Projects, Central Cafeteria, Head Start, and Capital Projects) in accordance with the modified accrual basis of accounting. General Accounting Standards Board (GASB) Statement #34 requires the County to also present per audit Government-Wide Financial Statements (*Statement of Net Position* and *Statement of Activities*) prepared on the accrual basis of accounting, which instead recognizes fund capital expenditures as assets on the *Statement of Net Position* and reports associated costs (depreciation) on the *Statement of Activities* over multiple fiscal years as the assets are

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used up. *NOTE – these financial statements are presented in Carter County’s Annual Audit Report available on the Tennessee Comptroller of the Treasury’s website.*

Criteria for determining and reporting capital assets is presented below.

Table 10-1

	Capitalization Threshold \$	Recorded \$ Value		Estimated Useful Life (years)
		Purchase	Donation	
Land	\$0.01	Cost	Fair	N/A
Land Improvements:				
Exhaustible	15,000	Cost	Fair	20
Inexhaustible	15,000	Cost	Fair	N/A
Construction in Progress	(A)	Cost	Fair	N/A
Buildings:				
Structure	20,000	Cost	Fair	40
Roofs	15,000	Cost	Fair	20
HVAC	10,000	Cost	Fair	15
Flooring	10,000	Cost	Fair	10
Improvements	20,000	Cost	Fair	40
Roads:				
Construction	20,000	Cost	N/A	20
Resurfacing	15,000	Cost	N/A	20
Donated	15,000	N/A	Fair	20
Bridges:				
Construction	20,000	Cost	N/A	40
Rehabilitation	20,000	Cost	N/A	15
Donated	20,000	N/A	Fair	40
Equipment:				
New	10,000	Cost	Fair	5
Used	10,000	Cost	Fair	4
Vehicles:				
New	10,000	Cost	Fair	5
Used	10,000	Cost	Fair	4
Buses	10,000	Cost	Fair	10
Other Capital Assets	10,000	Cost	Fair	(B)

(A) = No minimum value if the project is estimated to cost \$10,000 or more.

(B) = To be determined on a case-by-case basis by the Official and Finance Director.

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Section 10.4 Records

Various records required are noted throughout the remaining sections of these policies and procedures. It is essential that these records are complete, accurate, and current, in order to facilitate the preparation and monitoring of reliable replacement schedules and realistic budgets, and properly insure against damage and theft (see Chapter __ *Risk Management*).

Section 10.5 Accountability

Each officeholder is responsible for all county owned assets purchased for or transferred to their office. They must ensure that applicable assets are clearly identified as county property, inventoried/reported, used safely and appropriately, properly secured, and used only by employees for the conduct of county business. The officeholder may assign responsibility for controlling and accounting for capital assets to an employee; however, this action must be documented in writing and be submitted to the Finance Department prior to assignment. The condition of each capital asset should be assessed and documented at least annually (**Form 10.3**). This practice will assist in developing a sound plan and budget for capital asset maintenance and replacement.

In order to track and maintain control of county assets, accurate and up-to-date records must be properly maintained. Officeholders should generate or submit a request to the Finance Department for a *Detailed Trial Balance Report* at least once per fiscal year. These reports should be reviewed to help ensure that all applicable asset purchases are properly reported (**Form 10.1**) and added to their inventory (**Form 10.8**). Transfers, sales, disposals, loss, or theft of tagged assets must be documented and communicated promptly to the Finance Department for proper asset accounting.

Equipment and vehicle acquisitions must be tagged and recorded on the proper Forms. Asset identification numbers are necessary for tracking and control purposes. Prenumbered adhesive property tags will be available in the Finance Department. Property tags shall be attached (*at the time of possession*) to assets where practical (stencil/engraving may be used in other instances). A semi-permanent (removed only when the vehicle is properly disposed of) decal at least 100 sq. inches in size and at a minimum clearly displays the county name and department shall be attached to both front or rear doors of all vehicles (with limited exceptions including vehicles used for undercover law enforcement operations). Clear identification helps ensure that County assets are used only for government business and suspected misuse can be reported by the public

A physical inventory must be performed at least annually by all County officeholders, the Highway Department, and the School Department. Each officeholder is responsible for confirming the completeness and accuracy of their inventory listing. Any item that cannot be located shall be reported to the Finance Department, Budget Committee, and County Commission as a stolen, lost, or unaccounted for county asset (**Form 10-4**). The required

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Form must be filed with the Finance Department no later than noon on the Tuesday which precedes the second Monday of each month to ensure its inclusion in the Budget Committee packet. Theft of county assets meeting inventory and reporting requirements must be reported to local law enforcement upon discovery.

Officeholders should complete a physical inventory of their equipment and vehicles any time they suspect that assets are missing, stolen, being used for non-county purposes, or are not at their normal location as recorded on inventory reports.

The Finance Department shall conduct a periodic independent review/physical inventory of each officeholder's capital asset inventory (at least one office/departments per fiscal year). Primarily, this will consist of verifying equipment, vehicles, and other capital assets. Verification may consist of selecting a test or sample of items using a random-number generator or other systematic selection method; however, the lesser of 10 items or 50% of total items must be selected. Any discrepancies shall be reviewed, and appropriate actions taken and reported (**Form 10.4**). Periodic verification helps ensure adequate control and accuracy of the County's inventory.

All equipment and vehicles must be properly maintained (regular scheduled maintenance and repairs, cleaning, correct usage). All scheduled maintenance and periodic repairs should be performed (and logged on **Form 10.7**) on all equipment and vehicles. These logs must be filed with any applicable request for disposition (**Form 10.2**) submitted to the Finance Department.

Proper training and supervision necessary for the safe and proper operation of all equipment and vehicles must be provided to all employees. Injuries and damages may be avoided or minimized by ensuring equipment and vehicles are properly maintained and only trained employees use these assets. All incidents involving injuries or property damage must be reported to the Deputy Finance Director immediately (**Chapter ____**).

A physical inventory should be performed whenever there is a change in officeholders. The outgoing and incoming officeholder must sign and date the inventory report or related document to indicate the transfer of accountability for County owned assets.

Separate reports/inventory schedules must be maintained for each of the following: inventory on hand as of July 1 (**Form 10.3**), current year additions (**Form 10.8**), current year deletions/dispositions (**Form 10.9**), and inventory on hand as of June 30 (**Form 10.3**).

Section 10.6 Disposition of County Assets

Disposition methods include, but are not limited to, surplus sale (including GovDeals.com), salvage and scrap sale, donation, transfer, recycling, discarding, and destruction.

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When an officeholder determines that property is no longer needed or useful, they should notify other offices of the property's availability. Transfers between offices must be documented with *Asset Transfer Form (Number 10-6)*. If no other office claims the property, the accountable office must submit a properly completed *Request for Disposition of County Asset Form (Number 10.2)* and a *Request to Declare County Property as Surplus Form (Number 10.5)* to the Finance Director. The Finance Director shall review and forward the Forms to the Budget Committee and County Commission for approval.

County property tags and other identifying information (county seal/decal, stenciling, property sticker, etc.) must be removed by the officeholder prior to the disposing of any county asset. Pre-numbered property tags shall be submitted to the Finance Department upon removal.

Surplus capital assets (excluding real property) shall be sold at public sale or public auction (including internet auctions) to the highest bidder by the Purchasing Agent (Finance Director). The Deputy Finance Director shall identify and organize surplus items until such sale or auction is held. Real property owned by the County is to be sold by the Purchasing Agent (Finance Director) at public sale. Websites, such as GovDeals.com, may be utilized for listing surplus items for auction (TCA 5-1-128).

- *NOTE - property acquired by the County through delinquent property tax sales and property being held for resale must not be capitalized. See Chapter ____ for further details.*

Surplus items such as vehicles and large equipment stored outside must be listed for public sale within 30 days of being declared surplus. However, equipment and vehicles may be retained if it is probable that the County will benefit financially from using the asset as a “trade-in” on upcoming purchases of other equipment and vehicles.

Equipment and vehicles that are not sold at auction after three attempts may be recycled or discarded with the approval of the Budget Committee and County Commission.

School Department – The Board of Education (BOE) has the authority to declare school assets as surplus and determine that assets should be sold. The purchasing agent (finance director) should conduct sales of surplus real property according to the direction of the BOE and sales of other asset types in accordance with TCA 49-6-2007. Per TCA 49-6-2007, all local school systems that receive any state funds shall sell all surplus property within ninety (90) days of its being declared surplus, to the highest bidder after advertising in a newspaper of general circulation at least seven (7) days prior to the sale. The property may be sold by internet auction, which may be through a web site maintained by the BOE or the County. Per TCA 49-6-2006(c)(2), the board shall advertise the sale in a newspaper of general circulation, and include in the advertisement the Internet web site address and other necessary information concerning the sale, and may advertise the sale and information on a web site maintained by the LEA or the local government. The board of education may also transfer surplus real or personal school property to the county or to any municipality within the county for public use, without the requirement of competitive bidding or sale. If the board

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believes that a negotiated sale will realize the best price obtainable for any property, the board shall advertise in a newspaper of general circulation in the county that the property is for sale and a negotiated sale shall not be completed until thirty (30) days after the publication of the legal notice. The board shall then approve and record the price and name of the purchaser of any property so sold.

When capital equipment that was purchased with federal dollars is no longer needed for the original project or program or for other activities currently or previously supported by a federal agency, disposition of the equipment shall be made as follows:

1. Items of capital equipment with a current per-unit fair market value of less than \$5,000 may be retained, sold, or otherwise disposed of with no further obligation to the awarding agency; or,
2. Items of capital equipment with a current per unit fair market value in excess of \$5,000 may be retained or sold, and the awarding agency shall have a right to an amount calculated by multiplying the current market value or proceeds from sale by the awarding agency's share of the equipment.

Section 10.7 Impaired Assets

Impaired assets that will no longer be used in operations should be removed (written-off) from capital asset inventory records and then be classified as an *Asset Held for Sale, if applicable*. Impaired assets that will continue to be used in operations must have their carrying (book) value decreased to reflect the impairment. The amount of the decrease must be based on a percentage of service utility loss. The Finance Director will determine which of the three basic approaches (Restoration, Service Units, or Deflated Depreciated Replacement Cost) is optimal for calculating the estimated amount of the impairment loss.

Section 10.8 Donation and Transfer of County Assets

Asset transfers between the BOE and the County must be approved by County Commission and the BOE.

Transfer or donation from the County to a governmental or non-profit entity outside of Carter County Government requires Budget Committee and County Commission approval.