SOCORRO COUNTY
BOARD OF COUNTY COMMISSIONERS
RESOLUTION № 2012-59

CAPITAL ASSET POLICY

A Resolution Relating to the proper accounting for capital assets, the adoption of the state statutory capitalization limit; and, the proper disposal of those assets in accordance with applicable statutes.

WHEREAS, the Board of County Commissioners of Socorro County met in a regularly scheduled meeting on June 14, 2012 at the Socorro County Annex Building, 198 Neel Avenue, Socorro, New Mexico; and,

WHEREAS, NMSA 1978, Section 12-6-10 (2005) requires that the County "at the end of each fiscal year, conduct a physical inventory of movable chattels and equipment costing more than five thousand dollars ($5,000)" under its control" and that its capital asset inventory list any item costing more than $5,000, effective June 17, 2005; and,

WHEREAS, Section 2.20.1 of NMAC requires agencies to properly account for capital assets; and,

WHEREAS, Section 2.20.1.8 of NMAC describes the required capital asset accounting system; and,

WHEREAS, Section 2.20.1.15 of NMAC describes the proper controls over capital assets; and,

WHEREAS, Section 2.20.1.16 of NMAC describes the statutory annual inventory requirement; and,

WHEREAS, Section 2.20.1.18 of NMAC describes the requirement to follow the applicable statutes when disposing of capital assets; and,

NOW THEREFORE, BE IT RESOLVED that the Board of County Commissioners adopts the statutory capitalization limit for asset items costing $5,000 or more that were acquired since June 17, 2005.

NOW THEREFORE, BE IT FURTHER RESOLVED that the Board of County Commissioners adopts the attached Capital Asset Policy.

APPROVED, ADOPTED, AND PASSED on this 14th day of June, 2012.

BOARD OF COUNTY COMMISSIONERS

DANIEL P. MONETTE, CHAIRMAN

PAULINE JARAMILLO, VICE-CHAIR

PHILLIP ANAYA

RUMALDO J. GRIEGO

JUAN JOSE GUTIERREZ

ATTEST BY:

REBECCA (BECKY) VEGA, COUNTY CLERK

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I. Purpose.

The purpose of this policy is to provide guidelines and regulations for the recording and depreciation of capital assets.

Capital assets are real or personal property that have a value equal to or greater than the capitalization threshold for their respective asset class and have an estimated initial useful life of greater than one year. Additionally, this policy applies to intangible assets as well.
It is also the county's responsibility to ensure proper accountability of certain other purchases (sensitive items) made with funds that do not represent investment in general fixed assets. This policy will encompass that responsibility as well.

II. Administrative Policies

a. Fiscal Responsibility

i. County Commission

1. Determine policy for proper acquisition, disposal, transfer and depreciation of fixed assets and policy for notification to the State of New Mexico.
2. Review findings related to internal audits conducted by internal and external auditors.
3. Approve list of items declared surplus and suggested disposal methods pursuant to NMSA 1978, Section 13-6-1 (2007) (i.e., sale, scrap, etc.).

ii. Finance Office

Areas of responsibility are outlined below:

1. Provide administrative officials with listings of inventory for which they are held accountable.
2. Maintain inventory listings of all capital assets and sensitive items determined to be tracked.
3. Copies of available documentation on all capital assets will be maintained in separate files as long as asset is actively on the books. Documentation on sensitive items such as computers and computer related items that do not meet the threshold will not be required.
4. Tagging of all capital assets as determined by this policy and input of all relative information to the computer system.
5. Removal of tags and retirement of assets from computer records upon proper notification by appropriate departments and approval from the Board of County Commission, State Auditor, and Department of Finance.
6. Reconcile and report differences between annual fixed asset inventory and actual physical inventory to Department Heads, County Manager, and County Commission.

iii. Department Heads and Elected Officials

Department heads and elected officials are responsible for the custody and maintenance of all assets purchased for or assigned to their office.

1. Report the theft or loss of property immediately to the Finance Director by telephone to be followed by a letter or memorandum to the Finance Director. A police report should be obtained on all losses suspected of being stolen and submitted to the Manager's office for insurance reporting.
2. Report to the Finance Director any assets deemed to be surplus and unneeded by this department so that transfer or disposal can proceed.
3. Any transfer or disposal of assets by department heads and/or elected officials shall be documented in writing to relieve that official of said responsibility.
4. Allow Finance Director access to all records necessary to aid in the determining of proper disclosure of fixed assets for reporting purposes.
5. Designate person(s) for the custody and control of departmental property. The name of this person shall be submitted to the Finance Director for direct communication purposes. If a name is not submitted, the Department Head/Elected Office will serve in this role.
6. Notify Finance Director of new asset acquisitions not currently tagged.

III. Capital Asset Classes

a. Land

Land is defined as the surface or crust of the earth, which can be used to support structures and roadways, and may be used to grow crops, grass, shrubs, and trees. Land is characterized as having an unlimited life (inexhaustible). Land is to be capitalized but not depreciated. It is recorded at actual cost, or a historical cost estimate if actual cost is unknown, and remains at that cost until disposal.

i. Non-Exhaustible

Expenditures for improvements that do not require maintenance or replacement are capitalized but not depreciable. Such expenditures are to bring land into condition to commence erection of structure, expenditures for improvements not identified with structures, and expenditures for land improvements that do not deteriorate with use or passage of time are additions to the cost of land and are not exhaustible and therefore not depreciable.

ii. Exhaustible

Other improvements that are part of a site, such as parking lots, landscaping, and fencing are depreciable.

b. Buildings & Building Improvements

i. Building

A Building is a structure that has a roof, is partially or completely enclosed by walls, and is not intended to be transportable or moveable. It is generally used to house persons, property, and fixtures. Buildings should be recorded at either their acquisition cost or construction cost. Examples of items to be capitalized as buildings are as follows:

1. Original purchase price and any other costs associated with getting the building ready for use.
2. All project costs associated with the original construction of a building.

ii. Building Improvements

Building improvements that extend the useful life of a building and meet the capitalization threshold should be capitalized. (For retroactive recognition of site and facility improvements, only those projects completed within the last five years will be considered unless meaningful data is readily available for preceding years.). Replacement of an original utility would qualify if the new item is of significantly improved quality and higher value compared to the older item. Replacement or restoration to original utility level would not. Determinations will be made on a case-by-case basis. Examples are as follows:

1. Replacement of old shingle roof with a new fireproof tile roof.
2. Upgrade of heating and cooling systems

Maintenance expenses are incurred to keep assets in normal operating condition and to help maintain the original use of the building. Maintenance expenses do not extend the life of the building beyond the expected useful life at acquisition, nor do they increase the future service potential of the building. Maintenance costs are expensed and not capitalized. Examples are as follows:

1. Plumbing or electrical repairs.
2. Interior Maintenance such as repainting, replacement of carpet, tile, blinds or wallpaper.

c. Leasehold Improvements

Leasehold improvements are defined as construction of new buildings or improvements made to existing structures by the lessee, who has the right to use these leasehold improvements over the term of the lease. Movable equipment or office furniture that is not attached to the leased property is not considered a leasehold improvement. If capitalized, they will be depreciated over the shorter of (1) the remaining lease term or (2) the useful life of the improvement.

d. Infrastructure

Infrastructure is 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. Improvements made to infrastructure that materially extend the useful life and/or increase the value of the infrastructure should be capitalized. Determinations will be made on a case-by-case basis.

e. Equipment

Equipment is defined as fixed or movable tangible asset to be used for operations, the benefits of which extend beyond one year from the date of acquisition. Examples are as follows:

1. Audio/Visual Equipment
2. Computers/Computer equipment
3. Furniture/Equipment/Machinery
4. Kitchen/Cafeteria Equipment
5. Telecommunications/Telephone Systems
6. Leased purchased equipment
7. Vehicles

f. Lease Purchase Assets

Assets should be capitalized if the lease agreement meets any one of the following criteria:

1. The lease transfers ownership of the property to the lessee by the end of the lease term.
2. The lease contains a bargain purchase option.
3. The lease term is equal to or greater than 75 percent of the estimated economic life of the leased property.
4. The present value of the minimum lease payments at the inception of the lease, excluding executory costs, equals at least 90 percent of the fair market value of the leased asset.

g. Construction In Progress

Construction in progress reflects the economic construction activity status of buildings, infrastructure, additions, alterations, reconstruction, installation which are substantially incomplete. Each project and its related expenditures must be evaluated on a case by case basis to determine when the asset is considered complete for financial reporting purposes. Projects which are not candidates for closure but show that ninety percent of the budget has been expended will require documentation on outstanding work.

Construction in progress projects should be capitalized to their appropriate capital asset classes upon one of the following:

1. Final Acceptance from the Contractor
2. Placed into Service

h. Easements/Right of Way

Easements are interests in land owned by another that entitles its holder to the right to use the land for a specific or limited purpose. An easement does not give the holder a right of "possession" of the property, only a right of use. Easements where there is only granted right of use, are temporary, or where the cost is minimal will not be capitalized.

A right-of-way is a type of easement in which fee simple title is obtained, defined as an absolute estate in perpetuity one in which the owner is entitled to the entire property, with unconditional poer of disposition. Therefore, this type of easement should be capitalized.

A conservation easement or "land trust" is a type of easement which transfers usage rights. This contract creates a legally enforceable land preservation agreement between a landowner, municipality or a qualified land protection organization for the purposes of conservation. It restricts real estate development, commercial and industrial uses, and certain other activities on a property to a

mutually agreed upon level. The restrictions are perpetual and are spelled out in a legal document that is recorded in the local land records and the easement becomes a part of the chain of title for the property.
Examples of types of easements where the estimated value does not meet the capitalization threshold so therefore will not be capitalized:

1. Drainage easement
2. Slope easement
3. Temporary Construction easement
4. Sidewalk easement
5. Pond easement
6. Flowage easement
7. Access easement
8. Street lighting easement
9. Maintenance easement
10. Signal easement
11. Lift Station easement
12. Visibility easement

i. Patents, Copyrights and Trademarks

Trademarks are a word or mark that distinctly indicates the ownership of a product or service, and that is legally reserved for the exclusive use of that owner. A Copyright is the exclusive legal right to reproduce, publish, sell, or distribute the matter and form of something. A patent is the legal right to use an invention. Patents, Copyrights and Trademarks will be amortized.

j. Software

Software is programming code used to operate computer systems. Software will not be capitalized if it is leased or sold.
Purchased software and/or costs incurred to develop and implement software will be included in the acquisition cost.
Purchases of software packages and associated licenses are eligible for capitalization.
Payments to renew annual license agreements are not capitalized.
Costs incurred prior to formal decisions to acquire software, costs subsequent to full deployment, training costs, data conversion costs, maintenance costs, and administrative and overhead costs are not capitalized.
Expenditures that include some elements that can be capitalized and others that cannot be capitalized should be segregated accordingly, when applicable.

IV. Costs

Fixed assets shall be recorded at actual cost. If the actual cost is unknown, cost is estimated based on available information provided. Otherwise, estimated historical cost based on Marshal and Swift will be used where applicable. Donated fixed assets should be recorded at their estimated fair value at time of acquisition.

a. Actual Cost

This will include not only the purchase or construction cost (which can be obtained through invoice, purchase order, and paid check files) but also charges necessary to place the asset in its intended location and condition for use. This includes costs such as freight and transportation, site preparation expenditures, interest costs, professional fees, legal claims directly attributable to asset acquisition, etc.

b. **Estimated Historical Cost**
This will be based on as much documentary evidence that can be found to support the cost such as affidavits, interviews with personnel and price level adjustments for each asset such as Marshal and Swift estimates.

c. **Donated Cost**
These assets will be based on their estimated fair value at a time of acquisition. A determination as to be the fair value basis will be included with property records. This would include a copy of the most recent Notice of value from the Assessor's Office.

V. Depreciation

Depreciation is a method for allocating the cost of buildings and equipment over their useful lives. Generally accepted accounting principles dictate that the value of capital assets must be written off as an expense over the life of the asset as an indirect cost. Annual depreciation expense will be calculated using the straight-line method and useful life schedules are attached.

VI. Controllable Assets

Controllable assets are assets which do not meet the criteria for a fixed asset but will be included in the inventory record for control purposes. Such property would include individual technology items, such as computers or computer related items with a replacement dollar value of at least $500.

VII. Disposition of Capital Assets

Assets no longer owned by or in the possession of the County shall be removed from the inventory record.

a. **Sold and/or Retired**
These assets will be removed from the inventory record upon formal notification from the responsible party of such disposition.

b. **Obsolete**
These assets will be removed from the Inventory record upon formal notification and upon said determination by responsible party whether sold or not.

c. **Transferred or Proprietary or Trust Fund**
Assets in good working order may be removed from one department's responsibility and placed in storage for future use by other departments. These assets will be removed from the inventory record upon formal notification from responsible party.

d. **Missing Assets**
Assets not seen for two consecutive annual inventories will be classified as missing and will be removed from the inventory record upon formal notification to the Finance Director. These assets will no longer be searched for in regular

annual inventories. However, if an asset is located at some time in the future, it will be reactivated in the system. A list of missing assets by departments will be presented to the full County Commission.

VIII. Surplus Equipment

Each department may bid out or auction any surplus equipment upon approval by the Finance Director and County Commission. A complete accounting of the assets and any proceeds must be reported back to the Finance Director so that these items can be removed from the system. County employees will be prohibited from personally taking possession of any items declared surplus, other than those purchased through the sealed bid process or public auction. Be cautious of co-mingling County owned assets with other assets in possession of departments. A clear record must be kept of ownership.

Items for which no bids are received or their salvage value is determined to be less than the cost of handling/advertising, and will create a negative cash flow, may be destroyed or sold as scrap. A list of these items must be forwarded to the Finance Director so they can be removed from the system.

A list of surplus equipment removed from inventory record will be presented to the full County Commission.

IX. Capitalization and Depreciation

The following items will be capitalized as listed:

1. Land	$ 1	Do Not Depreciate
2. Land Improvements	$ 5,000	
3. Buildings	$ 5,000	
4. Building Improvements	$ 5,000	
5. Leasehold Improvements	$ 5,000	
6. Infrastructure	$ 5,000	
7. Equipment	$ 5,000	
8. Lease Purchase Assets	$ 5,000	
9. Construction in Progress	$ 1	Do Not Depreciate
10. Easements/Right of Ways	$5,000	
11. Patents, Copyrights, and Trademarks	$5,000	
12. Software	$5,000	

X. Tracking and Inventory

The following items will be tracked and inventoried:

1. Computers and Computer Related Items $500

XI. Capital Assets Useful Lives & Depreciation

All depreciation is straight line depreciation. Useful life timetables will comply with GASB Statement 34. Attached are RCI's default useful life tables as well as a formal letter detailing description of the methods and assumptions used to determine the historical costs when assets were placed into system.