



## Capital Asset Budget Policy

### I. Authority:

The Board of County Commissioners has exclusive power to adopt the annual budget for the operation of county government, including all offices, departments, boards, commissions or other spending agencies of the county government, and other agencies which are funded in whole or part by county appropriations, per statute. This includes the approval of financial policies which establish and direct the budget process of Arapahoe County including the budgeting and appropriation of capital assets due to their generally large, one-time budget outlay in addition to recurring charges for its future replacement and expenses related to the operation and maintenance of the asset that may impact other departments and elected offices. The Finance Department is responsible for carrying out the policy directives of the Board of County Commissioners and establishing the necessary procedures to do so.

### II. Purpose and Scope:

The purpose of this Capital Asset Budget policy is to maintain a system by which capital assets can be funded and replaced when the asset has reached the end of its useful life without undue financial hardship on the County or on any specific budget year.

The scope of this policy extends to the budgeting of capital assets that include vehicles, machinery, equipment, assembled furniture and fixtures, and computer hardware whose cost exceeds the \$5,000 capitalization threshold as well as computer software whose cost exceeds the capitalization threshold of \$50,000.

### III. Definitions:

- A. Capital Asset: Includes land, land improvements, easements, buildings, building improvements, vehicles, machinery, equipment, infrastructure and all other tangible and intangible assets that are used in operations and that have initial useful lives beyond a single financial reporting period and where the cost of the asset is greater than the capitalization threshold.
- B. Capital Asset Number: A unique number used to identify a capital asset that is determined and assigned by the Accounting Division of the Finance Department.
- C. Capital Asset Replacement: The replacement of a capital asset that is worn out, obsolete, or that has reached the end of its useful life with another similar capital asset that will provide similar functionality as the originally purchased capital asset.
- D. Capitalization Threshold: The amount at which an item becomes a capital asset. For purposes of this policy, the capitalization threshold is \$5,000.
- E. Central Services Fund: A proprietary fund of the County which serves as the location for the purchase and replacement of capital assets.

- F. Intergovernmental Rental Charges: Monthly charges allocated by the Central Services Fund to the operating budget of the department or elected office user of the capital asset that are equal to the depreciation over the capital asset's useful life.
- G. Reappropriation: The re-appropriation of funds through a supplemental appropriation in the current fiscal year to allow for further expenditures when planned expenditures of an existing appropriation cannot be completed by the end of the prior fiscal year for that same purpose.

#### **IV. Policy:**

The Capital Asset Budget policy below is intended to maintain a system by which capital assets can be funded and replaced when the asset has reached the end of its useful life without undue financial hardship on the County or on any specific budget year. The purchase of a capital asset generally requires a large one-time budget outlay in addition to recurring charges for its future replacement and expenses related to the operation and maintenance of the asset that may impact other departments and elected offices. Therefore, the Board of County Commissioners shall approve the purchase of all capital assets by departments, elected offices, and agencies within their budgetary authority. All capital assets shall be identified by an asset number that is determined and assigned by the Accounting Division of the Finance Department.

##### **A. Costs to be Included in a Capital Asset Request**

1. The budget request for a capital asset shall include all costs associated with the purchase of the capital asset including ancillary costs such as:
  - a) Freight, shipping, and transportation costs,
  - b) Design costs,
  - c) Installation costs,
  - d) Professional services fees and costs as related to the purchase and installation of the capital asset, and
  - e) Other costs directly attributable to the acquisition of the capital asset.
2. Costs for training or ongoing maintenance or support of the acquired capital asset should not be considered part of the cost and should be expensed against operating funds.
3. The requesting elected office or department has the responsibility to make sure that all valid costs required for purchasing and putting the capital asset into service be included in the cost of the capital asset per the above limitations.

##### **B. Requesting a New Capital Asset**

1. A department or elected office that requires the purchase of a new capital asset must request and receive approval for such a purchase from the Board of County Commissioners.
2. Generally, in order to purchase the approved new capital asset, funds will need to be transferred from the operating budget for the requesting department or elected office to which the asset is assigned to the Central Service Fund as part of the adopted budget or as part of a supplemental appropriation request.

3. The elected office or department request for the capital asset shall follow the applicable financial policy and procedures established by the Budget Division for submitting such a request for the annual budget development process or the quarterly budget review and amendment process.
4. Following approval of the annual budget or supplemental appropriation request by the Board of County Commissioners, the Budget Division will provide a list of approved fixed assets showing the fixed asset number (as assigned by the Accounting Division of the Finance Department), description of the asset, and the budgeted amount to the department or elected office.
5. Once the approval and notification has been received, the department and elected office is responsible for initiating the requisition of the approved fixed asset in accordance with the Purchasing Policy and other applicable policies.
6. Once the capital asset is acquired, the Central Service Fund will begin charging intergovernmental rents to the applicable department or elected office over its useful life to fund its future replacement.

C. Requesting the Replacement of a Capital Asset

1. Once a capital asset reaches the end of its useful life and is in need of replacement, a department or elected office can request the replacement of the capital asset from the Central Service Fund drawing on the funds contributed through intergovernmental rental charges.
2. A capital asset replacement is defined as the replacement of a capital asset that is worn out, obsolete, or that has reached the end of its useful life with another similar capital asset that will provide similar functionality as the originally purchased capital asset.
3. If a department or elected office has determined that the replacement capital asset will not be similar to the asset being replaced or will fulfill a different function, the requesting department or elected office shall seek the approval of the Board of County Commissioners for such a change.
4. If the capital asset was not purchased within the Central Service Fund or charged intergovernmental rents, no replacement funding is available and it will need to be replaced using funds from the requesting department or elected office operating budget similar to the process for a new capital asset.
5. The elected office or department request for the capital asset shall follow the applicable policies and procedures established by the Budget Division for submitting such a request for the annual budget development process or the quarterly budget review and amendment process.
6. Following approval of the annual budget or supplemental appropriation request by the Board of County Commissioners, the Budget Division will provide a list of approved fixed assets showing the fixed asset number (as assigned by the Accounting Division of the Finance Department), description of the asset, and the budgeted amount to the department or elected office.
7. Once the approval and notification has been received, the department and elected office is responsible for initiating the requisition of the approved fixed asset in accordance with the Purchasing Policy and other applicable policies.
8. Once the capital asset is acquired, the Central Service Fund will begin charging intergovernmental rents to the applicable department or elected office over its useful life to fund its future replacement.

## D. Intergovernmental Rent Charges and the Central Services Fund

### 1. Central Services Fund

- a) The Central Service Fund serves as a revolving fund for the replacement of capital assets.
- b) All approved capital assets applicable under this policy that meet the capitalization threshold shall be purchased from the Central Service Fund unless the specific circumstances below are met.
- c) Circumstances for purchasing a capital asset outside of the Central Services Fund:
  - (1) One-time or Grant Funded Purchases
    - (a) Capital assets that are one-time purchases that will not be replaced or those funded by a grant or grant funded program can be budgeted, expensed, and replaced in the fund that enabled the purchase.
    - (b) These capital assets will not be part of or replaced through the Central Services Fund.
    - (c) These assets are still bound by the other provisions of this capital asset policy regarding the request and approval for the purchase of capital assets.
- d) The Central Service Fund operates on an assumption that, over time, price overruns for replacement capital assets will equal price savings and assets no longer required and retired.
- e) A new or replacement capital asset that is approved will be purchased unless the price on any one asset exceeds the approved price by 15 percent or \$15,000 more than the budgeted amount, whichever is less, for the purchase.
- f) If an approved capital asset costs less than the budgeted amount, the savings will remain in the Central Service Fund to offset additional costs on other capital assets.
- g) Additional amounts can be added to the Central Service Fund each year as needed to provide for new purchases, purchases that exceed the cost overrun threshold above, or inflationary pressures.

### 2. Intergovernmental Rental Charges

- a) Intergovernmental rental charges are those charges allocated by the Central Services Fund to the operating budget of the department or elected office user of the capital asset that are equal to the depreciation over the capital asset's useful life.
- b) The useful life of a capital asset shall be determined by the Accounting Division of the Finance Department and the applicable policy unless specific circumstances require a different useful life.
- c) These intergovernmental rental charges shall be applied monthly by the Accounting Division of the Finance Department.
- d) The purpose of these charges is to provide funding to the Central Services Fund for the future replacement of the capital asset.
- e) The Budget Division shall calculate the amount of intergovernmental rentals to be budgeted for each department and elected office during the annual budget development process and whenever there is an

addition to the capital assets during the fiscal year that was not included in the adopted budget.

- (1) These budgeted intergovernmental rental charges shall include amounts for those capital assets currently being depreciated and estimates for capital assets that have been approved but have yet to be acquired.

#### E. Other Provisions for Capital Asset Budgeting

1. Cooperation with Applicable Support Departments and Divisions
  - a) It is the responsibility of the requesting department or elected office to work with the appropriate support departments such as Information Technology and Facilities and Fleet Management to determine the need and specifications of new and replacement capital assets.
  - b) The requesting department or elected office should also work with the Purchasing Division of the Finance Department to determine the estimated cost and purchasing policies that need to be followed in order to budget for and acquire the capital asset.
2. Requests for New or Replacement Capital Assets without Appropriations
  - a) In rare circumstances, if the request for a new or replacement capital asset does not change the appropriation of the requesting department or elected office or require a transfer from the operating budget to the Central Service Fund, approval from the Board of County Commissioners for the new capital asset can be obtained through a study session rather than through the formal budget process.
  - b) Regardless of the process, the requesting department or elected office shall notify the Budget Division to ensure proper handling of the request and capital asset number creation.
3. Reappropriation of Capital Assets
  - a) In the event that an approved new or replacement capital asset has not been purchased by the end of the current fiscal year, the appropriation for the capital asset should be requested during the reappropriation process in the following year to enable the purchase of the capital asset to be completed.
  - b) Such a request shall follow the established Reappropriation policy and procedures.
4. Replacement Capital Assets No Longer Needed or Below Capitalization Threshold
  - a) Below the Capitalization Threshold
    - (1) If the cost for a replacement capital asset falls below the capitalization threshold, the capital asset shall be purchased from the operating budget of the requesting department or elected office.
    - (2) If the department or elected office chooses, it may request a one-time transfer of the amount of funding for replacement contributed to the Central Service Fund through intergovernmental rent changes to the appropriate operating budget during the budget development or quarterly budget review process.

b) Replacement of Capital Asset No Longer Needed

- (1) In the event that a capital asset has been charged its applicable intergovernmental rental charges and the department or elected office has determined that the capital asset is no longer needed and a future replacement is not necessary, a request can be made to the Board of County Commissioner to have the accumulated intergovernmental rental charges applied to another capital asset or returned to the operating budget.
- (2) This request shall follow the applicable policies and procedures for the annual budget development or budget amendments.

**V. Related Documents and Procedures:**

- A. Budget Preparation and Control Policy
- B. Budget Amendment Policy
- C. Reappropriation Policy
- D. Capital Asset Accounting Policy

*This policy supersedes and replaces the Fixed Asset Budget Policy 3.13 dated 10/98.*