



A Tradition of Stewardship
A Commitment to Service

**Napa County
Countywide Internal Control Review**

Capital Asset Inventory Certification Process

For the Fiscal Year Ended June 30, 2024

**AUDITOR-CONTROLLER
Internal Audit Section**

September 9, 2025

TABLE OF CONTENTS

	<u>Page</u>
Executive Summary	1
Background	3
Objective	4
Population and Sample Selection	4
Testing Methodology	5
Findings and Recommendations	6
Conclusion	8
Appendices	
A. Department-level Population and Sample	10
B. Audit Sample by Capital Asset Category	11
Exhibits	
A. County of Napa Capital Asset Policies and Procedures	13

Engagement Team

Christine Hernandez - Deputy Auditor-Controller
Nicholas Kittredge - Grant Compliance & Internal Audit
Susan MacDonald - Internal Audit



A Tradition of Stewardship
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Auditor-Controller

1195 Third Street • Room B10
Napa, CA 94559
www.countyofnapa.org

Main: (707) 253-4551
Fax: (707) 226-9065

Tracy A. Schulze
Auditor-Controller

September 9, 2025

Board of Supervisors
1195 Third Street, Room 301
Napa, CA 94559

EXECUTIVE SUMMARY

Background and Scope

Internal Audit conducted a countywide review of internal controls over the year-end capital asset inventory certification process for the fiscal year ended June 30, 2024. The review covered 26 departments¹ representing both governmental and enterprise funds and included physical verification of selected assets and testing of inventory certifications. Overall, 18.5% of assets (by count) and 33.1% (by value) were tested. The engagement focused on determining whether internal controls were adequate and whether inventory certifications were accurate, complete, and properly supported.

Procedures

To complete this review, Internal Audit performed the following procedures:

- Reviewed relevant Napa County (County) policies, procedures, year-end closing processes, and required forms related to capital assets
- Examined capital asset inventory certifications submitted by each department to confirm that appropriate personnel verified the assets and returned the certifications to the Auditor-Controller's Office in a timely manner
- Selected a sample of assets from each department for substantive testing to verify their existence, accuracy, and completeness

Results

Based on the procedures performed, Internal Audit concluded that departments generally maintain adequate internal controls to accurately record, account for, and track capital assets. Substantive testing identified an overall exception rate of 3.0%. Where opportunities for improvement were identified, we have included recommendations to strengthen internal processes.

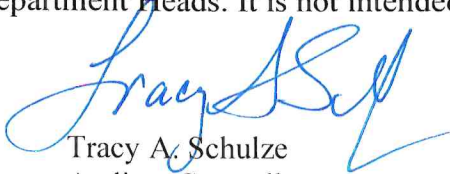
¹ For purposes of this report, the term *department* refers to distinct business units established within the County's Tyler ERP system. Multiple ERP "departments" may be associated with, and report to, the same Department Head.

Conclusion

Internal Audit extends its appreciation to County staff for their expertise, professionalism, and transparency throughout this engagement. Since the prior review of the capital asset inventory certification process for the fiscal year ended June 30, 2021, significant improvements have been made to internal control environments. It is evident that Department Heads and staff have implemented corrective actions and recommendations, thereby contributing to a stronger and more sustainable control framework.

This review was conducted in conformance with the International Standards for the Professional Practice of Internal Auditing established by the Institute of Internal Auditors. These standards require that Internal Audit identify, analyze, evaluate, and document sufficient evidence to achieve the engagement objectives, and that the audit team maintain independence, objectivity, and exercise due professional care.

This report is a matter of public record and is intended for the information and use of Napa County's Board of Supervisors (Board), Chief Executive Officer, Auditor-Controller, and Department Heads. It is not intended for use by any other parties.

A handwritten signature in blue ink, appearing to read "Tracy Schulze", is written over the typed name and title.

Tracy A. Schulze
Auditor-Controller

Background

As outlined in Napa County’s Capital Asset Policies and Procedures (July 2016), capital assets are defined as land, land improvements, easements, buildings, building improvements, vehicles, machinery, works of art and historical treasures, and other tangible or intangible assets used in operations that have (1) an initial useful life extending beyond one year and (2) an initial cost equal to or greater than the following thresholds:

Asset Class	Capitalization Threshold²
Land	\$0
Buildings and Improvements	\$150,000
Infrastructure and Intangibles	\$150,000
Vehicles, Machinery, Furniture, Fixtures, and Equipment	\$5,000
Works of Art, Historical Artifacts	\$5,000
Any Assets Purchased with State or Federal Grant Funds	\$5,000
Construction in Progress	Classified at Completion

The County’s capital asset categories include land and easements, construction in progress, infrastructure, structures and improvements, equipment, and intangible assets.

Maintaining accurate and complete capital asset records is critical in order to:

- Maintain an inventory of all County-owned depreciable assets
- Depreciate assets appropriately over their useful lives
- Accurately prepare the County’s financial statements
- Ensure compliance with auditing regulations
- Track required information and documentation on grant-funded assets
- Provide accurate valuations for fire and casualty insurance
- Support internal control and accountability
- Facilitate planning for future asset replacement

In accordance with California Government Code §24501 and Napa County’s Capital Asset Policies and Procedures (July 2016), each County Department Head is required to file an annual certified inventory of capital assets with the Auditor-Controller’s Office (ACO) by September 1st. The certification must detail all County property in the department’s possession as of the close of business on the preceding June 30th.

Failure to maintain accurate information in these certifications can weaken stewardship over County assets, increasing the risk that property may be lost or stolen. Inadequate oversight may

² Effective July 1, 2025, Napa County’s capitalization threshold limits will change in response to updated guidance from the Governmental Accounting Standards Board (GASB). The threshold will increase from \$5,000 to \$10,000, aligning with higher materiality standards in financial reporting and helping to reduce administrative costs.

also create conditions where waste or abuse could be perceived as easily occurring. Additionally, inaccuracies in reported data may result in misstatements of capital asset balances in the County’s Annual Comprehensive Financial Report (ACFR).

As of June 30, 2024, Napa County’s gross investment in capital assets (at acquisition cost) totaled \$707.2 million, including \$65.9 million in equipment and intangible assets.

The ACO maintains the official records of all County capital assets. These records are based on:

1. Documentation provided by departments throughout the year regarding acquisitions, transfers, sales, or disposals of assets; and
2. Signed annual capital asset inventory certifications submitted by each department.

At year-end, the ACO provides departments with an official inventory listing of capital assets as of June 30. Departments are required to complete a physical inventory of their assets, verify the accuracy and completeness of the listing, and submit any necessary amendments. The certified inventory, along with all prescribed forms, must be signed and returned to the ACO by September 1 each year.

County departments are responsible for performing these annual inventory counts, identifying and reporting any inaccuracies, and working with the ACO to ensure corrections are made. The ACO, in turn, is responsible for establishing and maintaining the County’s capital asset policies and procedures, including requirements for inventory counts, to ensure consistency and accountability across all departments.

Objective

The primary objectives of this engagement were to determine whether adequate internal controls exist over the inventory certification process, and to assess the accuracy, existence and completeness of inventory certifications.

Population and Sample Selection

Population

	Departments in Population	Assets in Population	Value of Population
Capital Asset Certifications	26	1,434	\$74,278,275

Internal Audit defined the population based on the following criteria:

- Assets were either in service as of June 30, 2024, or disposed of during the fiscal year.
- Assets classified as land, land improvements, buildings, building improvements, infrastructure, leases, construction in progress, and non-capitalized equipment were excluded from substantive testing.

To summarize, the population reflects the County’s gross investment in equipment and intangible assets - \$65.9 million in assets in service as of June 30, 2024, and \$8.4 million in

assets disposed of during the fiscal year.

Sample Selection

Overall, 18.5% of assets (by count) and 33.1% (by value) were tested across 26 departments (including three special districts).

	Departments in Sample	Assets in Sample	Value of Sample
Capital Asset Certifications	26	266	\$24,596,408

To ensure fair coverage across all departments, Internal Audit stratified the population into 26 groups, with each group representing a department’s capital asset certification. Within this framework, we specifically selected 33 assets for re-testing that had exceptions noted in the 2021 capital asset review. The remaining sample consisted of randomly selected assets from each group to provide balanced and representative coverage.

Department-level population and sample selection data is presented in **Appendix A**, and the audit sample by capital asset category is presented in **Appendix B**.

Testing Methodology

To accomplish our objectives, Internal Audit performed the following procedures:

- Reviewed County capital asset policies and procedures
- Interviewed appropriate personnel
- Gained an understanding of the internal control environments within departments that maintain capital assets

We tested the Capital Asset Certifications filed by County Department Heads for the year ended June 30, 2024, by confirming the required submission date and verifying that each certification was signed. In accordance with the County Capital Asset Policies and Procedures, each Department Head must submit a signed, validated inventory certification, with all prescribed forms completed, to the Auditor-Controller by September 1 each year.

In addition, we tested the selected sample of capital assets against the following four attributes:

Attribute A – Asset Existence (Book-to-Floor Testing)

We verified the physical existence and accuracy of assets listed on the certifications by selecting items from the inventory (“book”) and physically locating them (“floor”). Appointments were scheduled with custodians at various locations to ensure the assets were available for inspection. When located, assets were photographed, and documentation was uploaded to the capital asset module to confirm their existence.

Attribute B – Accuracy of Inventory Certifications

We compared each sampled asset’s location, description, and serial number against the information recorded on the inventory certification to ensure accuracy. We also reviewed the appropriateness of asset classifications. For example, vehicles should be classified as “equipment” rather than “structures and improvements.”

Attribute C – Timeliness of Capital Asset Additions

We assessed whether acquisitions were recorded in a timely manner. For assets acquired during fiscal year 2023–2024, we confirmed they were reported as current-year additions on the inventory certification due September 1, 2024. For assets acquired in prior years, we verified that they were included in the inventory listing but not incorrectly recorded as current-year additions.

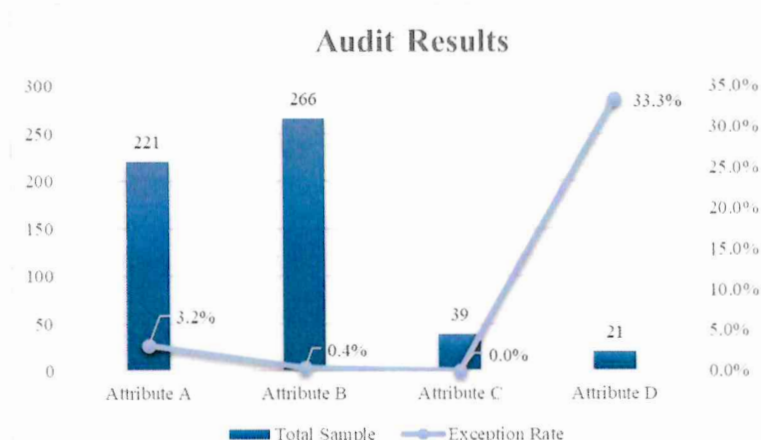
Attribute D – Documentation for Disposals and Transfers

We reviewed whether assets that were retired or transferred were properly supported by documentation such as an approved Board agenda item and/or a Capital Asset Adjustment Form.

- **Retirements:** Department managers must complete a Capital Asset Adjustment Form (Retirements) and submit it to the Purchasing Manager, who determines whether the asset should be re-circulated, sold, held in inventory, or disposed of. The Purchasing Manager signs the form and forwards it to the Auditor-Controller for proper tracking within 10 days of retirement. Any removal of an asset from the Countywide inventory requires approval by the Board of Supervisors.
- **Transfers:** When assets are relocated, the originating department must initiate the paperwork and complete a Capital Asset Adjustment Form (Transfers). This form must be submitted to the Auditor-Controller within 10 days to ensure proper tracking.

Findings and Recommendations

Audit results indicate that most areas of the capital asset certification process are operating effectively, with exception rates either low or nonexistent. The primary opportunity for strengthening controls lies in disposals and transfers (Attribute D), where one-third of sampled items contained exceptions.



The following section outlines the specific audit findings and observations in greater detail, along with recommendations to strengthen controls where appropriate

Finding 1: Late Capital Asset Certification Submissions

For the fiscal year ended June 30, 2024, 5 of the 26 Capital Asset Certifications were not submitted by Department Heads by the required deadline of September 1, 2024.

County policy requires that certifications, with all prescribed forms, be submitted to the Auditor-Controller by September 1 each year. Timely submission is essential to support accurate financial reporting and helps ensure that the County's Annual Comprehensive Financial Report (ACFR) is free from material misstatements.

To assist departments in meeting this deadline, the Auditor-Controller distributes a year-end closing calendar during the final month of the fiscal year, reminding departments of the certification requirement. The capital asset certification deadline is also communicated at the monthly Financial User Network (FUN) meeting. In addition, an email reminder is sent to any department that has not yet submitted its certification approximately two weeks prior to the September 1 deadline.

Recommendation:

Internal Audit recommends that Department Heads establish internal reminders and assign responsibility for the timely completion and submission of annual Capital Asset Certifications.

Finding 2: Disposals or Transfers of Capital Assets Without Proper Documentation

During testing, Internal Audit was unable to verify the existence of 7 out of 221 assets reviewed (3.2%) under Attribute A. Specifically:

- Three assets reported as transferred to surplus by the Fire Protection Department were missing the required Capital Asset Adjustment Forms. Further, these assets were recertified by the Department Head as being in the department's possession as of June 30, 2025. As of the date of this report, Internal Audit has not been able to verify whether the assets were transferred or remain with Fire Protection. The department is actively working to locate the assets and anticipates resolution in the near future. The acquisition value of these assets was \$27,337, representing approximately 0.1% of the total sample value.
- Four assets from Fire Protection, Information Technology Services, Lake Berryessa Resort Improvement District, and Napa Berryessa Resort Improvement District were reported as disposed of or destroyed without the required approval of the Board of Supervisors. According to asset custodians, these items were discarded many years ago - some more than a decade - without proper documentation of the disposals.

When tested under Attribute D (Disposals and Transfers), this issue represented a 33.3% exception rate, confirming that disposals and transfers remain the area of greatest non-

compliance in the capital asset certification process.

These situations highlight lapses in following established County procedures for documenting asset transfers and disposals. Without proper forms and approvals, there is an increased risk that County property may be lost, misused, or inaccurately reported in financial statements.

Recommendation:

Internal Audit recommends that departments exercise due care when completing and reviewing annual capital asset inventory certifications, as the inclusion of disposed assets represents a control weakness. To strengthen compliance with County policies, departments should ensure all asset transfers and disposals are properly documented using the required Capital Asset Adjustment Forms and, when applicable, approved by the Board of Supervisors. Departments should also review and update their internal procedures to confirm that custodians and managers are fully aware of these requirements. In addition, the Auditor-Controller’s Office should consider providing a refresher training and periodic reminders to reinforce the importance of timely documentation and oversight of capital asset activity.

As of the date of this report, the departments have initiated steps toward compliance. Information Technology Services has begun the process of submitting the asset to the Board for approval of disposal, while Lake Berryessa and the Napa Berryessa Resort Improvement Districts have engaged external consultants to develop an asset management plan.

Finding 3: Duplicate Asset in Separate Departments

Internal Audit identified 1 of 266 assets tested (0.3%) that was inadvertently recorded in both the Office of Emergency Services and Sheriff asset listings at the time of acquisition. As a result, the asset was included on the draft inventory certifications provided to each department and was subsequently certified by both as of June 30, 2024. Upon notification by Internal Audit, the Auditor-Controller’s Office promptly corrected the records, and the duplicate entry was removed from Sheriff’s listing.

Recommendation:

Internal Audit recommends that departments carefully review their inventory certifications prior to submission to ensure that assets are verified, accurate, and not duplicated across departments.

Conclusion

Based on the procedures performed, Internal Audit concludes that departments generally maintain adequate internal controls to accurately record, account for, and track capital assets. Since the prior review of the capital asset inventory certification process for the fiscal year ended June 30, 2021, significant improvements have been made in departmental control environments. Opportunities for further improvement have been identified and communicated to the appropriate personnel.

Internal Audit extends its appreciation to County staff for their expertise, professionalism, and transparency throughout this engagement.

APPENDICES

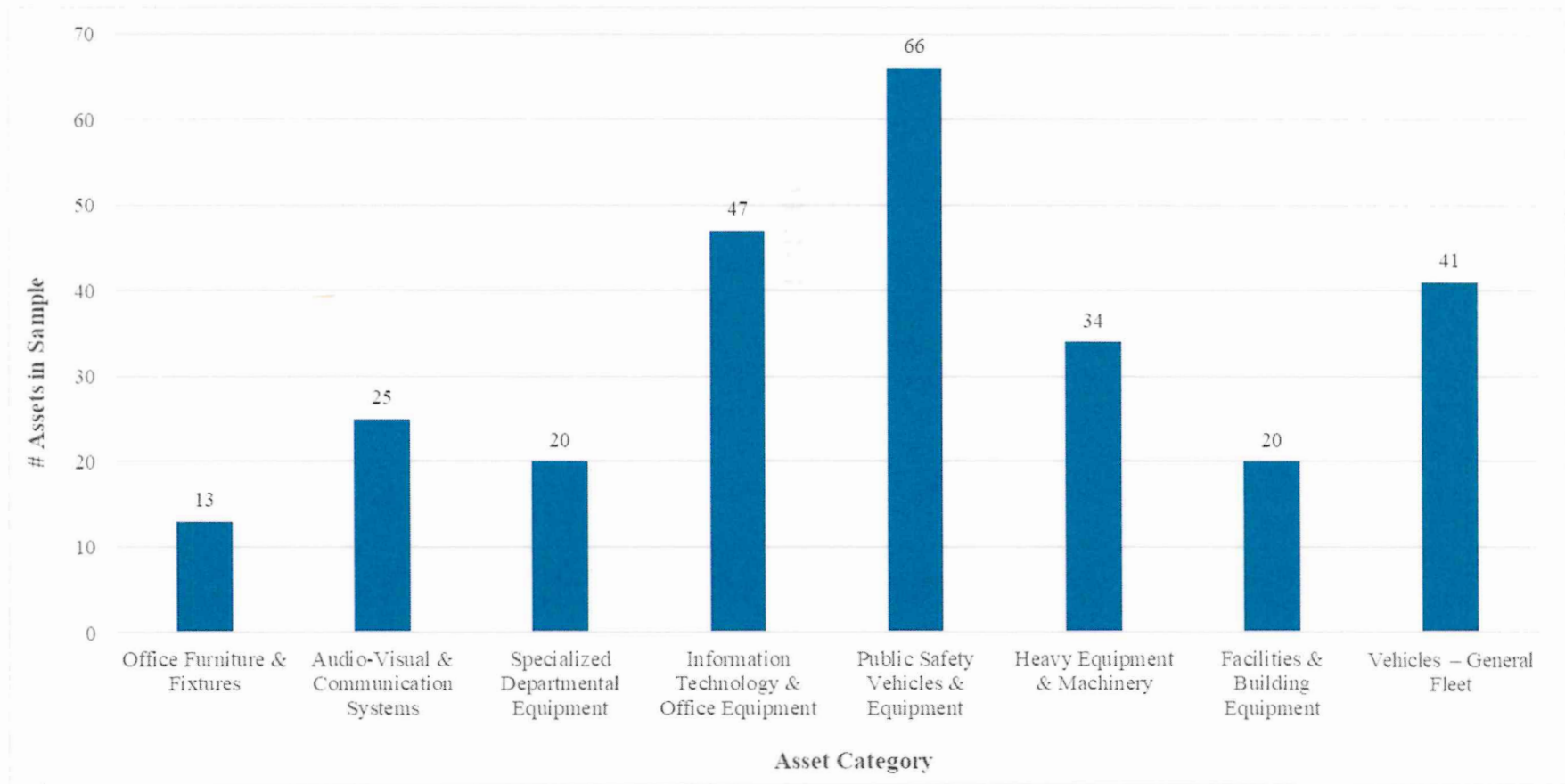
**NAPA COUNTY
COUNTYWIDE INTERNAL CONTROL REVIEW
CAPITAL ASSET INVENTORY CERTIFICATION PROCESS**

**APPENDIX A
DEPARTMENT-LEVEL POPULATION AND SAMPLE**

	Capital Asset Count (#)			Capital Asset Value (\$)		
	Total Population	Sample	% Tested	Population Acq. Cost	Sample Acq. Cost	% Tested
Fleet Management	395	43	10.9%	19,050,598	2,269,790	21.2%
Fire Protection	197	40	20.3%	17,276,612	3,245,185	100.0%
Airport	33	9	27.3%	15,605,244	10,657,012	89.1%
Information Technology Services	379	53	14.0%	9,892,604	4,064,715	45.2%
Sheriff	158	27	17.1%	6,064,772	1,050,524	100.0%
Office of Emergency Services	71	21	29.6%	1,998,214	871,516	100.0%
Library	35	11	31.4%	833,947	431,450	17.3%
Corrections	19	5	26.3%	711,337	501,390	43.6%
Roads	34	9	26.5%	640,524	189,229	70.5%
Lake Berryessa Resort Improv Dist	20	6	30.0%	489,197	211,461	46.4%
Napa Berryessa Resort Improv Dist	16	6	37.5%	321,495	154,214	83.4%
Assessor-Recorder-County Clerk	8	4	50.0%	286,392	255,132	100.0%
Health & Human Services Agency	13	6	46.2%	239,569	183,652	76.7%
Property Management	11	4	36.4%	195,360	95,350	51.7%
NC Housing Authority	17	5	29.4%	130,324	41,534	100.0%
Probation	4	2	50.0%	121,264	56,313	29.5%
Lake Berryessa Concessions	6	3	50.0%	98,292	52,344	18.8%
Public Works	4	2	50.0%	58,879	26,626	100.0%
Treasurer-Tax Collector	2	2	100.0%	58,118	58,118	11.9%
Housing & Community Services	1	1	100.0%	55,319	55,319	41.1%
District Attorney	1	1	100.0%	52,791	52,791	48.8%
Agricultural Commissioner	2	1	50.0%	35,888	29,931	68.3%
County Executive Office	4	1	25.0%	23,758	5,037	31.9%
Planning, Building, & Environmental Svcs	2	2	100.0%	20,676	20,676	53.3%
Public Defender	1	1	100.0%	11,510	11,510	43.2%
Child Support Services	1	1	100.0%	5,590	5,590	48.0%
Grand Total	1,434	266	18.5%	\$ 74,278,275	\$ 24,596,408	33.1%

**NAPA COUNTY
COUNTYWIDE INTERNAL CONTROL REVIEW
CAPITAL ASSET INVENTORY CERTIFICATION PROCESS**

**APPENDIX B
AUDIT SAMPLE BY CAPITAL ASSET CATEGORY**



EXHIBITS

Exhibit A

COUNTY OF NAPA



CAPITAL ASSET POLICIES AND PROCEDURES

July, 2016

TABLE OF CONTENTS

<u>SECTION</u>	<u>PAGE</u>
1 INTRODUCTION	1
2 CAPITAL ASSET THRESHOLD & DEFINITIONS.....	2
3 ADDITIONS	7
4 TRANSFERS	9
5 RETIREMENTS	10
6 DEPRECIATION AND USEFUL LIFE	11
7 PHYSICAL INVENTORIES.....	13
8 BUDGET	14
9 ACCOUNT CODES	14
10 GLOSSARY OF TERMS	16

1 INTRODUCTION

The County of Napa's policies for acquisition, valuation, and disposition of capital assets are contained within this document. These policies are designed to aid County departments, offices, and institutions under the control of the Board of Supervisors by clarifying the County's definition of capital assets.

Importance of Establishing Capital asset System

It is important to establish a capital asset record for the following reasons:

1. To maintain an inventory of all county-owned depreciable assets;
2. To depreciate assets over their useful lives;
3. To accurately prepare the County's financial statements;
4. To be in compliance with auditing regulations;
5. To maintain required information and documentation on grant assets;
6. To provide accurate fire and casualty insurance valuation;
7. For internal control accountability; and
8. For planning future replacement.

In order to secure an unqualified opinion of capital asset accounting from an independent auditor, the County must establish and maintain detailed capital asset records with historical cost and accumulated depreciation. Failure to comply with this requirement could result in a qualified opinion in the audit report and possible subsequent impairment of its bond rating.

Generally Accepted Accounting Principles (GAAP) and the Governmental Accounting Standards Board (GASB) defines governmental capital assets to include such items as land, improvements other than buildings, buildings, fixtures, equipment, works of art and historical treasures, and construction in progress. Whether these assets are categorized as General Capital Assets, Enterprise Fund Capital Assets, or Internal Service Fund Capital Assets, they are to be reported at historical cost as directed in Governmental Accounting, Auditing, and Financial Reporting (GAAFR).

GASB Statement 34

GASB Statement 34 requires capital assets, including infrastructure to be reported at historical cost, net of depreciation. Infrastructure assets are long-lived capital assets that normally are stationary in nature and normally can be preserved for a significantly greater number of years than most capital assets. Capital assets should be depreciated over their estimated useful lives unless they are either inexhaustible (land) or are infrastructure assets reported using the Modified Approach.

Valuation Basis of Capital Assets

All capital assets are to be recorded at historical cost at the date of the acquisition. Historical cost not only includes the purchase price or cost of construction, but also any other charges incurred to place the asset in service. Examples of capitalized costs include closing costs, surveying fees, land-preparation costs, architect and accounting fees, transportation fees, and interest costs.

2 CAPITAL ASSET THRESHOLD & DEFINITIONS

Capital Assets

Includes land, improvements to land, easements, buildings, building improvements, vehicles, machinery, works of art and historical treasures, infrastructure, and all other tangible and intangible assets that are used in operations and that have initial useful lives extending beyond a single reporting period (one year) and have an initial, individual cost equal to or greater than the following:

Class	Capitalization Threshold
Land	\$ 0
Buildings, Building and Land Improvements	\$ 150,000
Infrastructure, and Intangible Assets	\$ 150,000
Vehicles, Machinery, Furniture, Fixtures and Equipment	\$ 5,000
Works of Art, Historical Artifacts	\$ 5,000
Any Assets Purchased with State or Federal Grant Funds	\$ 5,000
Construction in Progress	Projects expected to exceed Capitalization Threshold based on applicable Class at completion

A capital asset does not lose its identity through fabrication or incorporation into a different or more complex unit or substance (for example, it is not a computer memory chip).

Capital Assets acquired by the County should be recorded at cost. Cost is equal to either the fair market value of the asset if it is being donated or the amount paid for the asset. In addition, ancillary costs associated with preparing the property for its intended use should be capitalized as outlined below.

Land

Costs Included:

- The original contract/purchase cost
- Related expenses such as brokers commission, legal fees for examining and recording ownership
- Cost of ownership guarantee insurance policies
- Cost of real estate surveys,
- Cost of razing old buildings, structures, or other improvements acquired with the property
- cost incurred to put property in condition for its intended use, including draining, clearing, landscaping, land filling, and grading costs

Costs Excluded:

- Fees for ownership searches
- Expenditures in connection with disposal of refuse
- Costs of utility easements
- Repairs to other improvements

Buildings

Costs Included:

- Original purchase price of construction
- Expenses incurred in remodeling, reconditioning, or altering a purchased building to make it suitable for the purpose for which it was acquired
- Major permanent structure alterations including the initial or additional installation of heating and ventilating systems, fire protection systems, ADA requirements
- Cost of excavation, grading or filling of land as part of the construction of a specific building
- Expenses incurred for the preparation of plans, specifications, blueprints, etc.
- Cost of building permits
- Architects and engineers fees for design and supervision
- Other costs such as temporary buildings used during the construction period that are not moveable or reusable and are razed at the end of construction
- Capital lease payments
- The following items should be included as part of the initial building cost:
 - Built in casework and shelving
 - Bleachers and fixed gymnasium equipment
 - Built in bathroom accessories
 - Carpet
 - Plumbing, sprinkler, heating, ventilating, and air conditioning systems
 - Emergency generator systems for building support
 - Intrusion alarm systems
 - Fire alarm systems
 - Emergency lighting systems

Costs Excluded:

- Extraordinary costs that are merely incidental to the erection of the building (e.g., those due to strike, flood, fire, or other casualty)
- The cost of abandoned construction

If a building is purchased, an allocation must be made between the land, improvements other than buildings, and the buildings.

Improvements Other than Buildings

Includes all improvements to a site, whether a building exists or not. The amount to be capitalized is the actual dollar cost of installation or acquisition of these assets at the acquisition date, including any labor and installation fees.

Costs Included:

- paving
- fencing
- playground
- tennis courts, ball diamonds
- concrete walks and steps

- outside lighting
- outside plumbing
- irrigation systems
- signs
- flagpoles
- bleachers
- miscellaneous sheds
- swimming pools
- walls
- water fountains

Machinery and Equipment

Costs Included:

- Original acquisition cost
- Freight charges
- Storage charges
- Installation costs
- Costs for testing and preparation for use.
- All costs incurred after acquisition but prior to placing in service to make a capital asset ready for use should be capitalized as part of the cost of the asset.
 - Adding auxiliary equipment to a vehicle
 - Installation and testing of radios, antennas and other communications devices
 - Installation and testing of electronic equipment
 - Painting and application of logos, signage, etc.

Costs Excluded:

- Any trade in allowance.

In some instances, the cost of the property may not be available and some alternative basis must be used to record the capital asset. For example, the County may not have documented the original cost of the property, and it may be impossible or time-consuming to reconstruct the actual cost of the property. Under this consideration, the original cost of the asset may be estimated and used as the basis for capitalization.

Construction in Progress - As construction progresses, the cumulative expenditures are capitalized as Construction in Progress (CIP). Upon completion of the capital asset, the balance in the Construction in Progress account is transferred to the appropriate account such as Building or Equipment. Projects that have reached 100% completion are transferred. Projects that have not reached 100% completion will continue to be tracked as Construction in Progress. Interest cost incurred during the construction period is subject to capitalization as part of the cost of construction when conditions identified by the Financial Accounting Standards Board (FASB) 34 (Capitalization of Interest Cost) exist.

Intangible Assets: GASB Statement 51 characterizes an intangible asset as an asset that lacks physical substance, is non-financial in nature, and has an initial useful life extending beyond a single reporting period. Examples of intangible assets include easements, computer software, water rights, timber rights, patents, and trademarks.

Internally generated intangible assets are generated if they are created by the government or an entity contracted by the government or if they are acquired from a third party and modified using more than minimal increment effort. The end product developed must be separable from the government and sold, licensed or exchanged.

Annual maintenance, software license and training are not considered part of intangible assets and should be charged to a regular expense line item.

Controlled Assets - The County has determined that certain assets be tracked solely for control purposes. These assets are less than \$5,000 and greater than \$1,000 original cost and include electronic equipment controlled by Information Technology Services Department.

Improvements or Betterments - Proper accounting practice calls for the retirement of a component unit and capitalization of its replacement only if the replacement substantially increases the value, the capacity/capability, or useful life of the asset system. Otherwise, the replacement is treated as maintenance expense. These guidelines should be applied on a consistent basis.

Asset System - Many assets consist of multiple components that make up the asset. One example is office cubicles configured in a unit. Asset systems have the following characteristics:

- Consists of multiple property subunits which function together as a single capital asset.
- Individual subunit costs are generally not significant in comparison to the total cost of the entire system.
- Normally, individual subunits would not meet the capitalization criteria. The grouping as a whole, however, qualifies as a Capital Asset (\$5,000 acquisition cost, one year useful life, etc.).
- When a subunit is replaced, it generally does not extend the life of the larger asset. Therefore, replacement would generally be treated as maintenance expense.
- Each subunit is integrated and configured in such a way as to make identification of individual components difficult. Therefore, it is impractical to tag, track, and inventory each sub-unit.

Repairs & Maintenance - Ordinary repairs and maintenance costs are expenditures made to maintain assets in operating condition. Replacement of minor parts, lubricating and adjusting of equipment, repainting, and cleaning are examples of normal maintenance and are treated as normal operating expenses. The major consideration in determining whether an expenditure should be treated as an expense or an improvement is if the expenditure increases the future service potential of the asset. If a major repair will extend the life of the asset several years it should be handled as an improvement. If the expenditure is a replacement a retirement must be made to the items being replaced. This includes both a reduction in Historical Cost and Accumulated Depreciation.

Expenditures to repair and maintain a capital asset in efficient operating condition without extending the asset's normal accounting life should be expensed.

The following are common examples:

- An addition project that increases the footprint of a building would be considered an improvement to the existing building, while a new roof would be considered a repair or maintenance expense.
- Remodeling an office space or an entire floor of a building does not extend the useful life of the building, therefore it is a maintenance expense.
- The creation of a new road way would be a new capital asset. However, maintenance and repairs, including overlays, are maintenance expenses.

3 ADDITIONS

All capital assets require the approval of the Board of Supervisor giving the acquiring department proper appropriation authority, prior to purchase. Requisitions and purchase orders for Capital Assets will be processed in accordance with the County's purchasing procedures as outlined below:

Acquisition Procedures

All purchases will continue to be made using the County's existing purchase requisition/purchase order system.

1. The requestor fills out a Requisition form
2. All appropriate approvals are received (department manager/CEO/BOS/ITS Director)
3. The requisition form is then forwarded to the purchasing department
4. The request must include:
 - The specific accounting fields identifying the approved budgeted appropriation (includes fund/department/account)
 - Location identification (Building or Department)
 - Description of the asset
4. The purchasing department will review the request and issue a purchase order.
5. The asset is ordered from the vendor
6. Purchasing to send Auditor Controller's Office requisition form along with any related paperwork (PO quote, BOS agenda, budget book page, etc.)

The purchasing department will verify the asset has been received and will forward the invoice and packing slip (if applicable) to the Auditor-Controller's office.

The Auditor-Controller's office will run a detailed general ledger report, at least quarterly, to ensure the accurate expenditure account is used as well as adding any new equipment on the capital assets listing. A detailed general ledger report is run on an annual basis for the same purpose.

The Auditor-Controller's office will record and assign a unique identification number to the new acquisition to any newly acquired capital asset. At a minimum, the Auditor-Controller's office will maintain the assets identification number, location (sub-division), date acquired, description and any serial or model numbers if applicable.

Donated Capital Assets

All donated capital assets must be formally accepted by the Board of Supervisors. All donated capital assets must be supported in writing with full descriptions of items donated and must indicate all conditions, if any, attached to the donations.

Upon the approval of the Board of Supervisors, the department will receive the donated capital assets and immediately notify the Auditor-Controller's office. The Auditor-Controller's office will record the donation and then assign an identification number to the donated asset.

Granted Capital Assets

An asset acquired with Federal or State Grant or other funding sources often have limitations or restrictions enforced by the granting agency. The major authoritative sources for federal rules and regulations include the Common Rule issued by a number of major federal agencies and numerous Office of Management and Budget (OMB) Circulars that are organization and topic specific. Please refer to the grant for specific guidelines and rules regarding purchasing capital assets with these funds.

Since Federal and State grants can often times have very specific guidelines which may not always coincide with this policy, please contact the Auditor-Controller's Grant Compliance staff so that we can evaluate the purchase of capital assets with Grant funds.

4 TRANSFERS

Transfer of an Asset

When an asset is transferred from one location to another, the originating location is responsible for initiating the paper work for the transfer. A Capital Asset Adjustment Form (Transfers) is to be completed and submitted to the Auditor-Controller for proper tracking within 10 days of the transfer. The transfer will be recorded in the County's Financial System and recorded by the Auditor-Controller's office.

Adjustment Form must include:

- The signature of the Department Manager releasing the asset
- The signature of the Department Manager receiving the asset
- The accounting information of both locations
- Description of the Asset
- Asset identification number
- Date of transfer

5 RETIREMENTS

Retirement of an Asset

When an asset is retired, the department manager is responsible for completing the Capital Asset Adjustment Form (Retirements) and submitting it to the purchasing manager. The purchasing manager will then determine if the asset is to be re-circulated or held in inventory, sold, or disposed of. The purchasing manager will sign off on the form and submit to the Auditor-Controller for proper tracking within 10 days of the final retirement. The retirement will be recorded in the County's Financial System and recorded by the Auditor-Controller's office.

Adjustment Form must include:

- The signature of the department manager releasing the asset
- Description of the asset
- Asset identification number
- The accounting information
- Date of retirement
- How it was retired (disposed, sold, stolen)
- If not retired, indicate new location (attach transfer form), or indicate it is in inventory
- If sold, the amount of proceeds of the sale

Note: All Retirements are required to have the appropriate documentation attached, including Sold (bill of sale), Stolen (police report), or Destroyed (Manager's approval).

Any removal of asset from the County-wide capital asset inventory requires the approval of the Board of Supervisors.

6 DEPRECIATION AND USEFUL LIFE

Depreciation

Depreciation is the allocation of the cost of a Capital Asset over its estimated useful life. Depreciation is calculated using the straight line method, which takes the cost of the asset divided by the estimated useful life of the asset. The total amount depreciated can never exceed the acquired cost, less any salvage value if applicable. The Depreciation Convention used by the County is half Year Convention. This means one half of the annual depreciation is taken in the year the asset is acquired, and one half of the annual depreciation is taken at the end of the economic useful life.

EXAMPLE OF STRAIGHT LINE DEPRECIATION AND HALF YEAR CONVENTION

Asset Cost: \$20,000

Useful Life: 5 years

	<u>Original Cost</u>	<u>Annual Depreciation</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>
	\$	\$	\$	\$
Year 1	20,000	2,000	2,000	18,000
Year 2	20,000	4,000	6,000	14,000
Year 3	20,000	4,000	10,000	10,000
Year 4	20,000	4,000	14,000	6,000
Year 5	20,000	4,000	18,000	2,000
Year 6	20,000	2,000	20,000	-

Useful Life

Useful Life Ranges

Useful lives are determined by suggested useful life tables and professional judgment, since similar capital assets may have different useful lives depending on how and where they are used. Questions about the useful life of a specific asset should be decided upon jointly by department personnel and the Auditor-Controller's Office. Items that have useful lives of less than one (1) year are not to be capitalized.

Examples and Suggested Useful Lives

<u>Asset Class</u>		<u>Useful Life</u>
Land	Land	--
Land Imp	Land Improvements	20
Buildings	Buildings	50
Equip	Equipment	5
<u>Comptrs</u>	Computers	3-5
Vehicles	Vehicles	8
Roadways	Roadways	25
Bridges	Bridges	50
TrLights	Traffic Lights	15
Sdewk	Sidewalks	25
Parks	Parks	30
<u>Bikepath</u>	Bike Paths	25
Software	Computer Software	5
Donated	Donated Assets	5

7 PHYSICAL INVENTORIES

Purpose

The purpose of this procedure is to establish the methodology for conducting and reporting the periodic physical inventory of the County's Capital Assets.

Procedure

The Internal Auditing section of the Auditor-Controller's office is responsible for:

- Scheduling and coordinating the annual physical inventory to ensure it is completed within the scheduled time frame
- Conducting a thorough inventory in accordance with documented procedures
- Reconciling any exceptions, such that the result provides a complete accounting of all Capital Assets recorded in the County's Financial System
- Documenting the inventory results, and forwarding a written report to the Auditor-Controller indicating completion and any exceptions

Inventory Frequency

- A physical inventory of all capital assets will be conducted at least annually.
- The physical inventory counts/observations will be completed by June 30th and reconciliations completed by September 1st each year.
- The date the asset was sighted and who performed the inventory will also be recorded.
- Any Capital Assets found at the location without an identification number will be entered into County's Financial System as a new asset by the Auditor-Controller's office. If research determines the asset was formally acquired and is properly in the custody of the County, but has not been recorded in the Financial System, the asset will be entered into the system as an addition based on the approval of the Auditor-Controller to be sure the proper acquisition procedures were followed. If research determines that the asset was previously entered into the Financial System and the identification number has been removed, a new number will be assigned to the asset and the System subsequently changed to reflect the new number.

Napa's County Code requires every County department head to file an annual certified inventory of capital assets with the Auditor-Controller's office by September 1st each year.

The Auditor-Controller's office will provide each department an official inventory listing of capital assets as of June 30, XX. This list is provided so that each department can verify their capital assets records are in agreement with the Capital Assets maintained by the Auditor-Controller.

The department head will submit a signed copy of the validated inventory with all prescribed forms completed to the Auditor-Controller by September 1st each year.

8 BUDGET

Assets are categorized, budgeted and reported by account code. Annually the Board of Supervisors considers capital asset acquisitions as part of the budget process. Each asset represented in a capital account budget total should be individually identified with estimated cost for possible CEO Analyst review. Capital assets may be added or changed during the budget year, but these changes must be presented to the Board for approval. Board approved agenda should be submitted to Auditor-Controller's Office to add the approved changes.

All requests to establish capital assets, or to reallocate capital asset appropriations, require the approval of the Board of Supervisors, either through the budget process, or else during a Board of Supervisors meeting, and are to be established in the Equipment account sub-object. Capital assets are those items of equipment, including PC's and related peripherals or furnishings, each valued at \$5,000 or more. Individual capital asset appropriations are allowed to exceed their estimated costs, as long as the aggregate capital asset appropriation within the budget unit (Division) is not exceeded.

Capital Asset appropriations may be adjusted by the Auditor-Controller where the aggregate expenditures has exceeded the authorized amount by no more than \$500 and the adjustment can be accomplished by a transfer or revision of appropriations within the same budget unit (Division).

10 ACCOUNT CODES

Account Code

55100	Land
55150	Land Improvements
55200	Construction in Progress
55300	Buildings and Improvements
55400	Machinery and Equipment
55500	Infrastructure
55600	Intangible Assets

11 GLOSSARY OF TERMS

Annual Depreciation

The portion of an asset's accumulated depreciation allocated to the current fiscal year.

Capital Asset

A building, betterment, improvement, property, or equipment of the County having a unit original cost of \$5,000 or more and a useful life of greater than one reporting period (1 year).

Capital Lease

Leases of assets that are deemed, based on meeting specific criteria, to be purchases financed over a specific period of time. These leases are capitalized as capital assets rather than charging their lease payments as operating expenses.

Construction In Progress

A capital asset category containing accumulated costs of construction in progress of an asset, normally a building. These costs are reclassified from construction in progress to the final capital asset category upon completion of the asset and putting it into service.

Controlled Assets

Assets which do not meet the criteria for capital assets (unit original cost greater than \$5,000 and a useful life of at least one year) but assets which are inventoried by individual departments for security and control purposes. These assets can either be maintained in the County financial system as a non-capitalized asset or any other tracking system approved by the Auditor-Controller. They are usually small, valuable, easily stolen items.

Depreciation

A portion of the original cost of an asset charged against current operations as an expense. Depreciation represents a loss of the asset's original value as it ages and is used. Therefore, it reduces the accounting value of the asset. Depreciation is accumulated over the estimated economical life of the asset.

GAAFR

Governmental Accounting, Auditing, and Financial Reporting; A publication of the Government Finance Officers Association (GFOA).

GAAP

Generally Accepted Accounting Principles

GASB

Governmental Accounting Standards Board

Infrastructure

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

roads, bridges, tunnels, drainage systems, water and sewer systems, dams and lighting systems.

Market Value

The price at which a willing seller would sell something to a willing buyer, neither under any compulsion to buy or sell. For donated assets the value assigned as the acquisition cost is the capital asset market value as of the date of the donation.

Net Assets

The difference between assets and liabilities.

Net Book Value

The value of an asset after deducting the accumulated depreciation from the capitalized cost.

Original Cost

The actual or normal cost of new property in accordance with market prices as of the date the property was first constructed and originally installed