		SUBJECT:	**CONSTRUCTION-IN-PROGRESS**
SECTION:	**5**	**CATEGORY:**	**CAPITAL ASSET POLICIES**
POLICY NUMBER:	**510**		
REVISED DATE:	**07/01/17**	**APPROVED BY:**	Paul Angulo

PURPOSE: To establish standard guidelines for County departments, agencies, and special districts for properly accounting for construction-in-progress.

SCOPE: Applies to County departments, agencies, special districts and authorities that are governed by Riverside County Board of Supervisors.

POLICY: Construction-in-Progress must be recorded in compliance with GAAP and Governmental Accounting Standards Board (GASB) Statements.

PROCEDURE: This Standard Practice Manual contains information on the criteria to be used for construction-in-progress (CIP) as well as the documentation and the process to record the transaction(s) in PeopleSoft Asset Management module (AM module).

GENERAL INFORMATION

Construction-in-progress: Capitalized costs related to a tangible capital asset that is not yet substantially ready to be placed in service.

Development-in-progress: Capitalized costs related to an internally generated intangible capital asset that is not yet substantially ready to be placed in service.

Construction-in-Progress is used to record the costs of direct labor, direct material, and overhead amounts that are expended in one fiscal year on new construction, land or building improvements, or other tangible capital construction projects that will be finished in a future year. CIP projects related to Buildings and Infrastructure with an estimated project cost greater than $5,000 must be capitalized. Because depreciation cannot begin until capital assets are substantially ready to be placed into service, CIP is not depreciable. Upon completion of the projects, the related costs that have accumulated in the CIP account as a transfer in (increase) to the appropriate asset category, e.g. Buildings, and a transfer out (decrease) from CIP then depreciation will commence.

CONSTRUCTION OVERHEAD

Construction overhead includes any cost of CIP that benefits more than a single construction project. Overhead may include costs for supervision and other indirect labor, supplies and materials, transportation, and depreciation of other assets used in construction of the asset in progress.

Construction overhead must be collected in cost pools and allocated to specific construction projects in proportion to the benefits received. Often, a common single element such as square feet, direct labor hours, or direct labor dollars is used to allocate overhead costs. Other methods, such as total cost, may also be used. The objective is to select an overhead allocation base that best represents the beneficial or causal relationship between the expenses incurred and all benefiting or causing segments.

CAPITALIZABLE COSTS ASSOCIATED WITH CONSTRUCTION-IN-PROGRESS

Capitalizable costs associated with a building project that should be included in the original capitalizable cost of the CIP project include (not inclusive):

- Original contract price of construction
- Architect and engineering services
- Equipment rentals (equipment purchases will be recorded directly in AM)
- Expenses incurred in remodeling, reconditioning, or altering a purchased building to make it available for its intended purpose.
- Design and supervision costs
- Building permits
- Legal and architectural fees
- Insurance costs during construction phase
- Interest costs during construction of proprietary fund buildings
- Excavation, grading or filling land

ABANDONMENT OF PROJECT

When it is no longer probable that a project will be completed and placed into service, no further costs should be capitalized, and guidance on impairment (See SPM 514) should be applied to existing balances.

WHEN TO CAPITALIZE INTEREST

Interest costs associated with governmental fund capital assets will not be capitalized. Proprietary funds should follow the guidance of Governmental Accounting Standards Board (GASB) Statement No. 34 or GASB Statement No. 62 in determining whether or not to capitalize such costs. In proprietary funds and those trust funds whose measurement focus is on income determination or capital maintenance, the preferred accounting practice is to capitalize interest costs.

Governmental Funds:

Interest costs associated with governmental fund capital assets will not be capitalized. Proprietary funds should follow the guidance of Governmental Accounting Standards Board (GASB) Statement No. 34 or GASB Statement No. 62 in determining whether or not to capitalize such costs. In proprietary funds and those trust funds whose measurement focus is on income determination or capital maintenance, the preferred accounting practice is to capitalize interest costs.

Interest Capitalization Decision Model – for Proprietary Funds Only

Are the proceeds of the debt externally restricted to finance this particular asset?
If NO, then:

Interest capitalization period begins when:

- Expenditures for the asset are made, and
- Interest cost is being incurred, and
- Activities necessary to get the asset ready for its intended use are in progress

The capitalization period ends when the asset is ready for its intended use. The amount of interest capitalized will equal the average expenditures accumulated for the asset during the reporting period times the interest rate used in the borrowing.

Are the proceeds of the debt externally restricted to finance this particular asset?
If YES, then:

- Interest determined under GASB 62 is reduced by any interest revenue earned on the investment of the proceeds from the date of the borrowing until the asset is ready for its intended use.

Enterprise Funds:
When debt is used to finance the construction of a capital asset, the interest expense incurred during construction should be capitalized.

The period during which interest is to be capitalized starts when the following conditions are met:

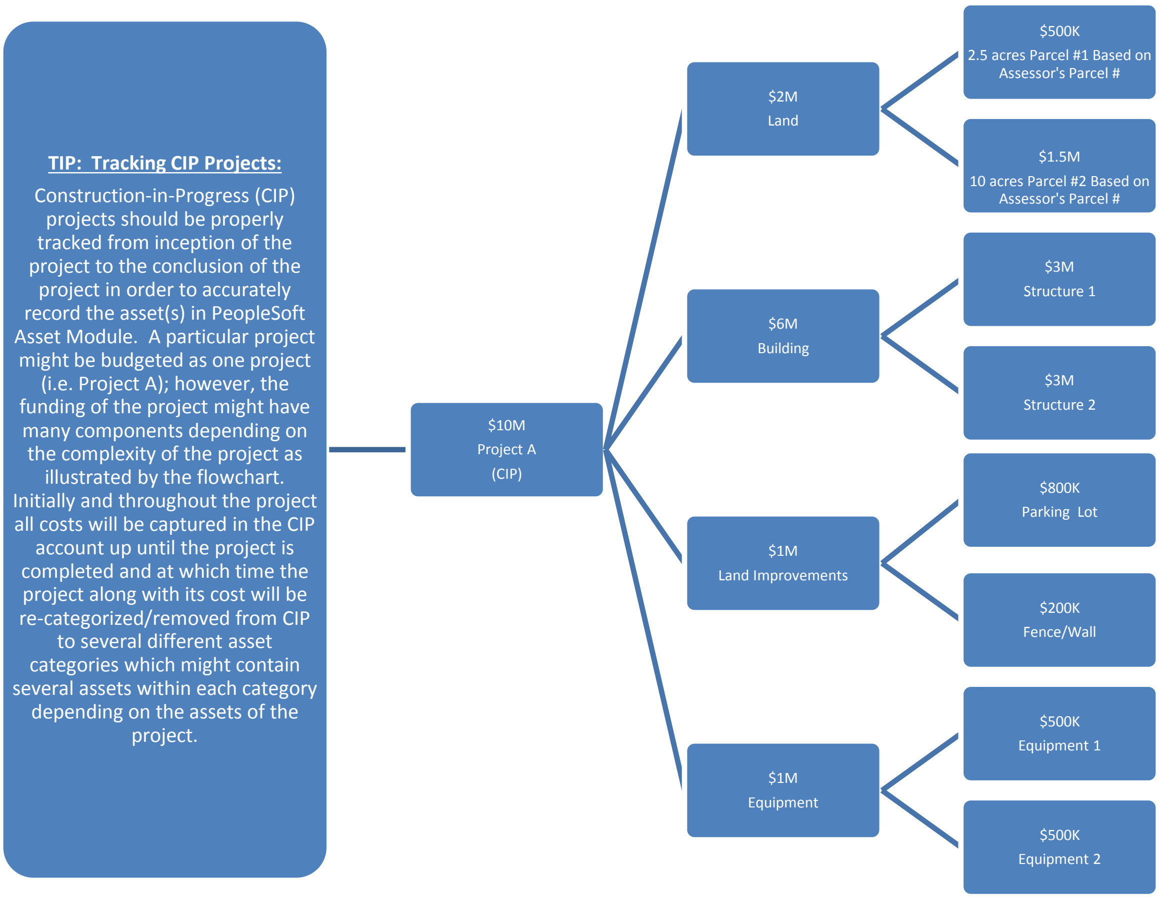
- Expenditures have been made
- Activities are in progress to prepare the asset for its intended use
- Interest is being incurred

The interest capitalization period ends when the asset is substantially completed and ready for its intended use. Enterprise funds should capitalize interest only on debt actually reported in the fund itself.

WHEN TO USE THE CIP ACCOUNT/CATEGORY

Use the CIP account anytime project / capital asset that meets estimated thresholds will not be completed within the same fiscal year in order to accumulate the cost associated with the project/capital asset(s).

The following is a flowchart of how a project might have several capital assets classified differently and therefore it is important to properly track the different costs for each asset category under CIP.



CAPITALIZATION CRITERIA:

Make sure that the costs that are recorded in the CIP accounts for a particular project/capital asset do meet the County of Riverside capitalization criteria; otherwise the costs should be expensed.

REMOVAL OF CIP PROJECTS:

Management from the Department will have to present the total amount of CIP to be removed to their Department Head in a memo format and obtain her/his signature for approval before any CIP projects are removed from the CIP accounts.

DEPARTMENT ROLES:

1) CIP transactions should be recorded in the AM module immediately once all supporting documentation is available and has been received by the department.
    a. All assets should be recorded immediately via an AM-5 form or using Schedule Q
2) Complete AM-5 Form and submit it to the Auditor-Controller with all supporting documentation, within 15 days after it has been entered in the AM module, ***except*** at year end it should be submitted within 24 hours.
3) Once a project/capital asset has been completed and there is no need to continue using the CIP account it is the responsibility of the department to submit the AM-4 or using Schedule Q to reclassify the accumulated costs in the CIP account to the proper asset categories.
    a. Submit supporting documentation including notice of completion

AUDITOR-CONTROLLER'S ROLES:

1) Review and verify AM-4, AM-5 and Schedule Q.
2) Process transactions in PeopleSoft Financial System.

RECORDS MANAGEMENT ROLES:

Department
Retain all capital asset supporting documentation for at least 7 years as it relates to capital assets information reported on "schedule Q" and any other records that are not submitted to the Auditor-Controller.

Auditor-Controller
All AM-4 (including supporting documentation), AM-5 and Schedule Q are filed in accordance with the County's General Records Retention policy which states to keep the current year plus the 7 past years.

SECURITY ROLES:

In order to perform the functions discussed above the following roles must be requested:

Department:
Capital Asset Processor – this role will allow you to:

- Add capital/noncapital asset information
- Update some capital asset information

Auditor Controller:
Asset Reviewer Auditor-Controller Only – this role will allow you to:

- Adjust, re-categorize, transfer, and dispose capital assets/noncapital asset information
- Review and process capital asset transactions
- Run capital asset reports