

CHAPTER 4

CAPITAL ASSET ACCOUNTING

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CHAPTER 4

CAPITAL ASSET ACCOUNTING

401. General Purpose. Capital assets are items of tangible and intangible property of significant value that have usefulness that extends beyond the year in which they are acquired. Capital assets include land, structures and improvements, infrastructure, works of art and historical treasures, certain equipment, and certain intangible assets. Capital asset accounting safeguards investments, fixes equipment custody, provides data for financial reporting and retirement policies, and assures compliance with State and federal laws, budget requirements, and policies of the Board of Supervisors.

402. Definitions and Capitalization Policies. The cost records of property shall be established (i.e., “capitalized”) in accordance with the following policies:

.1 *Land.* The investment, held in fee title, in real estate other than structures and improvements, and land acquired for street and road purposes. Land is capitalized regardless of cost.

.2 *Structures and Improvements.* Physical properties of a permanent nature, such as buildings, structural attachments, storage tanks, reservoirs, parking area, and landscaping are considered structures and improvements. For structures such as roads, streets, bridges, traffic signs and signals see .3 Infrastructure.

.2.1 *New Construction.* Newly constructed structures and improvements are capitalized when the estimated cost is \$50,000 or more. (Rev. 03/09)

.2.2 *Additions.* Additions and extensions of existing units are capitalized when the estimated cost of the work is \$50,000 or more. (Rev. 03/09)

.2.3 *Leasehold Improvements.* Improvements made to leased property that includes new construction, additions, and/or betterments when the estimated cost of the work is \$50,000 or more. (Rev. 01/10)

.2.4 *Maintenance.* All new construction, additions, and betterments not qualifying for capitalization as prescribed above are charged to the Maintenance-Structures, Improvements and Grounds classification in the department’s budget. When the total cost of the project exceeds \$50,000 (includes in-house labor costs if applicable), the project will be assigned a subobject number and be listed separately in the General Services-Major Maintenance budget for all governmental funds or the operating budget of a proprietary fund department. The process to submit a request for a major maintenance project is found in Section 813 of Chapter 8. The policy governing contracts and bidding for Public Works Services, including the erection, construction, alteration, repair or improvement of public structures, buildings, roads or other public improvements, is found in Section 509 of Chapter 5. (Rev. 10/23)

.3 *Infrastructure.* Structures and improvements that are long-lived, stationary in nature, and can be preserved for a significantly greater number of years than other capital assets. Roads, bridges, tunnels, drainage systems, water and sewer systems, dams, and lighting systems are considered infrastructure. Costs are capitalized when the estimated cost of the work is \$50,000 or more. (Rev. 03/09)

.4 *Equipment.* Tangible personal property which is moveable, or if attached, is readily detachable without appreciable impairment to the unit to which it is attached and has a useful life of more than one year and a value of \$5,000 or more.

.5 *Works of Art and Historical Treasures.* Property considered to be works of art or historical treasures and have a value of \$5,000 or more.

.6 *Intangible Assets.* An item that lacks physical substance, the initial useful life exceeds one year and has a value of \$50,000 or more, such as easements, water rights, timber rights, patents and trademarks. Computer software should be capitalized with a value of \$5,000 or more. For additional guidance see Auditor-Controller Guidelines for Intangible Assets - Software. (Rev. 07/18)

.7 *Betterments.* The replacement of parts of an existing capital asset with improved or superior parts, usually resulting in a more productive, efficient or longer-lived property. Replacing part of an existing asset with another of like quality is not a betterment, even though the useful life of an asset may be maintained or extended. Betterments are capitalized when the estimated increase to the value of the asset is above the capitalization threshold of the asset type. (Rev. 07/18)

.8 *Acquisition Value.* The price that would be paid to acquire an asset with equivalent service potential at the acquisition date. This applies to donated capital assets, donated works of art, historical treasures, and similar assets and capital assets received in a service concession arrangement. (Rev. 07/18)

.9 *Purchases utilizing Federal and/or State Funding.* When using Federal and/or State funding for the purchase of capital assets, the department should abide by any and all Federal and/or State regulations that are more restrictive than the capital asset accounting set forth in this Policy. (Rev. 07/18)

403. Budget Procedures. See Chapter 8. (Rev. 01/10)

404. Land Acquisition and Disposal. The cost of land includes the expenditures incurred for acquisition, such as purchase price, appraisal and negotiation fees, title search fees, surveying fees, cost of consents, payments of damages, clearing land for use, demolishing or removing existing structures, land-filling costs, and relocation cost of the landowner if the land was acquired by condemnation. Land acquisitions are to be entered into the Auditor-Controller's Capital Asset Program. (Rev. 01/10)

The department will enter information pertaining to any receipts from sale of salvage resulting from preparing a parcel of land for use, stating the dollar amount received, date of sale, deposit permit number, and description of the land into the Capital Asset Program. The amount received is credited against the cost of the land. Any costs that are incurred subsequent to the acquisition of a parcel of land are charged to the subobject number under the Land classification in the Expenditure Ledger by the Auditor-Controller-County Clerk. (Rev. 01/10)

.1 *Acquisition by Purchase.* The department enters the following information into the Capital Asset Program: parcel number, location/address, description of use, acreage, acquisition date, purchase value, donated value and all other applicable costs. (Rev. 01/10)

.2 *Acquisition by Gift/Donation.* After property has been accepted by the Board of Supervisors, the department enters the property information into the Capital Asset Program noting that the property was acquired by gift, donation, etc. Acquisition value should be used for the cost of the donated property. There is no charge to the department's budget unless there are related costs, such as appraisal fees. (Rev. 07/18)

.3 *Disposal by Sale.* The department enters the disposal information into the Capital Asset Program as an Inventory Adjustment Request (IAR). The sale date and price, property description and deposit permit number must be stated. (Rev. 01/10)

.4 *Trade.* When a parcel of County-owned land is traded for a parcel of land owned by another agency or private party, the department enters both a property addition and an IAR for the disposal of an asset in the Capital Asset Program. (Rev. 01/10)

405. Structures, Improvements, and Infrastructure Acquisition and Disposal. (Rev. 03/09)

.1 *Applicable Costs.* The cost of structures or improvements includes all expenditures in connection with its acquisition, such as purchase or construction cost, fixtures attached to a structure, architect fees, costs of building permits and licenses, accident or injury costs, payment of damages, and engineering costs, including those of County departments. Structures, improvements, and infrastructure costing \$50,000 or more must be entered into the Capital Asset Program. (Rev. 01/10)

.1.1 *Direct Labor, Employee Benefits, and Overhead.* When a structure or improvement is constructed by force account (i.e., by County employees), the costs shall also include the following:

- a. Actual costs of salaries and benefits; and

- b. Indirect cost, or overhead, is determined by applying an indirect cost rate to direct salaries only. If no indirect cost rate is available, contact the Auditor-Controller-County Clerk for assistance.

.2 Acquisition of Construction by Contract. All contracts or purchase orders covering the acquisition or construction of structures, improvements, and infrastructure are charged to the project's subobject number under the Structures and Improvements classification in the department's budget. (Rev. 01/10)

.2.1 Notice of Completion. When a construction project has been completed, the department responsible for the project enters the information into the Capital Asset Program as the appropriate asset type and attaches the Notice of Completion (AC Form #173) to the entry. (Rev. 07/18)

.2.2 Projects Partially Completed at June 30. When a construction project is only partially completed at the end of the fiscal year, the department responsible for the project ensures that all costs to date have been entered into the Capital Asset Program. (Rev. 01/10)

.3 Construction by Force Account. The department that performs the work of constructing a structure, improvement, or infrastructure item by force account is responsible for and must maintain an accurate record of the costs of all materials, supplies, and services attributable to the project, including maintaining time cards for accumulation of the direct labor costs involved. Initially, expenditures for such materials, supplies, services, labor, and employee benefits are charged to the appropriate objects in the budget of the department performing the construction. The department is also responsible for entering the asset into the Capital Asset Program. (Rev. 01/10)

.3.1 Projects Started and Completed in the Same Budget Year. When a force account construction project has been completed, the department that performed the work must summarize the actual costs. The constructing department submits an Expenditure Reimbursement Transfer (Intrafund Transfer) to appropriately record the expenditure if the departments are in the same fund or an Interfund Transfer if the departments are in different funds. The constructing department will enter the information into the Capital Asset Program and attach a Notice of Completion. (Rev. 07/18)

.3.2 Projects Partially Completed at June 30. When a force account construction project is only partially completed at the end of the fiscal year, the department performing the work enters the asset information into the Capital Asset Program and either an Expenditure Reimbursement Transfer or an Interfund Transfer, for those costs, including overhead, actually incurred through June 30. The department also submits a Miscellaneous Encumbrance giving an estimate of costs, including overhead, which will be incurred *after* June 30 to complete the project. These forms must be submitted prior to the closing of the current fiscal year budget accounts, not later than June 30 or the last working day of the current fiscal year. When such a force account construction project has been completed, the department that performed the work submits an Expenditure Reimbursement Transfer, or an Interfund Transfer, for those costs, including overhead, actually incurred after June 30. The department will also attach a Notice of Completion and update the information into the Capital Asset Program. (Rev. 07/18)

.4 Department Engineering Costs. Engineering costs incurred by the department for a construction project, whether done under contract or by force account, will be charged to the project.

.5 Replacement for Betterment. When a part of an existing structure, infrastructure, or improvement is replaced by a betterment, contact the Auditor-Controller-County Clerk for assistance in determining the appropriate adjustments needed in the Capital Asset Program. The department includes in the final Notice of Completion an identification of the item being replaced, and an estimate of its original cost. (Rev. 07/18)

.6 Disposal of Structures and Improvements. When a structure or improvement is disposed of in any manner, the department submits an IAR through the Capital Asset Program. (Rev. 01/10)

.7 Capital Lease-Purchase of Assets Other Than Equipment. When a lease-purchase agreement results in the acquisition of a capital asset item other than equipment, the department must enter the information into the Capital Asset Program under the corresponding asset type. (Rev. 01/10)

.8 *Leasehold Improvements.* Improvements costing \$50,000 or more made to leased property must be entered into the Capital Asset Program. The end date entered into the Capital Asset Program should include any applicable lease extension options. Once the department ends the property lease, it should complete an IAR for any associated improvement entries. (Rev. 07/18)

.9 *Impairments.* If there is a significant, unexpected decline in the service utility of an asset, the department is required to notify the Auditor-Controller by memorandum. Common indicators of impairment may include:

- a. Evidence of physical damage, such as a building damaged by fire or flooding, when the level of damage requires restoration efforts to restore service utility.
- b. Enactment of laws or regulations or other changes in environmental factors, such as new water quality standards a water treatment plant cannot meet, and cannot be modified to meet.
- c. A change in the manner or expected duration of use, such a facility closure prior to the end of its useful life.
- d. Construction stoppage, as may occur due to a lack of funds. (Rev. 01/10)

.10 *Acquisition of Construction Donated by Developers.* When a road is donated to the County to maintain, enter a corresponding infrastructure asset for the physical road as well as an intangible asset for the right to use the land. Both assets should be entered into the Capital Asset Program using acquisition value. (Rev. 07/18)

406. Department Equipment Records. Each department shall maintain up-to-date records of all equipment assigned to it, adding items as they are acquired, and deleting items as they are disposed of. Items costing \$1,000 or more are required to be entered into the Auditor's Capital Asset Program. The information maintained should include at a minimum the item description, cost, date in service, purchase method, and location. For equipment costing less than \$1,000 that contains sensitive data on a data storage device, those items should be added to the Auditor's Capital Asset Program at the time of disposal. See also the County's Information Security Policies in Chapter 7. (Rev. 07/18)

407. Equipment Acquisition and Disposal. The cost of an item of equipment includes the purchase price or manufacture cost, freight or other transportation cost, sales, use or transportation taxes, and installation costs. Discounts taken in paying for equipment are deducted from the purchase price or manufacture cost. Exclude costs for training, maintenance agreements, service contracts, and extended warranties when entering the item. Credits for trade-ins or rent-purchase allowances are deducted from total costs when charging equipment to department budgets, but are not deducted when recording the costs of equipment items in capital asset accounts. (Rev. 07/18)

.1 *Acquisition by Purchase.* All costs, less applicable credits, of acquiring an item of equipment by purchase, shall be charged to the item's subobject under the Equipment classification in the department's budget. (Rev 05/12)

.2 *Manufacture by Force Account.* All costs of manufacturing and/or installing an item of equipment by force account, including direct labor and overhead, shall be recorded and charged by an intrafund or interfund journal voucher to the specific capital asset account in the department's budget.

.3 *Acquisition by Gift.* The department will use the Board's Summary of Proceedings as the source document initiating the capitalization of items with a value of \$5,000 or more, using acquisition value of the item. The item must be entered into the Auditor's Capital Asset Program. (Rev. 07/18)

.4 *Acquisition by "Discovery".* At any time, such as during the equipment inventory that a department finds an equipment item in its custody that is not on its equipment records, the department must notify the Auditor-Controller-County Clerk by written memorandum describing the item and the circumstances of its discovery. If, after investigation it is found that the item is property of the County, but not included in the County capital asset accounts, the department will enter the item in the Auditor's Capital Asset Program at its estimated acquisition value if its original cost is unknown. (Rev. 07/18)

.5 Capital Lease-Purchase of Equipment. If a lease agreement meets one or more of the following four criteria, the lease is classified as a capital lease: 1) by the end on the lease term, ownership of the leased property is transferred to the lessee (department); 2) the lease contains a bargain purchase option; 3) the lease term is substantially (75% or more) equal to the estimated useful life of the leased property; or 4) at the inception of the lease, the present value of the minimum lease payments is 90% or more of the fair value of the leased property. If any one of the four above criteria is met, the department must make use of the following procedures.

- a. Copiers or fax machines under capital lease/purchase agreements should be included on the equipment inventory list.
- b. For new equipment purchased by capital lease that has a value in excess of \$5,000, the item must be added to the Auditor's Capital Asset Program. The cost of the item would be the net present value of future minimum lease payments not to exceed the fair value of the leased equipment (see AuditorNet Help/Forms/net Present Value for cost calculator). The department is required to send a copy of the lease amortization schedule to the Auditor-Controller-County Clerk. (Rev 05/12)
- c. When new equipment is leased or an old piece of leased equipment is replaced, the department should obtain from the Purchasing Division a copy of the lease agreement *and* a copy of the purchase order used to originate the transaction. These should always include payment terms, interest amount and maintenance costs.
- d. For leased equipment that is either being replaced or has been paid off and is to be transferred, an Inventory Adjustment Request (IAR) for removal or transfer must be initiated in the Auditor's Capital Asset Program.
- e. The Auditor-Controller-County Clerk will send the department an inventory number for the new equipment.
- f. The department should comply with the procedures for budgeting for Capital Leases as provided in Chapter 8.

.6 Trade-in or Warranty Replacement. When a department wishes to trade-in an existing item of equipment for credit against the purchase price of a new item of equipment or to receive a warranty replacement, enter an Inventory Adjustment Request (IAR) into the Capital Asset Program as a Trade/Warranty Replacement. Attach supporting documentation of the trade or warranty replacement to the IAR. When the purchase order for the new item is issued, the Purchasing Agent will note the equipment number and description of the item to be traded-in, and will take appropriate action to pick up the trade-in item when the new item is delivered. (Rev. 07/18)

.7 Disposal or Donation of Surplus Equipment. See Chapter 5.

.8 Lost and Stolen Equipment. Complete an IAR in the Capital Asset Program if an equipment item is lost or stolen to delete the asset. Attach to the IAR a memorandum signed by the department head explaining the loss to the Auditor-Controller-County Clerk. If the asset was stolen, attach the related police report in addition to the memorandum. (Rev. 07/18)

.9 Intra-Department Transfers. For those departments whose inventory is recorded by sub-location (i.e., Fire, Roads), the department shall make a change in the Capital Asset Program for transfers of equipment between sub-locations. (Rev 05/12)

.10 Impairments. If there is a significant, unexpected decline in the service utility of equipment, the department is required to notify the Auditor-Controller by memorandum. Common indicators of impairment may include:

- a. Evidence of physical damage, such as a vehicle damaged by fire or flooding, when the level of damage requires restoration efforts to restore service utility.
- b. Enactment of laws or regulations or other changes in environmental factors, such as new water quality standards a water treatment equipment cannot meet, and cannot be modified to meet.
- c. Technological development or evidence of obsolescence, such as that related to a major piece of diagnostic or research equipment. (Rev. 01/10)

408. Equipment Control. All County equipment shall be identified and controlled.

.1 *Vehicles.* Automobiles, trucks, and trailers, etc. will be marked by the department immediately upon receipt with the County asset number, department inventory number, by decal, or other appropriate means. (Rev. 07/18)

.2 *Other Capital Asset (Capitalized Value at \$5,000 or More).* Capital asset items shall be assigned County asset numbers after the items have been reviewed by the Auditor-Controller-County Clerk's Office. The Auditor-Controller-County Clerk's Office will provide self-adhesive County asset numbers once assigned. When it is impracticable to place adhesive numbers on certain types of equipment (i.e., medical or electronic), it will be the responsibility of the department to identify the property as County property. (Rev. 07/18)

.3 *Equipment Under \$5,000.* Departments are required to establish inventory control that will ensure that County assets valued between \$1,000 and \$4,999 are safeguarded. The system will be reviewed as part of the department audit to ensure that it provides proper control and information for the department head to certify the inventory as required by Government Code Section 24051. For the purposes of this section, equipment is defined as moveable personal property with a useful life of one year or longer and has a value in excess of \$1,000.

409. Equipment Inventory. A review of the inventory control system will be performed as a part of the department's audit. The review will include a verification of a sample of items of capitalized equipment (\$5,000 or more in cost in the Capital Asset Program), non-capitalized equipment (between \$1,000 and \$4,999) in cost and verification that capital leases have been properly reported and recorded by the department.

.1 *Inventory Filing Dates.* Government Code section 24051 and the Ordinance Code require department heads to file with the Auditor-Controller-County Clerk an inventory of all County property in their possession on the last day of business of the preceding month on or before April 10, 1995 and every third year thereafter. County Property includes the land, structures and improvements, infrastructure, works of art and historical treasures, equipment, and intangible assets meeting their respective capitalization thresholds (see section 402 for thresholds). In addition, the department's inventory list of equipment costing between \$1,000 and \$4,999 must also be included. (Rev 04/16)

.2 *Inventory Procedures.*

.2.1 *Equipment List.* Near the first of the month preceding the month in which the inventories are to be certified, the Auditor-Controller-County Clerk will furnish each department an inventory certification affidavit form. The department should print a listing of assets from the Capital Asset Program for the Department Equipment list. (Rev 04/16)

.2.2 *Physical Inventory.* Each department will conduct a physical inventory of all equipment in its possession. Any exceptions should be corrected by an add or delete (IAR). The department should print an equipment listing after corrections for submittal with the inventory affidavit. The affidavit which accompanies the Equipment List shall be signed under oath by the department head in the presence of the Auditor-Controller-County Clerk, any other County officer specified in Government Code Section 24000, any sworn deputy to a County officer, or before a Notary Public. The affidavit, the original of the Auditor-Controller-County Clerk's Capital Asset List, and a copy of the department's list of equipment shall be returned to the Auditor-Controller-County Clerk on or before the due date.

.2.3 *Missing Items.* If any items on the Equipment List cannot be located during the physical inventory, the department enters an IAR into the Capital Asset Program to remove the asset.

.2.4 Capital Lease-Purchase Equipment. The department shall review the Equipment List to ensure that all equipment capital lease-purchase activity is accurately recorded. Any necessary additions/deletions of lease-purchase items should be entered into the Capital Asset Program. The department should notify the Auditor-Controller-County Clerk of the difference and provide the amortization schedule if adding an item or memorandum explanation for a deletion.

.2.5 Inventory Review. Upon receipt of departmental Equipment Lists, the Auditor-Controller-County Clerk will review them for completeness, and investigate any exceptions noted.

410. Intangible Asset Acquisition and Disposal. Each department shall maintain up-to-date records of all intangible asset items purchased or developed, adding items as they are acquired and deleting items as they are disposed of. Computer software costing \$5,000 or more and all other intangibles costing \$50,000 or more are required to be entered into the Auditor-Controller-Capital Asset Program. Departments are not required to capitalize and inventory intangible items costing less than the previously stated thresholds. Intangible assets may include such things as easements, computer software, water rights, timber rights, patents and trademarks. (Rev. 07/18)

.1 Software. Specific costs such as design, configuration, interfaces, coding, installation to hardware and testing should be capitalized. All other costs of internally developed software should be expensed. "Off the shelf" software purchases should be capitalized at the purchase price, which would include perpetual licenses and sales tax. Subscription based licensing and maintenance services are not capitalized. Software purchases that exceed \$5,000 must be entered into the Capital Asset Program as an intangible asset. Group purchases for related or identical licenses, not linked to a specific piece of equipment, totaling \$5,000 or more should be entered as one asset. For additional guidance see Auditor-Controller Guidelines for Intangible Assets - Software. (Rev. 07/18)

.2 Impairments. If there is a significant, unexpected decline in the service utility of an intangible asset, the department is required to notify the Auditor-Controller by memorandum. An indicator of impairment may include technological development of evidence of obsolescence, such as that related to diagnostic or research software. (Rev. 01/10)

411. Works of Art and Historical Treasures Asset Acquisition and Disposal. Each department shall maintain up-to-date records of all works of art and historical treasures items adding them as they are acquired and deleting items as they are disposed of. Items costing \$1,000 or more are required to be entered into the Auditor-Controller's Capital Asset Program. The information maintained should include at a minimum the item description, cost, acquisition date, purchase method, and location. For non-capitalized items follow section 409 for inventory control. (Rev 05/12)

.1 Acquisition by Purchase. All cost of acquiring a work of art or historical treasurer by purchase, shall be charged to the item's subobject under the Equipment classification in the department's budget. (Rev 05/12)

.2 Acquisition by Gift/Donation. If the item is acquired by gift or donation, the cost should be determined using acquisition value. The department will use the Board's summary of Proceedings as the source document initiating the capitalization of item with a value of \$5,000 or more. (Rev. 07/18)

.3 Disposal or Donation of Surplus Works of Art and Historical Treasures. See Chapter 5.

.4 Lost and Stolen Works of Art and Historical Treasures. Complete an IAR in the Capital Asset Program if a works of art or historical treasure item is lost or stolen to delete the asset. Prior to deleting a lost asset, submit a memorandum signed by the department head explaining the loss to the Auditor-Controller-County Clerk. If an asset is stolen, submit the related police report in addition to the memorandum. (Rev 05/12)

.5 Intra-Department Transfers. For those departments whose inventory is recorded by sub-location (i.e., Fire, Roads), the department shall make a change in the Capital Asset Program for transfers of works of art or historical treasures between sub-locations. (Rev 05/12)