

Title I – Finances and Accounting

600 - CAPITAL ASSET ACCOUNTING

Policy Owner: Auditor-Controller-Treasurer-Tax Collector

A. PURPOSE

To make policies and establish procedures for accounting and capitalization, budgeting, inventory control, and accountability of capital assets.

B. OBJECTIVES

1. To safeguard a sizeable investment of public funds.
2. To establish responsibility for custody of and accountability for equipment.
3. To provide data for budgeting, financial reporting and cost accounting.
4. To provide support for reimbursement of depreciation under grants and proprietary service programs.
5. To assist in the formulation of acquisition and retirement policies through accumulation of data regarding prices, sources of supply and useful life.
6. To provide information for insurance purposes.

C. DEFINITIONS

Capital Assets are non-financial resources that are tangible or intangible in nature, of significant value, and having a useful life extending more than one year. They are broadly classified as land, buildings and improvements, infrastructure, construction in progress, intangibles, and equipment.

1. *Land* includes the investment in real estate other than structures and improvements, and includes land acquired for infrastructure purposes.

All land, as defined above, shall be capitalized without regard to cost.

The cost of land includes all expenditures in connection with acquisition and preparation for use, such as but not limited to: purchase price, title search, recording fees, appraisal and negotiation fees, relocation costs, survey fees, demolition costs, grading and clearing.

2. *Infrastructure* is long-lived assets that are generally stationary in nature and normally preserved for a significantly greater number of years than most capital assets. Examples include pavements, curbs, gutters, sidewalks, roadways, bridges, sewer systems, water distribution systems, and water drainage systems.

Infrastructure and infrastructure improvements that cost \$25,000 or more at completion will be capitalized.

The cost of infrastructure assets includes but is not limited to engineering fees, surveyor fees, architect fees, permits and licenses, and appurtenances (i.e., traffic signs, signals, street signs, and grade separations).

3. *Buildings and Improvements* are physical property of a permanent nature, such as newly constructed, remodeled or existing building structures, HVAC systems, structural attachments, storage tanks and parking areas.

Buildings and improvements having a minimum value of \$25,000 will be capitalized.

The cost of Buildings and Improvements includes all expenditures in connection with acquisition or construction, such as purchase price or construction costs, filing and other closing costs, architect's fees, cost of permits and licenses, insurance during construction, and inspections and tests.

4. *Equipment and Vehicles* includes tangible personal property of a relatively permanent nature and of significant value, such as furniture, machines, tools, cars, and trucks. Software and other intangible assets are managed within the Equipment capital account.

Effective for fiscal year 2024-25 and thereafter, Equipment and Vehicles having a minimum value of \$10,000 will be capitalized.

The cost of equipment includes all costs necessary to acquire and place the equipment into service, such as purchase price, freight, taxes, and installation costs.

5. *Inventorial Items* are those items, which cost less than \$10,000, effective fiscal year 2024-25, and require inventory control for security reasons, or are susceptible to conversion for personal use. Examples include firearms and personal computers. These should be recorded in the Fixed Asset system at zero value, except for items noted in paragraph J.3 below.

D. BUDGETING

All expenditures that meet the criteria for capital assets should be budgeted as capital assets and claims for the expenditures should be charged to the appropriate capital asset account.

Items costing less than \$10,000 should be budgeted in an appropriate Services and Supplies account.

E. CAPITALIZATION

Summary of capitalization thresholds

Asset Class	Capitalization Threshold
Land	Capitalize all
Infrastructure	\$25,000
Structures and Improvements	\$25,000
Equipment (including systems)	\$10,000
Lease Financed Purchase Assets	Use threshold for appropriate asset class as listed above
Construction in Progress	Projects expected to exceed \$25,000 at completion
Right-of-use Lease Assets	Use threshold for appropriate asset class for present value of payments expected to be made during lease term
Subscription Based Information Technology Agreements (SBITAs)	Based on judgement of Auditor-Controller's office

1. All expenditures that meet the criteria for capital assets should be capitalized.
2. Component items that function as a unit should be capitalized if the aggregate cost is \$10,000 or more and they are relatively fixed. Examples include modular furniture and computer systems comprised of hardware and software components designed to work exclusively with one another.
3. Blocks of items having individual costs less than \$10,000 should not be capitalized if the component parts are easily separated. Examples include blocks of chairs and tables, or printers and monitors.
4. Component units that are always utilized together, such as a computer system, may be consolidated under one fixed asset number.

F. LEASE FINANCED PURCHASES

A lease financed purchase, also referred to as financed purchases in governmental accounting standards, is a lease that transfers ownership of the underlying asset to the County by the end of the lease term. Leases which meet the requirements listed below, as defined by Governmental Accounting Standards Board (GASB) statement

87, are considered financed purchases and shall be accounted for as a capital asset if the cost of the asset exceeds its class's capitalization threshold.

1. The lease transfers ownership of the property to the lessee by the end of the lease term. Note: The presence of an option to purchase the property is not equivalent to a provision to transfer ownership.
2. The lease does not contain termination options
 - a. Termination options are periods for which both the lessee and the lessor have an option to terminate the lease without permission from the other party.

G. LEASEHOLD IMPROVEMENTS

Leasehold improvements are improvements to buildings that the County leases to be used during the term of that lease. Leasehold improvements are permanent in nature in that they involve physical modifications to a leased property.

Leasehold improvements are capitalized by the lessee and are amortized over the shorter of (1) the remaining lease term, or (2) the useful life of the improvement.

H. INTANGIBLE ASSETS

Intangible assets are defined as non-financial assets that lack physical substance. Common examples of intangible assets are easements, rights-of-way, computer software, right of use leases, and subscription-based information technology arrangements (SBITAs).

An individual software application or license purchased for County use shall be capitalized if it is valued at or over \$10,000 and its useful life will be greater than one year. For software or license subscriptions where the County does not gain title to the software refer to the guidance for subscription-based information technology arrangements (SBITAs).

Computer software that is internally generated and meets the \$10,000 threshold shall also be capitalized. Only costs associated with the application development stage will be capitalized. Preliminary project stage costs and post-implementation costs should be expensed. The application development stage includes the design, coding, configuring, and testing phases, including parallel processing.

Software purchased as a component of a system designed to work exclusively with specific hardware shall be capitalized with the hardware using the group method and the \$10,000 threshold as noted in the equipment paragraph above.

Vendor modifications such as patches and version upgrades used to keep software in a usable state as opposed to adding significant new capabilities should be charged as maintenance expense.

I. LEASES (also referred to as Right of Use Leases)

A lease is an intangible asset defined as a contract that conveys control of the right to use another entity's non-financial asset for a period of time in an exchange or exchange like transaction. Leases include contracts that meet the definition of a lease even if not explicitly identified as a lease, such as rental agreements. An intangible lease asset and a lease liability should be recognized if the following conditions are met:

1. The noncancelable right to use an underlying asset plus options to extend is greater than 12 months and
2. The present value of lease payment expected to be made during the lease term, plus any payments made to the lessor at or before the commencement of the lease term exceeds its class's capitalization threshold.

A lease with a maximum possible term of 12 months or less, including options to extend, is considered a short-term lease and should be charged as rent/lease expense in character 60.

J. SUBSCRIPTION BASED INFORMATION TECHNOLOGY ARRANGEMENTS (SBITA)

A SBITA is a contract that conveys control of the right to use another party's information technology software, alone or in combination with tangible assets. SBITAs include contracts that meet the definition of a SBITA, even if not explicitly identified as a SBITA. According to Governmental Accounting Standards Board (GASB) statement 96 a capitalization threshold should not be set to exclude small ticket SBITAs, but the determination about how to report a SBITA should be left to professional judgement. Accordingly, all agreements that meet the following criterion should be evaluated by the Auditor's office to determine if an intangible subscription asset and subscription liability should be recognized.

1. Noncancelable right to use the underlying subscription asset plus options to extend is greater than 12 months. Subscription assets include:
 - a. Software as a Service (SaaS)
 - b. Platforms as a Service (Paas), and
 - c. Infrastructure as a Service (IaaS)

Agreements that should be excluded from recognition as a SBITA include:

1. Perpetual licensing arrangements that grant a right to use software indefinitely (charge as software expense in character 60).
2. Maintenance or service agreements, and
3. Short-term SBITAs, which are defined as having a maximum possible term of 12 months or less, including options to extend.

I. IMPROVEMENTS vs. REPAIRS AND MAINTENANCE

Major expenditures that increase future benefits from an existing capital asset beyond its previous standard of performance shall be capitalized. After a capital asset has been placed into service, subsequent expenditures are capitalized if they meet the asset's capitalization threshold and:

1. Extend the estimated life or increase the value of the asset as per established thresholds defined in this document, or
2. Increase the future service potential, (capacity or efficiency) of the asset, or
3. Are for a new major fixture of a building (e.g. elevator, HVAC, roof), or
4. For depreciated roads where the "base" has been impacted by a recycle, reconstruction, or overlay.

J. ASSET INVENTORY AND CONTROL

1. Departmental Accountability

Assets should be included on the inventory list and are accountable by the department that utilizes the assets, unless other specific requirements apply. Examples of other requirements include assets owned by internal service funds and grant or financing terms.

2. Asset Tags

- a. Numbered equipment tags shall be affixed to capital assets and inventorial items immediately upon receipt of the property. The Auditor-Controller's Office furnishes the Departments with pre numbered tags. The tag should be located where it will be readily seen, preferably on the left front corner of the item.
- b. Equipment whose ownership resides with the State or Federal government must be identified by special tags in accordance with the agency's regulations. These items should be noted on the Department's annual inventory listing.
- c. Intangible assets, such as software, should be assigned an asset number without a Tag.

3. Accountability for Equipment under \$10,000

- a. Excluding equipment costing less than \$10,000 from the capital asset category does not eliminate the Department's responsibility for safeguarding and protecting County property.
- b. Any equipment asset costing less than \$10,000 that requires control or safeguarding from risk of loss should be included on the inventory control list. Determination of control and risk of loss is, at the sole discretion of the Department Head. The value of noncapital items included in inventory should be included in the inventory at cost.

ALL FIREARMS are to be recorded as inventoried regardless of cost.

PERSONAL COMPUTERS are to be inventoried regardless of cost.

K. ANNUAL INVENTORY

1. Each department receives a list annually of all changes affecting its capital asset accountability. The department must verify each list and report discrepancies to the Auditor-Controller.
2. The Auditor-Controller prepares an annual inventory list for each department. All required adjustments must be made on the Capital Asset Purchases Form AUD98 or on the Asset Transfer/Disposal Form AUD-43. Do not note any adjustments on the inventory list itself. Signatures are required by the Department Head or their designated personnel to process these transactions.
3. Department Heads will certify the annual inventory list and return it to the Auditor-Controller by the stated filing deadline. The inventory list may be audited by the Auditor-Controller's Division of Audits.

L. AUD-098 CAPITAL ASSET PURCHASES

An AUD-098 form needs to be completed for any item purchased as a Capital Asset. The form is completed upon receipt of the asset, after assigning an Asset Tag number to the item and included with the voucher payable.

The procedures for filling out an AUD-098 are as follows:

1. Leased Equip: If the asset is being leased enter Yes.
2. Asset ID: Enter the Asset tag number assigned to the property.
3. Description: Enter a brief description of the asset.
4. Purchase Amount: Enter the actual cost of the asset from the invoice, including taxes, freight and installation cost. The cost of a donated asset is the fair market value at acquisition date.

5. Purchase Date: Enter the date the asset was purchased in MM/DD/YYYY format.
6. GL Key: Enter the GL Key where the asset will be charged.
7. GL Obj: Enter the object where the asset was charged. Asset purchases should be charged to the following objects.
 - a. 86001 - Land Purchase
 - b. 86110 - Building and Improvements
 - c. 86201 – 86228 - Equipment
8. JL Key: Enter the JL Key where the asset was charged if applicable.
9. JL Object: Enter the JL Object where the asset was charged if applicable.
10. Primary Class: Select the appropriate class from the dropdown menu.
11. Secondary Class: Select the appropriate class from the dropdown menu.
12. Manufacturer: Enter the name of the manufacturer.
13. Model: Enter the model number
14. Serial/VIN #: Enter the serial number
15. Department: Select the appropriate department code from the dropdown menu.
16. Division: Select the appropriate division code from the dropdown menu.
17. Location: Select an appropriate 6-digit location code from the dropdown menu. If an appropriate 6-digit location code is not available, select a 2-digit location code.

Examples: 66-1100 SHERIFF-ADMIN
 09 Assessor

18. Invoice #: Enter the invoice number for the asset purchase
19. PO Number: Enter the County purchase order number if applicable.
20. Contract #: Enter the County contract number if applicable.
21. Vendor #: Enter the County vendor number that the asset was purchased from.
22. Check No.: Enter the check/voucher number of the check used to pay for the asset if applicable.
23. Parcel # (Land): For purchases of land, enter the parcel #.
24. Acres (Land): For purchases of land, enter the number of acres purchased.
25. Year (Vehicle): For vehicle purchases, enter the vehicle make year.

Submit an Excel copy of the AUD98 to the Auditor-Controller's by email to AUDFIXEDASSETUPDATES@santacruzcountyca.gov.

M. AUD 43-PROCEDURES FOR TRANSFER OF CAPITAL ASSETS

All dispositions of assets must go through the General Services Department. The custodial departments will report the transfer to the General Services department

warehouse code 13-3400 on an AUD-043 and then General Services will complete the disposition by selling, transferring, or disposing of the article.

To transfer equipment to another department the transferring custodian should complete an AUD 43 as follows:

1. Action Code: Enter a "T".
2. Asset Number: Enter the Asset Number that corresponds to the asset tag on the equipment.
3. Description: Enter the description as it appears on the fixed asset list.
4. Deletion Code: Enter "N/A" or leave blank.
5. Condition Code: Enter a condition code from the list on the form or leave blank.
6. From Location: . Enter the location code from the fixed asset list.
7. From Department: Enter the department number that the asset is being transferred from.
8. From Responsible ID: Enter the Responsible ID number from the fixed asset list.
9. To Location: Enter the location of the department the asset is being transferred to.
10. To Department: Enter the department number that the asset is being transferred to
11. To Responsible ID: Enter the Responsible ID number for the department the asset is being transferred to.
12. Obtain signatures of the Transferring custodian, the Receiving custodian, and the Purchasing Agent.
13. Submit the white copy to the Auditor-Controller's office.

N. AUD 43-PROCEDURES FOR TRADE-IN OR DISPOSAL OF CAPITAL ASSETS

Capital Assets may be sold, abandoned, or traded in on new assets. Regardless of the manner of disposition, the asset must be removed from the Fixed Asset system by completing an AUD 43.

The procedure for completing an AUD 43 for disposal of an asset is as follows:

1. Action Code: Enter a "D" in the "Action Code" Section.
2. Asset Number: Enter the asset number that corresponds to the asset tag on the equipment.
3. Description: Enter the description of the asset as it appears on the fixed asset inventory list
4. Deletion Code: Enter a deletion code from the list at the top of the form.
5. Condition Code: Enter a condition code from the list at the top of the form.
6. From Location: Enter the location code for the asset from the fixed asset list.
7. From Department: Enter your department number.
8. From Responsible ID: Enter the responsible ID from the
9. Obtain signatures of the Transferring custodian, the Receiving custodian, and the Purchasing Agent.

10. Submit the white copy to the Auditor-Controller's office.

For procedures on the physical disposal of an asset, see Title III, Section 100 Purchasing Procedures, Subsection 7 - Disposal of Surplus Personal Property.

O. HISTORY

Date	Changes Made
6/4/2024	Policy Amended
12/17/2024	Policy Amended