

Chapter 27. Capital Asset Guide¹

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¹ Chapter 27 was replaced by Travis County Commissioners Court on 3/15/2011, Item #19.

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27.000 Introduction

Effective October 1, 2001, Travis County (“County”) was required to implement Governmental Accounting Standards Board (GASB) Statement No. 34 (GASB 34), Basic Financial Statements and Management’s Discussion and Analysis for State and Local Governments. Two key implementation challenges presented by the new reporting model are infrastructure reporting and depreciation accounting.

The County Auditor’s Office, the Purchasing Office, Facilities Management Department, and Transportation and Natural Resources Department collaborated on the original draft of this guide. The State of Texas Capital Asset Guide served as the basis for the Travis County Capital Asset Guide and was used with permission from the State Comptroller. The Capital Asset Guide will assist County offices and departments in implementing the reporting requirements of GASB 34. Detailed instructions and procedures will be provided as needs are identified. Included in this guide are asset category definitions, capitalization thresholds, depreciation methodologies, and examples of expenditures for each class of assets. Additionally, guidelines for leasehold improvements and construction in progress have been included.

Guidance issued under GASB 51, *Accounting and Financial Reporting for Intangible Assets* was considered and implemented into the Capital Asset Guide in fiscal year 2010.

For specific guidance regarding procedural issues, please refer to the Travis County Fixed Asset Policy and Procedures Manual, Chapter 33 of the Travis County Code.

Subchapter A. Capital Asset Definitions and Guidelines

27.001 Capital Asset Definitions and Guidelines

- (a) Tangible capital assets are real or personal property that have a value equal to or greater than the capitalization threshold for the particular category of the asset and have an estimated useful life of greater than one year.
- (b) The County has invested in a broad range of tangible capital assets that are used in the County’s operations, which include the following major categories:
 - (1) Land and land improvements
 - (2) Buildings and building improvements

- (3) Improvements other than buildings
 - (4) Infrastructure
 - (5) Machinery, equipment, and other assets
 - (6) Leasehold improvements
 - (7) Construction in progress
- (c) Intangible capital assets are assets that lack physical substance, are non-financial in nature, have a value equal to or greater than the stated threshold, and have an initial useful life beyond one year. Examples include, but are not limited to, easements, water rights, timber rights, patents, trademarks and computer software (including internally generated computer software). Intangible assets may be purchased outright or internally generated.
- (d) Intangible assets are considered internally generated if they are created or produced by the government or purchased but require more than minimal incremental effort on the part of the government to begin to achieve their expected level of service capacity. A common type of internally generated asset for government is computer software.
- (e) Outlays incurred during the development of an identifiable internally generated intangible asset should be capitalized only upon the occurrence of all of the following:
- (1) Determination of the specific objective of the project and the nature of the service capacity that is expected to be provided by the intangible asset upon the completion of the project.
 - (2) Demonstration of the technical or technological feasibility for completing the project so that the intangible asset will provide its expected service capacity.
 - (3) Demonstration of the current intention, ability, and presence of effort to complete or, in the case of a multiyear project, continue development of the intangible asset.

27.002 Capital Asset Classification

Assets purchased, constructed or donated that meet or exceed the County's established capitalization thresholds and useful life requirements must be uniformly classified utilizing the County Auditor's account structure and the corresponding capital asset code structure. A list of current class code structures for personal and real property is available through the Purchasing Office's Fixed Asset System.

27.003 Capitalization Thresholds

Standard capitalization thresholds have been established for each major class of assets. All County offices and departments are required to use these thresholds.

Class of Asset	Threshold
Land/land improvements including related intangibles	Capitalize All
Buildings/building improvements	\$5,000
Improvements other than buildings	\$5,000
Infrastructure	\$5,000
Machinery, Equipment, and Other Tangible Assets	\$5,000
Intangible Assets:	
Internally generated computer software	\$1,000,000
Purchased computer software	\$100,000
Other capital intangible assets	\$100,000
Leasehold improvements	\$5,000

The County Auditor sets the uniform estimated useful life and residual value standards for each Class of Asset and, where appropriate, for subclasses of assets.

27.004 Capital Asset Acquisition Cost

- (a) Capital assets should be recorded and reported at their acquisition or historical costs, which include the vendor's invoice cost, plus sales tax and other taxes imposed on the acquisition, initial installation cost (excluding in-house labor), modifications, attachments, accessories or any item necessary to make the asset usable and render it into service. Capitalized costs also include ancillary charges such as freight and transportation charges, in-transit insurance charges, handling and storage charges, site preparation costs and professional fees. Additional detail appears in the subchapter for each capital asset category.
- (b) In addition, interest is capitalized on assets that are constructed or otherwise produced for the County's own use (including assets constructed or produced for the County by others for which deposits or progress payments have been made.)
- (c) If something other than cash is used to pay for the asset, the fair-market value of the non-cash payment or consideration determines the asset's cost

or acquisition value. When the value of the consideration provided cannot be determined, the asset's fair-market value determines its cost.

In the event of a trade-in, the County's net book value of the asset being traded will be added to the purchase price of the asset. For example:

Purchase price of new asset	\$10,000
Net book value of asset traded in (historical cost less accumulated depreciation)	5,000
Acquisition cost of new asset	\$15,000

27.005 Capital Asset Donations

- (a) Donations are voluntary contributions of resources to a governmental entity by a nongovernmental entity. Donations may occur for any asset category. All donations must be accepted by Commissioners Court. Note: A voluntary contribution of resources between governmental entities is not a donation.
- (b) County offices and departments must follow the Travis County Fixed Asset Procedures Manual before accepting donated property. In general, the following information must be sent to the County Auditor and the Purchasing Agent:
 - (1) The date the asset is placed into service
 - (2) The asset's fair market value
 - (3) The asset's salvage value
 - (4) The asset's estimated useful life
 - (5) Any ancillary charges required to place the asset into service
 - (6) If the asset is part of a network or subsystem of a network (such as infrastructure)
 - (7) Construction in progress
- (c) Once accepted by Commissioners Court, donated capital assets are reported at fair market value at the time of acquisition plus ancillary charges, if any. Fair market value is the amount at which an asset would be exchanged in a current transaction between willing parties.
- (d) If the County receives a donation of a capital asset and intends to sell the asset immediately, revenue must be recognized. In these cases the receiving County office or department must provide supporting documentation regarding the sale or contract-to-sell to the County Auditor. This supporting documentation will allow the Auditor to determine when revenue should be recognized.

- (e) In some cases, donated capital assets are given with the stipulation (time requirement) that the asset cannot be sold, disbursed or consumed until a specified number of years have passed or a specific event has occurred. For such cases, the capital asset should be reported as “Net Assets – Restricted” as long as the restrictions or time requirements remain in effect. The receiving County office or department should provide the County Auditor with any such restrictive stipulations.

27.006 Capital Leases

- (a) Buildings, equipment or other assets leased by the County should be capitalized if the lease agreement meets any one of the following criteria:
 - (1) The lease transfers ownership of the property to the lessee by the end of the lease term
 - (2) The lease contains a bargain purchase option
 - (3) The lease term is equal to 75 percent or more of the estimated economic life of the leased property
 - (4) The present value of the minimum lease payments at the inception of the lease, excluding executory costs, equals at least 90 percent of the fair market value of the leased property
- (b) Leases that do not meet any of the above requirements will be recorded as operating leases.
- (c) County offices and departments should notify the County Auditor when potential capital leases are being developed to ensure that leases are recorded as required by a comprehensive basis of accounting consistent with state law. When a capital lease is involved, County offices and departments must provide the County Auditor with the same information regarding the asset as with any other asset acquisition.

27.007 Depreciating Capital Assets

- (a) Capital assets should be depreciated over their estimated useful lives. Some assets such as land, have unlimited useful lives and are considered inexhaustible. Therefore such assets are not depreciated.
- (b) The County Auditor will determine the appropriate depreciation methodology for the various classes, groups or individual capital assets. County offices and departments may be requested to provide the County Auditor with technical information necessary to evaluate an asset’s useful life or residual value.

27.008 Residual or Salvage Value

Residual or salvage value is an estimate of the amount that will be realized at the end of the useful life of a depreciable asset through sale or disposal. This value may be based on:

- (1) general guidelines from some professional organizations such as GFOA, etc.,
- (2) information from other governmental entities,
- (3) internal experiences, or
- (4) professionals such as engineers, architects, etc.

27.009 Sale, Disposal, or Retirement of Capital Assets

- (a) County offices and departments should provide the County Auditor with all information required to properly record the sale, disposal, or retirement of an asset. In general, this information must include the value of any asset or value received from the disposal of the asset, including any proceeds of insurance or Risk Management Self-Insurance reimbursements.
- (b) Assets that have been designated for disposal that have a salvage value (asset cost less accumulated depreciation) greater than their designated capitalization threshold should be approved by Commissioners Court prior to disposal.
- (c) Refer to the Travis County Fixed Asset Procedures Manual under "Disposal of Property" for procedures covering the sale of capital assets.

27.010 Assets Held in Trust

Capital assets held by the County on behalf of a non-county entity and under the temporary control of the County should be recorded as "assets held in trust" until returned to the owners. This includes assets owned by the federal government that have been loaned to the County. This also includes assets purchased with federal or state grant funds in which the asset remains the property of the granting agency.

27.011 Controlled Assets

Controlled assets are those assets below the capitalization threshold that have been identified by the Purchasing Agent in accordance with County policy that **must** be secured and tracked on the Purchasing Office's Fixed Asset System due to the nature of the items. Examples of the most common controlled assets include but are not limited to: personal computers and monitors, televisions, VCR's, cellular telephones.

Subchapter B. Capital Asset Categories – Land and Land Improvements

27.101 Land Definition

Land is the surface or crust of the earth, which can be used to support structures, and may be used to grow crops, grass, shrubs, and trees. Land is characterized as having an unlimited life (inexhaustible life).

27.102 Land Improvement Definition

Land improvements consist of earth moving and similar improvements, which ready land for its intended use. The costs associated with improvements to land are added to the cost of the land.

27.103 Intangible Asset Definitions - Land related

- (a) Land use rights are defined as the right to control the use of real property or derive a benefit from the property. Examples of land use rights are easements, rights-of-way, water rights, timber rights and mineral rights.
- (b) If an agency actually owns the associated land and the recorded land valuation already includes the land use rights, the intangible asset’s portion associated with the land should not be reported separately as it is already included in the land valuation.

27.104 Depreciation

Land and land improvements are inexhaustible assets and have unlimited useful lives; and therefore are not depreciated. Some types of land use rights, such as easements, are inexhaustible assets and therefore are not depreciated. However, some land use rights (e.g., water rights, timber rights, and mineral rights) are exhaustible and therefore depreciable. The County Auditor’s Office will determine which land use rights are exhaustible and subject to depreciation.

27.105 Costs to be Capitalized

- (a) All acquisitions, including donations, of land, land improvements, and land use rights will be capitalized.
- (b) Examples of Expenditures to be capitalized as Land, Land Improvements, and land use rights:
 - (1) Purchase price or fair market value at time of donation
 - (2) Commissions
 - (3) Professional fees (title searches, architect, legal, engineering, appraisal, surveying, environmental assessments, etc.)
 - (4) Land excavation, fill, grading, drainage

- (5) Demolition of existing buildings and improvements (less salvage)
- (6) Removal, relocation, or reconstruction of property of others (railroad, telephone and power lines)
- (7) Interest on mortgages accrued at date of purchase
- (8) Accrued and unpaid taxes at date of purchase
- (9) Other costs incurred in acquiring the land
- (10) Right-of-way

Subchapter C. Capital Asset Categories – Buildings and Building Improvements

27.201 Building Definition

A building is a structure that is permanently attached to the land, has a roof, is partially or completely enclosed by walls, and is not intended to be transportable or moveable. Buildings that are an ancillary part of the County's road system, such as rest area facilities will be reported as infrastructure rather than as buildings.

27.202 Building Improvement Definition

A building improvement materially extends the useful life, increases the value, adds capacity, or increases efficiency of the building. A building improvement should be capitalized.

27.203 Depreciation

- (a) Buildings and building improvements are depreciable assets. The depreciation method will be determined by the County Auditor's Office for all buildings and building Improvements.
- (b) Buildings designated as "historical" by the Texas Historical Commission are not depreciated unless used in the operations of the County. However, any improvements not deemed "historical" by the Texas Historical Commission are depreciated the same as any other improvements made to a building.

27.204 Costs to be Capitalized

- (a) The capitalization threshold for buildings and building improvements constructed, purchased, or donated is \$5,000. Note: For a replacement to be capitalized, it must be a part of a major repair or rehabilitation project that increases the value, and/or useful life of the building. For example, renovation of the County Courthouse is included. A replacement may also be capitalized if the new item/part is of significantly improved quality and higher value compared to the old item/part, such as a replacement of an old shingle roof with a new fireproof tile roof. Replacement or restoration to the original utility level would not be capitalized. Determinations must be made on a case

by case basis. County offices and departments should contact the County Auditor's Office prior to encumbering funds if there is uncertainty regarding proper capitalization under a comprehensive basis of accounting consistent with state law. Examples of Expenditures to be Capitalized as Buildings:

- (1) Purchased Buildings
 - (A) Original purchase price
 - (B) Expenses for remodeling, reconditioning or altering a purchased building to make it ready to use for the purpose for which it was acquired if it extends the useful life, increases the value, adds capacity or increases efficiency of the building.
 - (C) Environmental compliance (i.e., asbestos abatement)
 - (D) Professional fees (legal, architect, inspections, title searches, etc.)
 - (E) Payment of unpaid or accrued taxes on the building to date of purchase
 - (F) Cancellation or buyout of existing leases
 - (G) Other costs required to place or render the asset into operation
- (2) Constructed Buildings
 - (A) Completed project costs
 - (B) Interest accrued during construction
 - (C) Cost of excavation or grading or filling of land for a specific building
 - (D) Expenses incurred for the preparation of plans, specifications, blueprints, building permits, etc.
 - (E) Professional fees (architect, engineer, management fees for design and supervision, legal)
 - (F) Costs of temporary buildings used during construction
 - (G) Unanticipated costs such as rock blasting, piling, or relocation of the channel of an underground stream
 - (H) Permanently attached fixtures or machinery that cannot be removed without impairing the use of the building
 - (I) Additions to buildings (expansions, extensions, or enlargements)
 - (J) Build-out of interior spaces to specifications
- (3) Building Improvements
 - (A) Conversion of attics, basements, etc., to usable office, clinic, research or classroom space
 - (B) New structures **attached** to the building such as covered patios, sunrooms, garages, carports, enclosed stairwells, etc.
 - (C) Installation or upgrade of heating and cooling systems, including ceiling fans and attic vents

- (D) Original installation/upgrade of wall, ceiling, or floor covering such as carpeting, tiles, paneling, or parquet
- (E) Structural changes such as reinforcement of floors or walls, installation or replacement of beams, rafters, joists, steel grids, or other interior framing
- (F) Installation or upgrade of window or door frame, upgrading of windows or doors, built-in closet and cabinets
- (G) Interior renovation associated with casings, baseboards, light fixtures, ceiling trim, etc.
- (H) Exterior renovation such as installation or replacement of siding, roofing, masonry, etc.
- (I) Installation or upgrade of plumbing and electrical wiring
- (J) Installation or upgrade of phone or closed circuit television systems, networks, fiber optic cable, wiring required in the installation of equipment (that will remain in the building).
- (K) Other costs associated with the above improvements

(b) Maintenance Expense (after completed construction). The following are examples of expenditures that are **not** capitalized as improvements to buildings. Instead, these items should be recorded as maintenance expense.

- (1) Adding, removing and/or moving of walls relating to renovation projects that are not considered major rehabilitation projects and do not increase the value of the building
- (2) Improvement projects of minimal or no added life expectancy and/or value to the building
- (3) Plumbing or electrical repairs
- (4) Cleaning, pest extermination, or other periodic maintenance
- (5) Interior decoration, such as draperies, blinds, curtain rods, wallpaper
- (6) Exterior decoration, such as detachable awnings, uncovered porches, decorative fences, etc.
- (7) Maintenance-type interior renovation, such as repainting, touch-up plastering, replacement of carpet, tile, or panel sections; sink and fixture refinishing, etc.
- (8) Maintenance-type exterior renovation such as repainting, replacement of deteriorated siding, roof, or masonry sections
- (9) Replacement of a part or component of a building with a new part of the same type and performance capabilities, such as replacement of an old boiler with a new one of the same type and performance capabilities
- (10) Any other maintenance-related expenditure which does not increase the value of the building

Subchapter D. Capital Asset Categories –Improvements Other than Buildings

27.301 Improvements Other Than Buildings Definition

Improvements other than buildings are capital assets, not specifically identifiable to an individual building, that reflect the cost of permanent improvements and add value to the property. Such improvements made to a facility or to land should be capitalized.

27.302 Depreciation

Improvements other than buildings are depreciable assets. The depreciation method will be determined by the County Auditor’s Office.

27.303 Costs to be Capitalized

The capitalization threshold for Improvements Other Than Buildings that are constructed, purchased, or donated is \$5,000. Examples of expenditures to be capitalized as Improvements Other Than Buildings:

- (1) Fencing and gates
- (2) Landscaping
- (3) Parking lots/driveways/parking barriers
- (4) Outside sprinkler systems
- (5) Recreation areas and athletic fields (including bleachers)
- (6) Golf courses
- (7) Paths and trails
- (8) Septic systems
- (9) Swimming pools, tennis courts, basketball courts
- (10) Fountains
- (11) Park pavilions
- (12) Retaining walls
- (13) Water wells

Subchapter E. Capital Asset Categories – Infrastructure

27.401 Infrastructure Definition

- (a) Infrastructure is long-lived capital assets that normally are stationary in nature and can be preserved for a significantly greater number of years than most capital assets.
- (b) Note: The retroactive reporting of infrastructure assets purchased, constructed, or donated in fiscal years ending after June 30, 1980 or that received major renovations, restorations, or improvements during that period is required.

27.402 Infrastructure Improvements Definition

Infrastructure improvements are capital additions that materially extend the useful life or increase the value of the infrastructure, or both. Infrastructure improvements should be capitalized.

27.403 Jointly Funded Infrastructure

- (a) Infrastructure paid for jointly by the County and other governmental entities should be capitalized by the entity responsible for future maintenance.
- (b) County offices and departments responsible for infrastructure must provide the County Auditor and Purchasing Agent with the following information:
 - (1) The date the asset was placed in service
 - (2) The asset's cost or acquisition value
 - (3) The asset's salvage value
 - (4) The asset's estimated useful life
 - (5) Whether the asset is part of a network or a subsystem of a network.
- (c) County offices and departments should consult in advance with the County Auditor when the County will pay for both partial ownership and partial maintenance of an infrastructure capital asset. The County Auditor will determine the required accounting procedures.

27.404 Maintenance Costs

Maintenance costs allow an asset to continue to be used during its originally established useful life. Maintenance costs are expensed in the period incurred.

27.405 Preservation Costs

Preservation costs are generally considered to be those outlays that extend the useful life of an asset beyond its original estimated useful life, but do not increase the capacity

or efficiency of the asset. Preservation costs should be capitalized if the asset is depreciated.

27.406 Additions and Improvements

Additions and improvements are those capital outlays that increase the capacity or efficiency of the asset. A change in capacity increases the level of service provided by an asset. For example, additional lanes can be added to a road, or the weight capacity of a bridge could be increased. A change in efficiency maintains the same service level, but at a reduced cost; for example, a computer controlled traffic signal that reduces servicing costs because it requires minimal servicing compared to older electro-mechanically controlled models. The cost of additions and improvements should be capitalized.

27.407 Depreciation

On March 20, 2001, Commissioners Court adopted, for financial reporting purposes, the depreciation approach for infrastructure assets. The depreciation method will be determined by the County Auditor's Office for all infrastructure assets.

27.408 Costs to be Capitalized

The capitalization threshold for infrastructure constructed, purchased, or donated is \$5,000. Examples of infrastructure assets:

- (1) Roads, streets, curbs, gutters, sidewalks, fire hydrants
- (2) Bridges
- (3) Waterway improvements such as docks, bulkheads, erosion control improvements
- (4) Dam, drainage facility
- (5) Radio or television transmitting tower
- (6) Main lines, distribution lines, and tunnels for electric, water, and gas
- (7) Fiber optic and telephone distribution systems (between buildings)
- (8) Light system (traffic, outdoor, street, etc.)
- (9) Signage

Subchapter F. Capital Asset Categories – Machinery, Equipment, and Other Assets

27.501 Machinery, Equipment, and Other Assets Definition

- (a) Fixed or movable assets used for operations of the County and benefit the County for more than one year from the date the asset first renders service.

Improvements or additions to existing personal property should be capitalized if they materially increase the value, life, efficiency, or capacity of the asset.

This category includes the following:

- (1) Machinery, Equipment, and Furniture. Machinery includes such items as bulldozers, cement mixers, and hoists. Equipment includes such items as helicopters, automobiles, trucks, radios, computers, and safety items. Furniture and fixtures includes desks, chairs, tables, service counters, lamps, and bookcases.
- (2) Computer software (Intangible Capital Asset). Software includes purchased “off the shelf” software, including all necessary modifications, software specifically developed by an outside contractor, and software developed internally by county personnel, or acquired through any combination of the above.
 - (A) Purchased software: This is software purchased off the shelf and implemented with minimal changes.
 - (B) Internally generated software: Software created by the County and software purchased off the shelf that requires more than minimal incremental effort to implement.
- (3) A library book is an academic, professional, or research composition bound into a separate volume and identifiable as a separate copyrighted unit. Library reference materials are information sources other than books which include journals, periodicals, microforms, audio/visual media, computer-based information, manuscripts, maps, documents, and similar items which provide information essential to the learning process or which enhance the quality of academic, professional or research libraries. Some books have a cultural, aesthetic, or historical value, and efforts are usually applied to protect and preserve these assets in a manner greater than that for similar assets without such cultural, aesthetic, or historical value.
- (4) Works of art and historical collections or individual items of significance that are owned by the County which are not held for financial gain, but rather for public exhibition, education or research in furtherance of public service. These assets generally have to be capitalized at their historical cost (or estimated fair market value at the date of donation), whether they are held as individual items or in collections.
- (5) Other intangible capital assets. This category includes other types of intangible capital assets other than computer software, such as patents, copyrights, and trademarks. These assets may be internally generated or purchased.

27.502 Jointly Funded Machinery, Equipment, and Other Assets

Machinery, equipment and other assets paid for jointly by the County and other governmental entities should be capitalized by the entity responsible for future

maintenance. The County offices and departments responsible for future maintenance must provide the County Auditor and Purchasing Agent with all information required to allow the asset to be recorded and depreciated according to a comprehensive basis of accounting consistent with state law. County offices and departments should consult in advance with the County Auditor when the County will pay for both partial ownership and partial maintenance of a capital asset. The County Auditor will determine the required accounting procedures.

27.503 Depreciation

- (a) The depreciation method will be determined by the County Auditor's Office for all machinery, equipment, and other assets that are subject to depreciation.
- (b) Note: Professional, academic and research library books and materials are considered inexhaustible assets and should not be depreciated. These library books and materials have an economic benefit or service potential that is used up slowly, and their estimated useful lives are extraordinarily long.
- (c) Note: Exhaustible works of art and historical treasures items whose useful lives are diminished by display or educational or research applications should be depreciated. Inexhaustible work of arts and historical treasures items should not be depreciated as the economic benefit or service potential is used up so slowly that the estimated useful lives are extraordinarily long.

27.504 Costs to be capitalized

- (a) The capitalization threshold for machinery, equipment, and other assets constructed, purchased, or donated is \$5,000, except for internally generated computer software which is \$1,000,000, purchased computer software which is \$100,000, and other intangible assets which are \$100,000. Costs should include:
 - (1) Freight charges
 - (2) Handling and storage charges
 - (3) Original contract or invoice price
 - (4) In-transit insurance charges
 - (5) Sales, use, and other taxes imposed on the acquisition
 - (6) Installation charges
 - (7) Charges for testing and preparation for use
 - (8) Cost reconditioning used items when purchased
 - (9) Parts and labor associated with construction of equipment

- (b) Additional costs to include related to internally generated computer software are as follows:
 - (1) Application Development Stage:
 - (A) Design of chosen path (software configuration & interface)
 - (B) Coding
 - (C) Installation to hardware
 - (D) Testing and parallel processing
 - (E) Conversion process necessary to make software operational
- (c) County offices and departments should consult with the County Auditor's Office if they have an upcoming project that will involve any of the above costs and will meet the capitalization thresholds mentioned above. The County Auditor will determine the required accounting procedures.
- (d) Examples of costs related to internally generated computer software that should not be capitalized are as follows:
 - (1) Preliminary Project Stage:
 - (A) Conceptual formulation and evaluation of alternatives
 - (B) Determination of existence of needed technology
 - (C) Final selection of alternatives
 - (D) Conversion process necessary to make software operational
 - (2) Post-Implementation/Operation Stage:
 - (A) Application user training
 - (B) Software maintenance
- (e) Note: Costs of extended warranties and/or maintenance agreements, which can be separately identified from the cost of the equipment, should not be capitalized.

Subchapter G. Capital Asset Categories – Leasehold Improvements

27.601 Leasehold Improvements Definition

- (a) Leasehold improvements include construction of improvements made to existing structures by the lessee, who has the right to use the improvements over the term of the lease. These improvements will revert to the lessor at the expiration of the lease. Moveable equipment or office furniture that is not attached to the leased property is not considered a leasehold improvement. Leasehold improvements do not have a residual value. Leasehold improvements should be capitalized as a Building Improvement.

- (b) The County office or department responsible for coordinating a leasehold improvement must provide the County Auditor with the following information:
- (1) The date the improvement is placed in service
 - (2) The cost or fair market value
 - (3) The estimated useful life and the remaining life of the lease
 - (4) Any ancillary charges required to place the improvement into service

27.602 Depreciation

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. Improvements made in lieu of rent should be expensed in the period incurred. If the lease contains an option to renew and the likelihood of renewal is uncertain, the leasehold improvement should be depreciated over the life of the initial lease term or useful life of the improvement, whichever is shorter. The depreciation method will be determined by the County Auditor's Office for all leasehold improvements.

27.603 Costs to be Capitalized- other than intangible assets

The capitalization threshold for leasehold improvements constructed purchased, or donated is \$5,000.

Subchapter H. Capital Asset Categories – Construction in Progress

27.701 Construction in Progress Definition

Construction in Progress includes the cost of buildings and other structures, infrastructure (roads, bridges, etc.), and capital-related additions, alterations, reconstruction, and installations that are substantially incomplete.

27.702 Depreciation

Depreciation is not applicable while assets are accounted for as Construction in Progress. When completed and placed in service, constructed assets are treated like any other asset.

27.703 Costs to be Capitalized

Construction in progress assets should be capitalized to their appropriate capital asset categories upon the earlier occurrence of substantial completion, occupancy, or when the asset is placed into service.