

Chapter 27. Accounting for Capital Assets¹

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¹ Chapter 27 was replaced by Travis County Commissioners Court on October 5, 2021, Item 9. Chapter was renamed from “Capital Asset Guide” to “Accounting for Capital Assets.”

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Subchapter A. General Provisions of Chapter

27.001 Authority

Texas Local Government Code section 112.006 authorizes the Auditor general oversight of the books and records of the county related to property that is intended for the county's use or that belongs to the County. The Commissioners Court adopts this chapter at the request of the Auditor to promote compliance with these accounting standards.

27.002 Intent of Chapter

- (a) The Auditor maintains the books and records of the County in a manner consistent with the generally accepted accounting standards for governments established by the Governmental Accounting Standards Board (GASB).
- (b) This chapter presents the applicable parts of these standards for easy reference and use by county departments and offices.
- (c) Procedural issues related to these standards are addressed in the Travis County Purchasing Procedures Guide under the sections addressing the management of inventory and the disposal of assets.

27.003 Application

This chapter applies to all capital assets acquired, constructed, or internally generated by any county elected or appointed official or their employees.

27.004 Effective Date

This chapter shall become effective on October 1, 2021.

27.005 Definitions

In this chapter:

- (1) "Auditor" means the Travis County Auditor or the Auditor's designee.
- (2) "Capital Assets" means an interest in real or personal property that
 - (A) has an estimated useful life of greater than one year,
 - (B) has a value equal to or greater than the threshold value for capitalization assigned to that category of property in 27.024,
 - (C) is treated as part of the total value of the County's assets in the government-wide financial statements instead of being reported as an expense, and
 - (D) includes the right to use property not fully owned by the County.

- (3) "SAP" means the Travis County enterprise system.
- (4) "SBITAs" is the acronym for Subscription Based Information Technology Arrangements and means the contractual right to use another's information technology software:
 - (A) alone or in combination with tangible information technology assets,
 - (B) for a period of time, and
 - (C) in an exchange or exchange-like transaction.

These may include, for example, remote access to software applications, or data storage in the cloud.

- (5) "Internally generated software" means software that is either created by the County or "off-the-shelf" software for which implementation requires more than minimal incremental effort as defined by GASB.

[27.006 – 27.020 Reserved for Expansion]

Subchapter B. Characteristics of Capital Assets

27.021 Sources of Capital Assets

Capital assets may be purchased outright, constructed, internally generated, or donated.

27.022 Classification of Capital Assets

- (a) Capital Assets must be uniformly classified using the Auditor's account structure and the capital asset code structure. A list of current capital asset code structure is available through SAP.
- (b) The Auditor sets the uniform estimated useful life and residual value standards for each capital asset code and, where appropriate, for capital asset subcodes.
- (c) The Auditor also sets the minimum threshold value for capitalization for each capital asset code and, where appropriate, for capital asset subcodes.
- (d) Property should be capitalized if the property has an estimated useful life of greater than one year, a value equal to or greater than the threshold value for capitalization assigned in 27.024, and meets any other criteria for capitalization for that category of property.

27.023 Categories of Capital Assets

- (a) Capital Assets may be real property or personal property. Real property includes land, buildings, rights to use special characteristics of land or buildings and anything physically attached to them. Personal property

includes all other property, like machinery, furniture, information technology equipment and the right to use these. The law applicable to these two types of property differs in many ways but full ownership for both includes a bundle of interests that can be separated. For example, mineral rights, water rights and the right to use land are interests in the full ownership bundle which can be owned by different persons.

- (b) Capital assets that may be used in the County's operations are accounted for in the following major categories:
 - (1) Land and land improvements;
 - (2) Land use rights (right-of-way easements, conservation easements, mineral rights, water rights, timber rights);
 - (3) Buildings (including improvements to buildings);
 - (4) Leases (right-to-use of real or personal property);
 - (5) Leasehold improvements;
 - (6) Improvements other than buildings;
 - (7) Infrastructure, including improvements to it
 - (8) Machinery and equipment;
 - (9) Software (including both "off the shelf" and internally generated computer software);
 - (10) SBITAs (right-to-use information technology on a subscription basis);
 - (11) Other intangibles (patents, trademarks, other intellectual property); and
 - (12) Construction in progress.

27.024 Threshold Values for Capitalization

- (a) Standard threshold values for capitalization have been established for each major category of capital assets.
- (b) The value of capital assets should include not only the cost of the asset itself, but also ancillary charges necessary to place the asset into its intended location and condition for use, such as freight and transportation charges, handling and storage charges, site preparation costs, and professional fees. However, certain outlays that do not add value to the asset should be expensed as incurred. These include feasibility studies, penalties and fines, maintenance and repairs, warranties, and training. Specific examples of capitalized and noncapitalized costs for each category of capital asset are provided throughout this chapter.
- (c) Upgrades to a system after the initial purchase are not capitalized unless the upgrade independently meets the minimum threshold value for capitalization. If capitalized, they are listed as improvements to the initial system.

(d) All County offices and departments must use these threshold values.

Class of Asset	Threshold
Land and improvements to land	No Minimum Value, Capitalize All
Land use rights	No Minimum Value, Capitalize All
Buildings (including improvements to buildings).....	\$5,000
Improvements other than buildings	\$5,000
Infrastructure	\$5,000
Machinery and Equipment, either	
(per each/individual item)	\$5,000
(per order in aggregate).....	\$1,000,000
Purchased computer software.....	\$100,000
Internally generated computer software	\$1,000,000
Leases of both real and personal property, either	
(Present Value of right-to-use individual asset)	\$5,000
(Present Value of lease liability in aggregate)	\$1,000,000
SBITAs, either	
(Present Value of right-to-use information technology	
on a subscription basis).....	\$100,000
(SBITA internal implementation activities)	\$1,000,000
Patents, trademarks, and other intangible property.....	\$100,000
Leasehold Improvements	\$5,000
Construction in progress	Same minimum as applicable category above

27.025 Additions and Improvements

- (a) Additions and improvements are those capital outlays that increase the capacity or efficiency of the asset.
- (b) Improvements that increase in the estimated useful life of an asset extend the service life originally anticipated, such as reconstructing a road with upgraded materials (e.g., with concrete instead of asphalt).
- (c) 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.
- (d) A change in efficiency maintains the same service level, but at a reduced outlay; for example, a computer-controlled traffic signal that reduces servicing outlays because it requires minimal servicing compared to electro-mechanically controlled models. The cost of additions and improvements should be capitalized.

27.026 Costs to be Capitalized

- (a) For different kinds of property different capital asset codes and threshold values are applicable and each type of property should be capitalized based on its respective asset code. For example, furniture acquired as part of a major building renovation project must meet the \$5,000 per unit or the \$1,000,000 in aggregate threshold value for the machinery and equipment capital asset code to be capitalized.
- (b) Direct costs associated with construction or development of a project that make the property ready for its intended use should be capitalized. Some indirect outlays may also be capitalized if they clearly relate to the project like project management or design costs. However, general and administrative expenditures should never be capitalized.
- (c) If County staff work on a project, they must track their hours worked on each project within the SAP time module using the WBS number assigned to the project. Departments managing a project must provide the Auditor's Office with the calculated salaries and benefits from these hours so that they are capitalized as part of the project.
- (d) Costs recorded as Construction in Progress assets should be transferred to their appropriate capital asset code upon the earlier occurrence of substantial completion, occupancy, or when the asset is placed into service.
- (e) Departments are responsible for notifying the Auditor's Office immediately if a capital project they are managing is canceled or annexed by another government entity so that the project costs can be reclassified as expenses within the correct fiscal period.

[27.027 – 27.030 Reserved for Expansion]

Subchapter C. Costs Included in Calculation of Threshold Values by Category

27.031 Costs Included in Value of Land, Improvements to It and Land Use Rights

- (a) Land and improvements to it consist of the earth and any actions to make the earth ready for its intended use, like moving it. The right to use specific characteristics of land includes easements for rights-of-way and conservation as well as the rights to harvest timber, use water, and extract minerals.
- (b) If the County acquires the land and land use rights at the same time, these are both recorded as the land and should not be reported separately. The costs of easements and other rights to use specific characteristics of the land that are acquired independently without underlying land are recorded separately as land use rights. Temporary easements acquired as part of construction projects are reported as part of the constructed asset's valuation.
- (c) Examples of expenditures to be capitalized as Land, Land Improvements, and Land Use Rights include:

- (1) Purchase price or acquisition value at time of donation;
- (2) Commissions;
- (3) Professional fees (title searches, legal, engineering, appraisal, surveying, environmental assessments, condemnation related costs, etc.);
- (4) Land excavation, fill, grading, drainage;
- (5) Demolition of existing buildings and improvements when initial intent is to only use the land (less salvage);
- (6) Removal, relocation, or reconstruction of property of others (trees, railroad, telephone, and power lines);
- (8) Accrued and unpaid taxes related to the land only at date of purchase;
- (9) Other costs incurred in acquiring only the land;
- (10) Right-of-way easements; and
- (11) Conservation easements.

27.032 Costs Included in Value of Buildings and Improvements to Them

- (a) A building is a structure permanently attached to land, that has a roof, is partially or completely enclosed by walls, and is not intended to be transported or moved.
- (b) The value of a building consists of the building's shell plus its integral components like the roof, HVAC, built-in fixtures, flooring, elevators, and cabling.
- (c) To be capitalized, replacements within a building must be either part of a major repair or rehabilitation project that increases the value, capacity, efficiency, or useful life of the building or component must be of significantly improved quality than the former item or part, such as, replacing a shingle roof with a fireproof tile roof.
- (d) The cost of the land on which the building is located must be disaggregated and recorded within the capital asset code for land. It is not included in the value of the building in this category. The acquiring department must allocate portion of the cost between buildings and land.
- (e) Examples of expenditures to be capitalized as Buildings:
 - (1) Purchased buildings:
 - (A) Original purchase price;
 - (B) Costs 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, engineering, etc.);
 - (E) Payment of unpaid or accrued taxes on the building to date of purchase;
 - (F) Cancellation or buyout of existing leases; and
 - (G) Other costs required to place or render the asset into operation.
- (2) Constructed buildings:
- (A) Completed project costs;
 - (B) Demolition of existing building and improvements, if it occurs shortly after acquisition and the initial intent is to construct a new building;
 - (C) Cost of excavation or grading or filling of land for a specific building;
 - (D) Costs 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); and
 - (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, closed circuit television systems for security, networks, fiber optic cable, wiring required in the installation of equipment (that will remain in the building); and
- (K) Other costs associated with the above improvements.

27.033 Outlays NOT Included in Value of Buildings or Improvements to Them

- (a) Replacement or restoration to the original utility level is not capitalized. Determinations must be made on a case-by-case basis. County offices and departments should contact the County Auditor's Office before encumbering funds if there is uncertainty about proper capitalization under a comprehensive basis of accounting. Component replacements are typically treated as repairs.
- (b) Repair and Maintenance Expenses after completed construction are *not* capitalized as improvements to buildings. A repair corrects or remediates a damaged asset to its original condition rather than improving upon it. Maintenance retains value but does not provide additional value or it simply avoids shortening the originally estimated useful life without lengthening it.
- (c) The following expenditures should *not* be capitalized and should be recorded as repair or maintenance expense.
 - (1) Renovation projects that add, remove, or move walls, if the project is not considered major and does not increase the value of the building.
 - (2) Improvement projects of minimal or no added life expectancy 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 replacing a boiler with a new one of the same type and performance capabilities.

- (10) Demolition of existing building and improvements when not done at the time of acquisition and when the initial intent is to occupy or use the building for County purposes .
- (11) Any other repair or maintenance-related expenditure which does not increase the value or useful life of the building.

27.034 Costs Included in Value of Improvements other than Buildings

- (a) Improvements other than buildings are capital assets, are improvements that are not specifically identifiable to an individual building, reflect the cost of permanent improvements and add value to the capital asset. These improvements should be capitalized.
- (b) Examples of Improvements other than Buildings include:
 - (1) Fencing and gates,
 - (2) Landscaping (initial installation),
 - (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, and
 - (14) Boat ramps.

27.035 Costs Included in Value of Infrastructure

- (a) The cost of land or right-of-way easements acquired as part of an infrastructure project should be disaggregated from the cost of the infrastructure and recorded within their capital asset code for land or land-use rights and not included in the value of the infrastructure.
- (b) Examples of expenditures to be capitalized as Infrastructure:
 - (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.); and
- (9) Signage.

27.036 Costs Included in Value of Machinery and Equipment

- (a) Machinery and Equipment includes personal property such as bulldozers, cement mixers, hoists, helicopters, automobiles, trucks, radios, computers, and safety items, desks, chairs, tables, service counters, lamps, and bookcases.
- (b) Examples of other costs incurred in acquiring the property may include:
 - (1) Freight charges,
 - (2) Handling and storage charges,
 - (3) In-transit insurance charges,
 - (4) Installation charges,
 - (6) Charges for testing and preparation for use,
 - (7) Cost reconditioning used items when purchased, and
 - (8) Parts and labor associated with construction of equipment.
- (c) System components (multiple hardware or software components) initially acquired in conjunction with the primary system should be capitalized if they are both critical to the intended function of and will be permanently dedicated to the system for its useful life. The primary system and its components are aggregated as one inseparable machinery and equipment asset if the system is primarily hardware. The Fixed Asset Manager will tag and track each detachable component to ensure security of system assets.

27.037 Costs Included in Value of Software

- (a) Software includes three types of assets:
 - (1) Software which is purchased off the shelf software and implemented with minimal changes.
 - (2) Internally generated software which may be either
 - (A) Software created by the County, or

- (B) Software purchased off the shelf that requires more than minimal additional effort to implement.
- (3) Other Intellectual Property. These assets may be either purchased or internally generated and include other assets other than computer software, such as patents, copyrights, and trademarks.
- (b) System components that are initially acquired in conjunction with the primary system are recorded as a single capital asset if the system components are both critical to the intended function of the system and will be permanently dedicated to the system for its useful life. If a system is primarily software, then its components are aggregated as one inseparable capital asset in the accounting records. The Fixed Asset Manager tags and tracks each detachable component separately to ensure security of these assets.
- (c) Whether funds spent for internally generated software are capitalized depends on both the type of cost and the phase of development in which they are incurred.
 - (1) Outlays incurred during the development of identifiable internally generated software or other intellectual property should be capitalized only after all of the following have occurred:
 - (A) The specific objective of the project and the nature of the expected service capacity to be provided by the product when the project is complete has been determined.
 - (B) The technical or technological feasibility of the project has demonstrated that the product will provide the expected service capacity.
 - (C) The existence of the current intention, ability, and effort to continue the project until completed has been demonstrated.
 - (2) The following costs incurred during the application development stage should be capitalized:
 - (A) Design of chosen path (software configuration & interface),
 - (B) Coding,
 - (C) Installation of software in hardware,
 - (D) Testing and parallel processing,
 - (E) Conversion processes necessary to make software operational, and
 - (F) Application development hours performed by County staff that have been tracked by the implementing department within the SAP time module using the project's WBS number.
 - (3) Outlays that do not add value to internally generated software or intellectual property should not be capitalized. Examples of these include:
 - (A) Preliminary Project Stage:

- (i) Conceptual formulation and evaluation of alternatives,
 - (ii) Determination of existence of needed technology,
 - (iii) Final selection of alternatives, and
 - (iv) Conversion processes unnecessary to make software operational.
 - (B) Post-Implementation/Operation Stage:
 - (i) Application user training, and
 - (ii) Software maintenance.
- (d) The price of extended warranties, training, or maintenance agreements which can be separately identified from the cost of the software or other intellectual property.

27.038 Costs Included in Value of Leasehold Improvements

- (a) Improvements to leased real property include construction by the County as the renter if the improvements are attached to existing leased real property including structures. The improvements become the property of the lessor when the lease ends. These improvements do not include equipment or furniture that is not attached to the leased real property.
- (b) The costs related to improvements to leased real property are likely to be similar to those that are incurred for the construction of buildings and work done to improve buildings that are listed in 27.032. or Improvements other than Buildings that are listed in 27.034.
- (c) The County office or department responsible for coordinating a leasehold improvement project must provide the Auditor with the following information:
 - (1) The date the improvement is placed in service,
 - (2) The cost or acquisition value of the improvement,
 - (3) The remaining life of the lease, and
 - (4) Any ancillary costs required to place the improvement into service.

27.039 Costs Included in Value of Construction in Progress

- (a) Construction in Progress is a temporary classification used before property is ready to be placed into service if the property that is constructed or developed by County. Construction in progress is used when projects span multiple periods, have multiple goods receipts, or are substantially incomplete as of one or more fiscal year ends.
- (b) Temporary easements acquired solely as part of a construction project should be reported as part of the constructed property's value.
- (c) The County office or department responsible for any project must provide the Auditor with the date the project is placed in service.

[27.040 – 27.050 Reserved for Expansion]

Subchapter D. Potential Lease and SBITAs

27.051 Leases and SBITAs

- (a) This section only applies to leases that exist or commence on or after October 1, 2021 and SBITAs that exist or commence on or after October 1, 2022.
- (b) County offices and departments should notify the Auditor's Office when potential leases or SBITAs are being developed to ensure that these are recorded in compliance with generally accepted accounting standards for governments.
- (c) When a contract is a lease or a SBITA, the responsible County offices and departments must provide the Auditor's Office with the following information:
 - (1) A copy of the contract.
 - (2) Payments schedule, including:
 - (A) any guarantees or purchase options that the department is reasonably certain will be used or exercised based on all relevant factors,
 - (B) initial direct cost payments like ancillary outlays necessary to place the leased property into service, and
 - (C) incentives (rent holidays/discounts).
 - (3) The initial noncancelable contract period.
 - (4) Periods for which either party has a unilateral option to extend the contract, if the department is reasonably certain the option will be exercised based on all relevant factors.
 - (5) Periods for which either party has a unilateral termination option if the department is reasonably certain the option will not be exercised based on all relevant factors.
 - (6) The implicit interest rate being charged by the lessor or information technology vendor in the contract.
- (d) Lessees or subscribers must capitalize the underlying property as intangible right-to-use property and recognize liabilities at their discounted present values if the contract meets the following definition of a lease or SBITA:

A lease/SBITA means a contract, even if it is not explicitly identified as a "lease" or "SBITA," that conveys control of the right to use another entity's nonfinancial property (the underlying property) as specified in the contract for a period of time in an exchange or exchange-like transaction where:

 - (1) "Conveys control" includes both the right to obtain the present service capacity from and the right to determine the nature and manner of use of the underlying property.

- (2) “Nonfinancial” means tangible real and personal property like buildings, land, vehicles, and equipment or another’s intangible information technology software, alone or in combination with tangible information technology assets.
- (3) “Exchange or exchange-like” means a transfer of value.
- (e) Leases and SBITAs that do not meet all requirements in (d) are recorded as operating expenditures. Nominal leases are considered “nonexchange” transactions and are excluded from compliance with (d).
- (f) There are other exceptions to treating leased property as capitalized property. For example, short-term leases are not capitalized. Short-term lease contracts at their commencement have a maximum possible term (including any options to extend) of 12 months (or less). For other exceptions, contact the Auditor’s Office.
- (g) If a contract for tangible personal property is for multiple leased properties, the individual properties may not be equal to or more than the threshold values for capitalization (\$5,000 per property). However, the total of all leased properties may be equal to or more than the threshold value for capitalization of the lease as a whole (\$1,000,000 in aggregate).
- (h) For any lease or SBITA contract, County offices and departments must inform the Auditor’s Office immediately of any changes that occur so that the lease or SBITA can be remeasured, including at least the following:
 - (1) a change in payment amounts,
 - (2) a change in interest rate, or
 - (3) a change in the contract term, including the likelihood of exercising extension or termination options.
- (i) For lease contracts where the County is the lessor of its nonfinancial assets, the County offices and departments will need to provide the Auditor’s Office with the same information listed above in section 27.051(c)(1-6). The Auditor’s Office uses the information to properly measure and recognize a lease receivable and deferred inflow of resources at the beginning of the lease term. For contracts where the County is the Lessor, the value recognition threshold for a lease receivable is \$1,000,000.

27.052 Special Budgeting and Accounting Considerations for Leases and SBITAs

- (a) Payments. County offices and departments must budget and account for qualifying lease or SBITA contract payments using the Debt Service Principal Expenditure Accounts, because these payments are no longer considered rental expenditures. When each lease payment is made, the Auditor’s Office will reclass the applicable portion of interest from the principal expenditure accounts.

- (b) Receipts. County offices and departments must budget for qualifying lease contract receipts using the interest and lease revenue accounts. Receipts should be posted to the Lessor Revenue Clearing Account, because these receipts are no longer considered only rental revenue. When each lease payment is collected and recorded, the Auditor's Office will reclass the clearing account to interest and lease revenue.

27.053 Special Considerations for Stages of SBITAs

- (a) Other than the subscription payments, charges by the SBITA vendor should be grouped into the following implementation stages for SBITAs:
 - (1) Preliminary project stage,
 - (2) Initial implementation stage, and
 - (3) Operation and additional implementation stage.
- (b) Preliminary project stage. Outlays associated with the preliminary project stage are not capitalizable and should be expensed as incurred. Examples of the preliminary stage outlays include:
 - (1) conceptual formulation and evaluation of alternatives,
 - (2) determining the existence of needed technology, and
 - (3) final selection of alternatives for the SBITA.
- (c) Initial implementation stage. Costs associated with the initial implementation stage are capitalizable.
 - (1) If the initial implementation stage is performed internally, development hours performed by County staff must be tracked by the implementing department within the SAP time module using the project's WBS number. The department will provide the Auditor's Office with the calculated salaries and benefits for these hours that are capitalized.
 - (2) Beginning in the initial implementation stage the following costs can be capitalized:
 - (A) design,
 - (B) configuration,
 - (C) coding,
 - (D) testing,
 - (E) installation,
 - (F) data conversion (if necessary, to place leased property in service), and
 - (G) other ancillary costs.
 - (3) If a SBITA has more than one module and the modules are implemented at different times, the subscription property should be placed into service when the initial implementation is completed for the

first independently functional module or first set of interdependent modules, without regard for whether all remaining modules have been completely implemented.

- (4) The minimum threshold value for capitalizing *internal* initial implementation stage outlays is restricted to SBITA projects exceeding \$1,000,000.
 - (5) Implementation and subscription costs paid to a third party before the commencement of the subscription term should be allocated to a prepaid asset account and then capitalized when the leased property is placed in service.
 - (6) The subscription term begins when the initial implementation stage is complete and the County has obtained control of the right to use the leased property and the leased property is placed into service.
- (d) Operation and additional implementation stage. Outlays associated with the operation stage are not capitalizable and should be expensed as incurred. Examples of the operation stage outlays include:
- (1) maintenance,
 - (2) troubleshooting,
 - (3) data conversion (if not necessary to place the leased property in service like converting legacy data from server to cloud storage), and
 - (4) other activities associated with ongoing access to the leased property.
- (e) Training outlays are expensed as incurred in every stage in which they are incurred.

27.054 Special Considerations for Additional Implementation After SBITA Begins

- (a) Outlays from additional implementation activities that occur after the subscription term begins and the property has been placed in service should be recorded as upgrades to the existing leased property if they increase functionality or efficiency of that leased property and if the outlays are equal to or exceed the minimum threshold value of \$100,000 for capitalization.
- (b) If a modification occurs in a SBITA that gives the County access to additional leased property that was not included in the original contract and the increase in subscription payments appears reasonable for this added access, the modification will be recorded as a separate SBITA if the outlays are equal to or exceed the minimum threshold value of \$100,000 for capitalization.

[27.055 – 27.060 Reserved for Expansion]

Subchapter E. Procedures to Determine Whether Property is a Capital Asset

27.061 Notify Auditor & Purchasing Agent of Purchase of Possible Capital Asset

County offices and departments responsible for acquiring assets, whether by direct purchase, construction, donation, lease, or internal generation, must provide the following information to the Auditor and the Purchasing Agent:

- (1) A description of the property,
- (2) The date the property was placed in service,
- (3) The property's cost or acquisition value, and
- (4) Whether the property is part of a network or a subsystem of a network so that the primary system and its components can be aggregated as one inseparable asset.

27.062 Jointly Funded Property and Property to be Owned by Other Entities

- (a) Property paid for jointly by the County and other governmental entities should be capitalized by the entity responsible for its future maintenance.
- (b) County offices and departments should consult with the Auditor in advance when the County will pay for both partial ownership and partial maintenance of a property. The Auditor will determine the required accounting procedures.
- (c) County offices and departments are responsible for notifying the Auditor:
 - (1) Which entity will own the property; and
 - (2) If the ownership of a property changes through donation or annexation, at any time when under construction, or when completed.

27.063 Auditor Determines Whether Property Qualifies as a Capital Asset

- (a) The Auditor determines whether the property described
 - (1) Is consistent with one of the capital asset codes,
 - (2) Verifies whether the estimated useful life exceeds one year, and
 - (3) Verifies whether the value of the property is equal to or greater than the minimum threshold value applicable to that capital asset code in 27.024.
- (b) If so, the Auditor records the property as a capital asset in the appropriate capital asset code.

27.064 Auditor Records Capital Asset Cost

- (a) Capital assets should be recorded and reported at their acquisition or historical costs. The elements of these costs vary from capital asset code to capital asset code and the specific costs applicable to each capital asset code

are detailed in 27.031 through 27.039. Generally, these include the contract or invoice amount, plus taxes imposed on the acquisition, initial installation, site preparation or improvement costs, and other costs necessary to make the property usable and ready for service. In-house labor expenses are not included.

- (b) If non-cash consideration is used to acquire the property, the fair-market value of the non-cash consideration determines the property's cost or acquisition value. When the value of the consideration provided cannot be determined, the fair-market value of the property determines its recorded capital asset cost.
- (c) If there is a trade-in, the County's net book value of the property being traded is added to the purchase price of the property.

For example:

Purchase price of new property	\$10,000
Net book value of property traded in (historical cost less accumulated depreciation)	<u>+ \$5,000</u>
Acquisition cost of new property	\$15,000

27.065 Costs for Future Projects

County offices and departments should consult with the Auditor's Office if they have an upcoming project that may involve property that may meet the threshold values for capitalization in 27.024. The Auditor determines the required accounting procedures.

27.066 Capital Asset Donations

- (a) County offices and departments must comply with the requirements in the *Purchasing Procedures Guide* related to inventory of assets before accepting offers of donated property. In general, if donated property meets the requirements for capital assets, the County office or department must provide the following information to the Auditor and the Purchasing Agent:
 - (1) The date the property is placed into service,
 - (2) The acquisition value of the property,
 - (3) Any ancillary charges required to place the property into service, and
 - (4) Component acquisition values if the property is part of a network or subsystem of a network (such as infrastructure, easements for right of way, sidewalks, or traffic signals).
- (b) The receiving County office or department should provide the Auditor with restrictions on the property like time, use or other stipulations.
- (c) All donations must be accepted by Commissioners Court.
- (d) After acceptance by Commissioners Court, the donated property is recorded at an acquisition value at the time of acquisition plus any ancillary costs. The

acquisition value is a market-based price that would be paid to acquire equivalent property in an orderly market transaction at the acquisition date.

- (e) 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 about the sale or contract-to-sell to the Auditor. This supporting documentation will allow the Auditor to determine when revenue should be recognized.

27.067 Controlled Assets

Controlled assets are assets with a value below the threshold values for capitalization in 27.024 that the Purchasing Agent has identified in accordance with County policy as assets that **must** be secured and tracked in SAP's Asset Inventory Module due to the nature of the items. County offices and departments must comply with the requirements in the *Purchasing Procedures Guide* related to tracking controlled assets. Examples of the most common controlled assets include computer hardware, printers, cameras, audio visual equipment, televisions, trailers, unmanned aerial vehicles (drones), and weapons.

[27.068 – 27.080 Reserved for Expansion]

Subchapter F. Depreciation and Disposal of Property

27.081 Depreciating Capital Assets

- (a) If a Capital asset will not last forever, it should be depreciated or amortized over its estimated useful life.
- (b) The Auditor determines the appropriate depreciation method for capital assets. The Auditor may ask County offices and departments to provide the technical information necessary to evaluate an asset's useful life or residual value.

27.082 Criteria Auditor Uses in Determined Useful Life

- (a) Land and land improvements are inexhaustible and have unlimited useful lives. Some types of rights to use specific characteristics of land, such as easements, are inexhaustible rights and have unlimited useful lives. These assets are not depreciated.
- (b) Most capital assets have limited useful lives. These are usually determined by the length of time that the asset can provide adequate services to the County. The Auditor's Office determines which are exhaustible. Capital assets in this group include:

- (1) Rights to use characteristics of land which may be depleted over time like minerals, water, and timber.
 - (2) Buildings and their integral components like their improvements which are treated as a single unit for depreciation purposes.
 - (3) Improvements other than buildings that wear out due to use.
 - (4) Infrastructure that wears out due to use.
 - (5) Machinery, equipment, and other personal property that wears out due to use or becomes obsolete.
 - (6) Computer software, both “off the shelf” and internally generated that expires may become obsolete.
 - (7) Patents, trademarks, other intellectual property, and other intangibles that expire.
- (b) Other capital assets have limited usefulness to the County because the County has the right to use them for a limited time like the term of a lease. The useful life of these capital assets is determined by either the remainder of the term of the lease or the length of time that the asset can provide useful services, whichever is shorter. Capital assets in this group include:
- (1) Right-to-use of real or personal property through a lease,
 - (2) Improvements to leased property, and
 - (3) SBITAs which are the right-to-use information technology on a subscription basis.
- (c) While an asset is accounted for as Construction in Progress, it is not depreciated. When the asset is completed and placed in service, it is depreciated like any other asset in its class.

27.083 Sale, Disposal, or Retirement of Capital Assets

- (a) County offices and departments must comply with the requirements in the *Purchasing Procedures Guide* related to disposal of assets.
- (b) County offices and departments should provide the Auditor with all information required to properly record the sale, disposal, or retirement of a capital asset. In general, this information must include at least:
 - (1) The specific asset and any applicable components;
 - (2) The value received from the disposal of the capital asset;
 - (3) Any proceeds of insurance or reimbursements from the Risk Management Self-Insurance Fund; and
 - (4) The original funding source of the capital asset.
- (c) The Commissioners Court authorizes the Auditor to discontinue reporting property as capital assets on the termination of the contract creating the

property if that contract by its terms defines or limits the property's useful life for the County.

- (d) For assets acquired with grant funding, County offices and departments must receive approval from the grantor before disposal in case the grant provided for a reversionary interest.