



**ADMINISTRATIVE MEMORANDUM**  
**COUNTY OF SAN MATEO**

**NUMBER: A-7**

**SUBJECT:** Accounting for Capital Assets

**RESPONSIBLE DEPARTMENT:** Controller

**APPROVED:**   
John L. Maltbie, County Manager

**DATE:** September 22, 2014

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This Administrative Memorandum rescinds and replaces Administrative Memorandum Number A-7 dated August 2, 1993.

The Controller's Office has the responsibility of maintaining records for the County's capital assets. The definition of a capital asset includes only those items which cost \$5,000 or more with a useful life greater than one year.

For depreciation purposes, the estimated useful lives for various assets are as follows:

- Infrastructures = 20 to 50 years
- Structures and improvements = 50 years
- Equipment = 3 to 15 years
- Software = 3 to 5 years

When determining the estimated useful life for the above categories, departments should use their own past experience with similar assets. Assets not meeting these criteria will not be in the capital asset master file maintained by the Controller's Office, but must be separately tracked by County departments as follows:

A) **For items costing between \$1,000 and \$4,999**

Department Heads should establish criteria to identify items that are portable or susceptible to loss, e.g. laptop computers and telecommunications equipment. Departments should then maintain an inventory of such items.

B) **For items costing less than \$1,000**

Inventory of these items shall be maintained at the discretion of the Department Head.

The Department should perform periodic physical counts, and relief of accountability should be obtained for items reported lost or stolen.

See attached Capital Asset Policy for detailed instructions for different asset categories.

**Subject:** Capital Asset Policy

**Policy:** In general, a property should be capitalized if all of the following criteria are met:

1. Unit Cost > or = \$5,000 including taxes, shipping, handling and other setup charges.
2. Estimated useful life > one year at the time of acquisition.
3. Will be used in operation to conduct County business.

**Instruction:** Use the table below for guidance.

Category	Definition	If criteria are met, then	Sub-acct to be Used
Land	All costs connected with acquisition and incurred to prepare the land for its intended purpose. These costs include but are not limited to purchase price, real estate commissions, legal fees, escrow fees, title investigation, title insurance, surveying, clearing, draining and filling.	Capitalize	7111
Easements	All costs connected with purchase of "right of way."	Capitalize	7112
Land Improvements	Enhancements to land. Costs included are fencing, paving, roadways, walks, parking facilities, retaining walls, water line, yard lighting, etc.	Capitalize	7113
Structures	Roof-structures for permanent or temporary shelter of persons, animals, plants or equipment. Costs include foundations, walls, frame, roof, etc.	Capitalize	7211
Structure Improvements	Any changes to a capital asset that increases its expected life or enhances its performance beyond its original capabilities. Improvements include additions, renovations, and alterations. Examples: Building enlargements, installation of air conditioning, improved lighting, and carpeting.	Capitalize	7211
Infrastructure	Long-lived capital assets that can be preserved for a significantly greater number of years than most capital assets and that are normally stationary in nature. Examples include road, bridges, tunnels, drainage systems, flood control systems, water and sewer systems. <ul style="list-style-type: none"> <li>▪ Operated and maintained by the County</li> </ul>	Capitalize	7411-7414

Category	Definition	If criteria are met, then	Sub-acct to be Used
Infrastructure (cont.)	<ul style="list-style-type: none"> <li>▪ Operated and maintained by outside entities</li> </ul>	Expense	appropriate sub acct in class 5000/ class 6000
Fixed Equipment	Equipment permanently attached to the structure. Costs included are electrical lighting, lighting and power fixtures, elevators, heating and ventilation, air conditioning, sprinkling and fire protection systems.	Capitalize	7211
Movable Equipment	Movable property that retains its identity as a separate and identifiable item. Examples include equipment (printers, copiers), furniture (exclude Pleion panel systems), furnishings, appliances (refrigerators, microwave ovens), fixtures, machinery, instruments, and vehicles.	Capitalize	7311
Leased Property	<p>Leased property should be capitalized if the lease arrangements meet any one of the following criteria:</p> <ol style="list-style-type: none"> <li>1. The lease transfers ownership of the property to the lessee by the end of the lease term.</li> <li>2. The lease contains a bargain purchase option.</li> <li>3. The lease term is equal to 75 percent or more of the estimated economic life of the leased property.</li> <li>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 value of the leased property.</li> </ol>	Capitalize	7211/7311
Software	<p><b>Software <u>acquired</u> for internal use:</b></p> <ol style="list-style-type: none"> <li>1. <u>One license with a single user</u> <ul style="list-style-type: none"> <li>▪ If unit cost per license is below \$5,000, do not capitalize the cost. Example: Purchase of 30 licenses of Microsoft Office for \$5,400 is not capitalizable because the unit cost per license is only \$180.</li> <li>▪ If the unit cost per license is \$5,000 or more, capitalize the cost.</li> </ul> </li> </ol>	<p>Expense</p> <p>Capitalize</p>	<p>appropriate sub-acct in class 5000/ class 6000</p> <p>7312</p>

Category	Definition	If criteria are met, then	Sub-acct to be Used
(cont'd)	<p>2. <u>One license with multiple users</u></p> <ul style="list-style-type: none"> <li>▪ If the cost per actual user is below \$5,000, do not capitalize the cost.</li> </ul> <p>Example: A license of \$10,000 for 5 users is not capitalizable because the cost per user is \$2,000.</p> <ul style="list-style-type: none"> <li>▪ If the cost per actual user is \$5,000 or more, capitalize the cost.</li> </ul> <p>Example: A license of \$50,000 for 5 users is capitalizable because the cost per user is \$10,000.</p>	Expense	appropriate sub-acct in class 5000/ class 6000
	<p>3. <u>Hardware-specific software</u></p> <p>“Hardware-specific” software is considered part of the hardware, and its cost should be included in the cost of the hardware. For example, if Public Works purchases a handheld GPS device, the GPS software to be installed on the device is considered part of the device.</p>	Capitalize	7312
	<p>4. <u>Application run on standard hardware</u></p> <p>If an application (e.g. software developed and sold in its entirety to the county and for which licenses are not necessary) can run on a standard hardware (e.g. personal computer) and is \$5,000 or more, capitalize the cost.</p>	Capitalize	7311
	<p><b><u>Software internally developed or modified:</u></b></p> <ul style="list-style-type: none"> <li>▪ Computer software should be considered internally generated if it is developed in-house by the County’s personnel or by a third-party contractor on behalf of the County.</li> <li>▪ Commercially available software that is purchased or licensed by the County and modified using more than minimal incremental effort before being put into operation also should be considered internally generated.</li> </ul>	Capitalize	7312

Category	Definition	If criteria are met, then	Sub-acct to be Used
Software (cont'd)	<p>The activities involved in developing and installing internally generated computer software can be grouped into the following stages:</p> <p><u>Preliminary Design Stage</u></p> <ul style="list-style-type: none"> <li>▪ Conceptual formulation of alternatives</li> <li>▪ Evaluation of alternatives</li> <li>▪ Determination of existence of needed technology</li> <li>▪ Final selection of alternatives</li> </ul> <p><u>Application Development Stage</u></p> <ul style="list-style-type: none"> <li>▪ Design of chosen path including software configuration and software interfaces</li> <li>▪ Coding</li> <li>▪ Testing/Installation/Implementation</li> <li>▪ Data conversion (only to the extent it is determined to be necessary to make the computer software operational)</li> </ul> <p>Examples of expenditures that should be capitalized:</p> <ul style="list-style-type: none"> <li>▪ External direct costs of materials &amp; services</li> <li>▪ Costs to obtain software/license from third party</li> <li>▪ Payroll costs of employees (if material) directly assigned to work on development.</li> </ul> <p><u>Reason for their exclusion should be documented for the Grand Jury auditors.</u></p> <p>Examples of expenditures that should be expensed:</p> <ul style="list-style-type: none"> <li>▪ Payroll costs of employees (if immaterial) directly assigned to work on development.</li> </ul> <p><u>Post Implementation/Operational Stage</u></p> <ul style="list-style-type: none"> <li>▪ Software maintenance</li> <li>▪ Training</li> <li>▪ Minor enhancements – without adding functionality</li> <li>▪ Major enhancements – result in an increase in the functionality/efficiency, or an extension of the estimated useful life of the software.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Expense</li> <li>▪ Expense</li> <li>▪ Expense</li> <li>▪ Expense</li> <li>▪ Capitalize</li> <li>▪ Capitalize</li> <li>▪ Capitalize</li> <li>▪ Capitalize</li> <li>▪ Expense</li> <li>▪ Expense</li> <li>▪ Expense</li> <li>▪ Capitalize</li> </ul>	<p>appropriate sub-acct in class 5000/ class 6000</p> <p>7313</p> <p>7313</p> <p>7313</p> <p>7313</p> <p>As above</p> <p>As above</p> <p>As above</p> <p>7312/7313</p>

Category	Definition	If criteria are met, then	Sub-acct to be Used
Hardware	The cost of hardware (i.e., equipment) is based on the unit cost rather than the number of actual users. The total cost when greater than or equal to \$5,000 should be capitalized if the upgrade increases (1) the useful life and/or (2) the functionality of the capital asset (including hardware). If the upgrade neither increases the useful life or the functionality, the cost should be expensed.	<ul style="list-style-type: none"> <li>▪ Capitalize if the upgrade increases useful life and/or functionality of the asset</li> </ul>	7311

**Remarks:** Repairs and Maintenance

These costs should be expensed when incurred. Examples include lubrication of machinery, cleaning of buildings and machinery, replacement of minor parts and painting.<sup>1</sup>

Capital Outlay with Unit Cost < \$5,000

The cost should be expensed when incurred if the unit cost is less than \$5,000. Examples include the purchase of a \$1,000 personal computer or a \$900 file cabinet.<sup>1</sup>

Purchase of Multiple Items with aggregated cost > or = \$5,000

The cost should be expensed when incurred. Examples include buying 5 personal computers at \$1,200 each or 30 licenses for Microsoft Office at \$200 each.<sup>1</sup>

<sup>1</sup> Select an appropriate sub-account in class 5000/6000 from the County's object code listing to record the costs.