



County of Riverside  
**OFFICE OF THE AUDITOR-CONTROLLER**  
 STANDARD PRACTICE MANUAL

		<b>SUBJECT:</b>	<b>BETTERMENTS AND IMPROVEMENTS RELATING TO CAPITAL ASSETS AND OPERATING LEASES</b>
<b>SECTION:</b>	<b>5</b>	<b>CATEGORY:</b>	<b>CAPITAL ASSET POLICIES</b>
<b>POLICY NUMBER:</b>	<b>504</b>		
<b>REVISED DATE:</b>	<b>07/01/17</b>	<b>APPROVED BY:</b>	<i>Paul Angulo</i>

**PURPOSE:** To establish standard guidelines for County departments, agencies, and special districts for properly recording expenditures for betterments/improvements that relate to owned capital assets or operating leases.

**SCOPE:** Applies to County departments, agencies, special districts and authorities that are governed by Riverside County Board of Supervisors.

**POLICY:** County departments, agencies, special districts and authorities should capitalize betterments/improvements that meet the criteria under this policy.

**PROCEDURE:** This policy includes guidelines to be used for betterments and improvements relating to capital assets and operating leases and the process to record the transaction(s) in PeopleSoft Asset Management module (AM module).

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**GENERAL INFORMATION:**

Betterments result in a more productive, efficient, or longer-lived capital asset. Significant betterments are considered capital assets *if they meet the capitalization thresholds* noted in this policy and therefore are added to the value of the asset improved.

*Building improvements* may consist of *additions, improvements* and *replacements* made to existing buildings.

- *Additions* consist of extensions to buildings.
- *Improvements* generally make the capital asset better than its previous condition by extending its useful life.
- *Replacements* make the capital asset better than its previous condition by extending its useful life, increasing its capacity, or lowering its operating costs.

Examples of expenditures to be capitalized as building improvements include:

- Structures attached to the building such as covered patios, sunrooms, garages, carports, enclosed stairwells, etc.
- Installation or upgrade of heating and cooling systems, including ceiling fans and attic vents
- Original installation/upgrade of floor, wall or ceiling covering such as carpeting, tiles, paneling, or parquet
- Structural changes such as reinforcement of floors or walls, installation or replacement of beams, rafters, joists, steel grids, or other interior framing
- Installation or upgrade of window or door frame, upgrading of windows or doors, built-in closet and cabinets
- Interior renovation associated with casings, baseboards, light fixtures, ceiling trim, etc.
- Exterior renovation such as installation or replacement of siding, roofing, masonry, etc. that extends the life of the building
- Installation or upgrade of plumbing and electrical wiring
- 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)
- Other costs associated with the above improvements

Building maintenance expenditures **should not be** capitalized as improvements. Instead, the following items should be recorded as maintenance expenses.

- 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
- Improvement projects of minimal or no added life expectancy and/or value to the building
- Plumbing or electrical repairs
- Cleaning, pest extermination, or other periodic maintenance
- Interior decoration, such as draperies, blinds, curtain rods, wallpaper
- Maintenance-type interior renovations, such as repainting, touch-up plastering, replacement of carpet, tile or panel sections; sink and fixture refurbishing, etc.
- Maintenance-type exterior renovations, such as repainting; replacement of sections of deteriorated siding, roof, or masonry sections that does not extend the useful life of the building
- 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
- Any other maintenance-related expenditure which does not increase the value of the building

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*Land improvements* that meet the minimum capitalization policy; such as, private driveways, walkways, fences, most landscaping, retaining walls and parking lots, are to be recorded separately as land improvements and are depreciable over their useful lives.

*Equipment improvements* make the capital asset better than its previous condition.

*Infrastructure improvements* are capital events that materially extend the useful life or increase the value of the infrastructure, or both. Infrastructure improvements should be capitalized as betterments and recorded as an addition of value to the infrastructure if the improvement or addition of value meets the capitalization threshold and materially increases the life or value of the asset relative to the original cost or life period.

**SIGNIFICANT BETTERMENTS/IMPROVEMENTS THRESHOLDS:**

The following are threshold values used to determine a significant betterment to major asset groups:

<b>Capital Asset:</b>	<b>Minimum Value Threshold:</b>
<b>Equipment Improvements</b>	<b>\$5,000</b>
<b>Land Improvements/Leasehold Improvements</b>	<b>\$5,000</b>
<b>Building Improvements/Building Leasehold Improvements</b>	<b>\$150,000</b>
<b>Infrastructure</b>	<b>\$5,000/\$150,000</b>

**OPERATING LEASES**

In general, under an operating lease:

- Ownership (title) of the asset **does not** transfer to the lessee by the end of the lease term
- The lease **does not** contain a bargain purchase option
- The lease term is less than 75% of the estimated economic life of the leased asset
- The present value of the minimum lease payments at the inception of the lease term, excluding executory costs **does not equal** or exceeds 90% of the FV (fair value) of the leased asset.

When a department is the lessee under an operating lease and makes improvements to a capital asset; such, expenditure(s) should be reported as a *capital leasehold improvement* and will be depreciated over the remaining life of the lease or the life of the improvement/asset, whichever is less.

Valuation Basis:

Lease Improvements should be accounted for at cost, which may include:

- Purchase price
- Construction costs
- Fixtures attached to the building/structure
- Architect fees
- Permits and licenses
- Insurance during construction
- Accident or injury costs
- Net Interest cost during construction
- Payment of damages

Lease costs should be reduced by:

- Sale of salvage from materials charged against the construction
- Discounts, allowances and rebates received
- Amounts recovered through surrender of liability and casualty insurance

Recording:

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Upon completion of the *lease improvements*, the department is required to enter the completed asset in the AM module; or if the project will not be complete by the end of the fiscal year, the department should record the costs incurred up to the end of the fiscal year as construction-in-progress.

**DEPARTMENT ROLES:**

1. Record all betterments and improvements to capital assets in the AM module immediately once all supporting documentation is available and has been received by the department.
  - a. Ensure that the proper capital asset account is selected
  - b. If an incorrect account is used, the department is responsible of making the correction.
2. Complete the AM-5 Form and submit it to the Auditor-Controller with all supporting documentation, within 15 days after it has been entered in the AM module, **except** at year end it should be submitted within 24 hours.
  - a. Attach the Notice of Completion/Form 11 for CIP projects once they are completed.
3. Complete Form AM-7 and notify the ACO when the lease is terminated at which time the lease improvements will be retired from the AM module.

**CAPITAL BUDGET EXPENSE CODES**

The acquiring department is responsible for assigning the appropriate account number when conducting betterments and improvements to capital assets or under an operating lease. Individuals should be certain to use the correct account number in all circumstances. The capital expense codes tied to asset codes are:

<b>County of Riverside Expenditure Accounts as of June 1, 2017</b>	
<b>New Code</b>	<b>Description</b>
540000	<b>Capital Assets</b>
540060	Improvements-Land
540061	Improvements-Environmentl Liner
	<b><i>Buildings and Improvements</i></b>
542060	Improvements-Building
542080	Improvements-Leasehold Blds
542120	Improvements-Infrastructure

**AUDITOR-CONTROLLER'S ROLES:**

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- 1) Review and verify AM-5 form and transactions recorded in system.
- 2) Process transactions in PeopleSoft Financial System.
- 3) Review and process AM-7 form

**RECORDS MANAGEMENT ROLES:**

Department

Retain all capital asset supporting documentation for at least 7 years as it relates to capital assets information reported on “Schedule Q” and any other records that are not submitted to the Auditor-Controller.

Auditor-Controller

The Auditor-Controller is the official Department of Record for all AM Forms and its supporting documentation that are submitted to us. The documentation is filed in accordance with the County’s General Records Retention policy which states to keep the current year plus the 7 past years.

**SECURITY ROLES:**

In order to perform the functions discussed above the following roles must be requested:

Department:

Capital Asset Processor – this role will allow you to:

- Add betterments/improvements asset information
- Update certain capital asset information

Auditor Controller:

Asset Reviewer Auditor-Controller Only – this role will allow you to:

- Adjust, re-categorize, transfer, and dispose capital assets/noncapital asset information
- Review and process transactions

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# CAPITAL ASSETS FORM

## Acquisition, Betterment & Capital Leases

OFFICE OF THE AUDITOR-CONTROLLER  
Complete and return to the Auditor-Controller's Office, Mail Stop #1050.

**SPM FORM  
AM - 5**

**"\*" Indicates optional field**      **ASSET ID:**

DEPARTMENT			BUSINESS UNIT		
FUND	DEPT ID	PROGRAM *	CLASS *	BGT PER	PROJ/GRANT *
CATEGORY	ACCOUNT	COST			
BOOK	FINANCING CODE	LOCATION			
ACQUISITION DATE			IN SERVICE DATE		
VENDOR CODE:			VENDOR NAME		
MANUFACTURER	SERIAL NUMBER	MODEL			
<b>ASSET DESCRIPTION:</b>					
DEPRECIATION METHOD		USEFUL LIFE (in months)	SALVAGE AMOUNT		
PURCHASE AUTHORIZATION			VOUCHER		
<b>For Betterments Only:</b>					
BETTERMENT DESCRIPTION					
TOTAL BETTERMNT VALUE					
<b>For Capital Leases Only:</b>					
LEASE ID#			LIABILITY AMOUNT (PRIN)		
ATTACH THE FOLLOWING AND CHECK THE BOX FOR EACH ATTACHMENT PROVIDED:					
<input type="checkbox"/>	P.O. s,	<input type="checkbox"/>	Property schedules,	<input type="checkbox"/>	Amortization schedules,
<input type="checkbox"/>	CAPITAL LEASE TEST.XLS		<input type="checkbox"/>	Financing agreements,	

Prepared by: \_\_\_\_\_ Phone: \_\_\_\_\_

Date: \_\_\_\_\_ Dept: \_\_\_\_\_

Distribution: Department and Capital Asset Section of the ACO

Standard Practice Manual – AM-5

January 2006 (This form replaces GEN FORM 34)  
Capital Assets Form (pending approval)

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# CAPITAL ASSET DISPOSITION

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Complete and return to the Auditor-Controller's Office, Mail Stop #1050.

**SPM FORM  
AM-7**

(Policy #XXX)

PAGE \_\_\_ OF \_\_\_

<b>Department</b>	<b>Business Unit</b>	<b>FY</b>
_____	_____	_____

\_\_\_\_\_

Name of Contact Phone

Disposition Codes							
Abandonment	AB	Disappeared Asset	DIS	Missing Asset	MIS	Scrapped Asset	SCR
Cannibalize	CAN	Disposal Due to Theft	DPO	Retirement by Sale	RTR	Traded in for Other Asset	TRD
Casualty Loss	CAS	Donated to External Group	DON	Returned to Inventory	RET		

1	Category Code	Asset Number	Disposition Code	Quantity	Retire Amount	Proceeds	Removal Costs	Disposition Date
	_____	_____	_____	_____	_____	_____	_____	_____

**Other Information** (Description of equipment, serial number, etc.)

\_\_\_\_\_

2	Category Code	Asset Number	Disposition Code	Quantity	Retire Amount	Proceeds	Removal Costs	Disposition Date
	_____	_____	_____	_____	_____	_____	_____	_____

**Other Information** (Description of equipment, serial number, etc.)

\_\_\_\_\_

3	Category Code	Asset Number	Disposition Code	Quantity	Retire Amount	Proceeds	Removal Costs	Disposition Date
	_____	_____	_____	_____	_____	_____	_____	_____

**Other Information** (Description of equipment, serial number, etc.)

\_\_\_\_\_

4	Category Code	Asset Number	Disposition Code	Quantity	Retire Amount	Proceeds	Removal Costs	Disposition Date
	_____	_____	_____	_____	_____	_____	_____	_____

**Other Information** (Description of equipment, serial number, etc.)

\_\_\_\_\_

5	Category Code	Asset Number	Disposition Code	Quantity	Retire Amount	Proceeds	Removal Costs	Disposition Date
	_____	_____	_____	_____	_____	_____	_____	_____

**Other Information** (Description of equipment, serial number, etc.)

\_\_\_\_\_

\_\_\_\_\_

Authorized Signature for Deposition (Department Head or Designee) Date

**To Be Completed by the Auditor-Controller's Office**

\_\_\_\_\_

Central Asset Management Reviewer/Approver Date

Distribution: **Original:** Auditor-Controller    **Copy:** Originating Department

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