

# SAM – PROPERTY ACCOUNTING

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## **SAM – PROPERTY ACCOUNTING**

### **PURPOSE AND OBJECTIVE OF PROPERTY ACCOUNTING**

**8600**

(Revised 8/2014)

Property accounting procedures are designed to maintain uniform accountability for state property. These standard procedures are used to provide accurate records for the acquisition, maintenance, control, and disposition of property. A combination of accurate accounting records and strong internal controls must be in place to prevent and detect the unauthorized use of state property.

Departments that purchase property with federal funds should consider federal pre-approval of the state property accounting procedures, if state procedures are significantly different than federal regulations.

### **GENERAL—PROPERTY**

**8601**

(Revised 06/2010)

Generally, property refers to all assets used in governmental operations. Property includes infrastructure, land, buildings, improvements, machinery, furniture, tools, etc., and intangibles.

### **CAPITAL ASSETS**

**8602**

(Revised 09/2010)

State property is capitalized for accounting purposes when certain conditions are met. Capitalization means to record the property in the accounting records as assets. Tangible and intangible property must meet the following three requirements in order to be capitalized:

1. Have an expected useful life of at least one year;
2. Have a purchase cost or internally generated cost of at least \$5000 (e.g., four identical assets which cost \$3000 each, for a \$12,000 total, would not meet the requirement); and
3. Are used to conduct State business.

When the above three requirements are not met, the property will be recorded as an expenditure and not a capital asset in the General Ledger. See SAM Section 8615 and 8635 for accounting instructions for intangibles.

When the term "equipment" is used in SAM, it refers to personal property which is capitalized.

## **SAM – PROPERTY ACCOUNTING**

### **NON-CAPITALIZED PROPERTY**

**8603**

(Revised 9/2014)

Property that does not meet the capitalization threshold in SAM section 8602 is considered non-capitalized property. Acquisition of non-capitalized property will be recorded in the property register and accounted as an expenditure. Record keeping, identifying, and tagging of non-capitalized property shall be in accordance with SAM sections 8650 and 8651.

Departments will maintain adequate control over sensitive and high risk items which are prone to theft/loss, misuse, and may contain sensitive data. Examples of sensitive and high risk items are:

- Computers, printers, scanners
- Smartphones, tablets, other hand held devices
- Device or media capable of storing or processing information
- TVs, audio visual equipment, cameras
- GPS device
- Weapons, power tools
- Works of art
- Software

Departments will determine if additional items should be designated and tracked as sensitive and high risk items.

### **PROPERTY—DEFINITION**

**8609**

(Revised and Re-numbered 06/2010)

The following sections contain definitions of the property categories:

1. Infrastructure
2. Land,
3. Buildings,
4. Improvements Other Than Buildings,
5. All other (capitalized and non-capitalized) tangible property, and
6. Intangible property.

## **SAM – PROPERTY ACCOUNTING**

### **INFRASTRUCTURE**

**8610**

(Revised and re-numbered 06/2010)

Infrastructure assets are long-lived capital assets that normally are immovable in nature and can be preserved for a significantly greater number of years than most capital assets. Examples of infrastructure assets include roads, bridges, streets and sidewalks, drainage systems, and lighting systems. Account for Infrastructure that uses the modified approach for reporting cost of use in General Ledger Account Number 2361. Account for Infrastructure that uses the traditional approach for reporting cost of use in General Ledger Account Number 2362.

### **LAND**

**8611**

(Revised and Renumbered from 8652.1 03/1986)

Land is real property and includes natural or artificial structures that are attached to it. Account for Land in General Ledger Account Number 2310.

When land is acquired, the amount capitalized is the purchase price plus all related costs. Related costs include legal and title fees, title search costs, and all cost incurred in getting the land ready for its intended use (e.g., grading, surveying, filling, draining, etc.).

### **BUILDINGS**

**8612**

(New 03/1986)

Buildings are structures which provide workplace, storage space, or are used in some other way for State activities. Account for Buildings in General Ledger Account Number 2321. Capitalized building costs include the purchase price plus all other cost incurred to put the building in condition for its intended use.

## **SAM – PROPERTY ACCOUNTING**

### **IMPROVEMENTS OTHER THAN BUILDINGS**

**8613**

(Revised and Renumbered from 8651.1, 8651.3, 8652.2, 8652.21 03/1986)

Additions, improvements, and betterments to assets will be capitalized if all of the conditions in SAM Section 8602 are met. Additions are extensions of existing units. Improvements and betterments ordinarily do not increase the physical size of the asset. Instead, they make the asset better than its previous condition (e.g., longer life, increased capacity, lower operating costs, etc.). Examples of improvements and betterments are roads, bridges, curbs and gutters, tunnels, parking lots, streets and sidewalks, drainage and lighting systems. Account for Improvements Other Than Buildings in General Ledger Account Number 2331. All other additions, improvements, and betterments will be capitalized to the asset benefited.

### **OTHER CAPITALIZED AND NON-CAPITALIZED TANGIBLE PROPERTY**

**8614**

(Revised 3/1996)

These include equipment and all other items accounted for in the property register.

For State accounting purposes, equipment refers to all tangible personal property which meets all of the requirements set forth in SAM Section 8602. Account for Equipment in General Ledger Account Number 2341. The cost of equipment includes the purchase price plus all costs to acquire, install, and prepare equipment for its intended use.

## SAM – PROPERTY ACCOUNTING

### INTANGIBLE ASSETS

8615

(Revised 06/2011)

An intangible asset is an asset that possesses *all* of the following characteristics:

- a) Lacks physical substance. It may be contained in or on an item with physical substance (for example software stored on a compact disc) or it may be closely associated with another item that has physical substance (e.g., the underlying land in the case of right-of-way easement).
- b) Is nonfinancial in nature (not in a monetary form similar to cash and investment securities, and it represents neither a claim nor right to assets in a monetary form similar to receivables, nor a prepayment for goods and services).
- c) Is identifiable. An intangible asset is considered identifiable when either of the following conditions is met:
  - The asset is separable, that is the asset is capable of being separated or divided from the department and sold, transferred, licensed, rented, or exchanged, either individually or together with a related contract, asset, or liability; or
  - The asset arises from contractual or other legal rights, regardless of whether those rights are transferable or separable from the department or from other rights and obligations.

Three types of intangible assets are excluded from the policy:

- Intangible assets acquired or created primarily for obtaining income or profit. These assets should be recorded as an investment.
- Assets resulting from capital lease transactions reported by lessees.
- Goodwill created through the combination of another entity and a state department.

Intangibles are considered capital assets and are accounted for in General Ledger Account Numbers 2410 through 2494. Examples of intangible property include patents, copyrights, trademarks, easements, land use rights (timber, mineral, water), and computer software, including websites.

Software are those instructions by which computerized equipment is directed to process information. By contrast, hardware consists of tangible equipment (e.g., computer, printer, terminal, etc.).

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## **SAM – PROPERTY ACCOUNTING**

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### **INTANGIBLE ASSETS**

**8615** (Cont. 1)

(Revised 06/2011)

Intangible assets are considered internally generated if they are created or produced by a department or an entity contracted by the department, or if they are acquired from a third party but require more than minimal incremental effort on the part of the department to achieve their expected level of service capacity.

For internally generated intangible assets, see SAM section 8635 for additional specific capitalization requirements.

Intangible assets will be recorded at cost. Intangible assets will be capitalized if all of the requirements set forth in SAM section 8635, if applicable, are met. Cost includes all amounts incurred to acquire or internally develop the intangible asset and to ready the intangible asset for its intended use. Typical intangible property costs include the purchase price, development costs associated with internally generated intangible assets (see SAM section 8635 for more detail), legal fees, and other costs incurred to obtain title to the asset.

Land use rights associated with property already owned by the government are considered part of the land and should not be reported as intangible assets. In contrast, land use rights that were acquired in a transaction that did not involve acquiring the underlying property should be reported as intangible assets.

### **DEPRECIATION**

**8616**

(Revised and Renumbered from 8651.5 3/1986)

Depreciation is the expensing of a tangible asset's depreciable cost to the time periods benefited. An asset's depreciable cost is the cost or other basis less the estimated residual value. Residual value is the estimated value of an asset at the end of its useful life. Generally, depreciation is performed only by those proprietary funds which conduct enterprise or internal service fund operations.

## **SAM – PROPERTY ACCOUNTING**

### **USEFUL LIFE AND AMORTIZATION**

**8617**

(Revised 09/2010)

#### Useful Life and Amortization

Intangible assets are amortized over the useful life of the asset. The useful life of an intangible asset that arises from contractual or legal rights should not exceed the legal term of the rights. Renewal periods should be considered in determining the useful life if the department plans to seek a renewal and the anticipated costs of the renewal are nominal in relation to the level of service capacity expected to be obtained through the renewal. Otherwise, the department must account for the renewal as a replacement of the old intangible asset with a new intangible asset.

An intangible asset should be considered to have an indefinite useful life if there are no legal, contractual, regulatory, technological, or other factors that limit the useful life of the asset. A permanent right-of-way easement is an example of an intangible asset with an indefinite useful life. Intangible assets with an indefinite useful life are classified as non-amortizable. Computer software does not have an indefinite useful life. Generally, amortization is performed only by those non-governmental cost funds, such as Public Service Enterprise Funds, and Working Capital and Revolving Funds that conduct enterprise or internal service fund operations.

### **REPAIRS AND MAINTENANCE**

**8618**

(Revised and Renumbered from 8651.4 3/1986)

Ordinarily, repairs and maintenance costs are treated as expenditures which are not capitalized as property. These expenditures are incurred to keep assets operating and do not benefit future periods. Contact Department of Finance, [Fiscal Systems and Consulting Unit](#) if you have any questions about capitalizing repairs and maintenance costs.

## SAM – PROPERTY ACCOUNTING

### IMPAIRMENT OF CAPITAL ASSET AND RELATED INSURANCE RECOVERIES

8619

(New 09/2010)

A capital asset is considered impaired when its service utility has declined significantly and unexpectedly. The service utility of a capital asset is the expected usable capacity at acquisition. A capital asset may be impaired due to events or changes in circumstances, such as physical damage, obsolescence or changes in technology, enactment or approval of laws or regulations or other changes in environmental factors, a change in manner or duration of use, or a construction stoppage.

A capital asset generally should be considered impaired if both (a) the decline in service utility of the capital asset is large in magnitude and (b) the event or change in circumstance is outside the normal life cycle of the capital asset.

Impaired capital assets that will no longer be used by a department should be reported at the lower of carrying value or fair value (i.e., additional depreciation expense and accumulated depreciation would be recorded in the year of the impairment to bring the carrying value down to the lower fair value).

Impairment losses on capital assets that will continue to be used by the department should be measured using one of three methods prescribed by the [Governmental Accounting Standards Board](#) that best reflects the diminished service utility of the capital asset. The prescribed methods are the restoration cost approach, the service units approach, or the deflated depreciated replacement cost approach.

Departments are required to evaluate prominent events or changes in circumstances affecting capital assets to determine whether impairment of a capital asset has occurred. A prominent event would be conspicuous or known to the department. It would be an event or circumstance that has prompted discussion by the governing board, management, or the media. Absent any such event or circumstance, departments are not required to perform additional procedures to identify potential impairment of capital assets beyond those already performed as part of their normal operations.

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## SAM – PROPERTY ACCOUNTING

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### **IMPAIRMENT OF CAPITAL ASSET AND RELATED INSURANCE RECOVERIES**

**8619** (Cont. 1)

(New 09/2010)

Impairment losses are generally reported as a direct expenditure to the program that uses the impaired capital assets. Insurance recoveries related to impaired assets are reported net of the related loss when the recovery is realized or realizable in the same fiscal year as the loss.

If a prominent event or change in circumstance has occurred and there is a potential impairment of capital assets, please contact the [State Controller's Office](#), GAAP Reporting Section, for additional instructions to help you identify whether impairment has occurred, measure the impairment loss, and account for the impairment loss and any insurance recoveries.

### **PROPERTY ACCOUNTING—BASIC ACCOUNTING REQUIREMENTS/DIFFERENCES**

**8620**

(New 3/1986)

Property accounting requirements differ depending on the category of the owner fund.

State funds are categorized as:

1. Governmental,
2. Proprietary, or
3. Fiduciary.

See the Uniform Codes Manual ([UCM](#)) for the classification of each State fund.

## SAM – PROPERTY ACCOUNTING

### BASIC RULES (Revised 9/1990)

8621

The following table shows the basic accounting rules for each of the three fund categories. See SAM Sections 8670–8672 for standard property accounting Journal entries.

|  | Fund Category   |   |  |
|--|---|---|--|
| Accounting Event   | Budgetary/<br>Legal Basis:<br>Governmental<br>Cost Funds,<br>Bond Funds,<br>Federal<br>Funds, and<br>some trust<br>funds.<br>GAAP:<br>Governmental<br>Funds | Budgetary/Legal<br>Basis:<br>Working Capital<br>Revolving Fund<br>and Public<br>Service<br>Enterprise Fund<br>GAAP:<br>Proprietary<br>Funds | Budgetary/Legal Basis: some trust<br>funds (not federal)<br>GAAP:<br>Fiduciary Funds |
| A. Accountability  | Record the<br>Property in<br>Capital<br>Assets Group<br>of Accounts<br>(see Section<br>8622 below).   | Record the<br>property in the<br>owner fund's<br>capital asset<br>accounts  | Record the property in the owner<br>fund's capital asset accounts                    |
| B. Acquisition (same rules apply to all fund categories) |   |   |  |
| 1. Purchase  | Record at historical cost   |   |  |
| 2. Lease<br>Purchase                                     | Record at less of fair value or discounted present value of lease<br>payments   |   |  |

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## SAM – PROPERTY ACCOUNTING

(Continued)  
**BASIC RULES**  
 (Revised 9/1990)

8621 (Cont. 1)

|                              |   |  |   |
|------------------------------|---|--|---|
| 3. Transfer                  | Record at historical cost   |  |   |
| 4. Gift                      | Record at fair market value at date of gift   |  |   |
| 5. Trade-ins                 | See D.2 below   |  |   |
| 6. Internally Generated      | Record at historical cost of both internal and external outlays during asset development stage  |  |   |
| Fund Category                |   |  |   |
| C. Use                       | No entry.   | Record depreciation/<br>amortization   | Special rules apply. (Call Department of Finance- Fiscal Systems and Consulting Unit) |
| D. Disposition               |   |  |   |
| 1. Sale or other disposition | Credit sale proceeds to the owner fund. Remove asset from the Capital Assets Group of Accounts. | Record depreciation/<br>amortization to date of disposition. Credit sale proceeds to the fund. Remove asset from accounting records. | Credit sale proceeds to the fund. Remove asset from accounting records.               |

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## SAM – PROPERTY ACCOUNTING

(Continued)  
**BASIC RULES**  
 (Revised 9/1990)

8621 (Cont. 2)

|   |   |   |   |
|---|---|---|---|
| <p>2. Trade-ins</p>                     | <p>Remove asset traded in from the Capital Assets Group of Accounts<br/>                 Record asset acquired at the cash consideration parted with (i.e., the cash price which the department would have had to pay had the new asset been purchased for cash).</p> | <p>Record depreciation/ amortization to date of disposition.<br/>                 Remove asset traded in from accounting records.<br/>                 Record asset acquired at the sum of the un-depreciated basis of the old asset plus any other consideration parted with (boot).</p> | <p>Remove asset traded in from accounting records. Record asset acquired at the cash consideration parted with (i.e., the cash price which the department would have had to pay had the new asset been purchased for cash).</p> |
| <p>E. Financial Statement Reporting</p> | <p>Report in the Capital Assets Group of Accounts (see <a href="#">SAM Section 7977</a>).</p>   | <p>Report as part of the owner fund's assets.</p>   | <p>Report as part of the owner fund's assets.</p>   |

## SAM – PROPERTY ACCOUNTING

### **JOURNAL ENTRIES FOR THE CAPITAL ASSETS GROUP OF ACCOUNTS** **8622** (Revised 09/2010)

A department which receives an appropriation from one governmental fund and purchases property from this appropriation will record the property in the Capital Assets Group of Accounts. Similarly, another department which receives appropriations from several governmental funds and purchases property from more than one of these funds will record all of the property in the Capital Assets Group of Accounts. These two situations are illustrated as follows:

Situation A: Department purchases property from one governmental fund.

| <b>Capital Assets Group of Accounts</b>                          |                  |
|--|------------------|
| <b>Dr. 2310 Land</b>   | <b>\$50,000</b>  |
| <b>Dr. 2321 Building</b>   | <b>\$200,000</b> |
| <b>Dr. 2411 Computer Software – Amortizable</b>                  | <b>\$100,000</b> |
| <b>Cr. 5200.0001 Investment in Capital Assets – General Fund</b> | <b>\$350,000</b> |

Situation B: Department purchases property from more than one governmental fund.

| <b>Capital Assets Group of Accounts</b>                           |                  |
|---|------------------|
| <b>Dr. 2321 Building</b>  | <b>\$140,000</b> |
| <b>Dr. 2341 Equipment</b>   | <b>\$40,000</b>  |
| <b>Dr. 2412 Land Use Rights – Amortizable</b>                     | <b>\$10,000</b>  |
| <b>Cr. 5200.0001 Investment in Capital Assets – General Fund</b>  | <b>\$150,000</b> |
| <b>Cr. 5200.0042 Investment in Capital Assets – St. Hwy Acct.</b> | <b>\$40,000</b>  |

### **ACCOUNTING FOR PROPERTY ACQUISITIONS** **8630** (Revised 09/2010)

There are five ways to acquire property:

1. Purchase,
2. Lease/Installment Purchase,
3. Transfer
4. Gift, and
5. Internally build or generate.

Accounting for each method is explained in SAM Sections 8631 through 8635.

## **SAM – PROPERTY ACCOUNTING**

### **PURCHASE**

**8631**

(Revised and Renumbered from 8655.1 3/1986)

Purchased assets are recorded at cost. Cost is the purchase price plus all incidental costs incurred to put the asset into place and ready for its intended use.

### **INSTALLMENT PURCHASE/CAPITAL LEASE CONTRACTS**

**8632**

(Revised 09/2010)

#### **1. INSTALLMENT PURCHASE CONTRACTS**

Installment purchase contracts are agreements with vendors to acquire property in exchange for a commitment to make specified future payments. The capitalized cost of these assets should exclude any interest, maintenance or other operating costs. To determine the amount to be capitalized see Capital Lease (Lease-Purchase) Contracts below.

#### **2. CAPITAL LEASE (LEASE-PURCHASE) CONTRACTS**

A capital lease (lease-purchase) results when the contractual agreement with the lessor results in a transaction which is in substance an installment purchase. If a lease meets any one of the four following conditions it is considered to be a capital lease:

1. Ownership of the leased asset is transferred to the lessee at the end of the lease period.
2. The lease gives the lessee the option of purchasing the leased asset at less than fair value (bargaining purchase option) at some point during or at the end of the lease period.
3. The period of the lease is 75% or more of the estimated useful life of the leased asset.
4. The present value of the minimum lease payments is 90% or more of the fair value of the leased asset.

A capital asset acquired by a capital lease is accounted for as if an asset was purchased at the inception of the lease. The capitalized amount of the capital asset should be the lesser of the fair value or the discounted present value of the lease payments excluding any maintenance or other operating costs. The appropriate discount rate to use to compute the present value of the lease payments is the prior fiscal year Pooled Money Investment Account rate.

For those funds required to compute depreciation expense on their funds' capital assets, the depreciation expense should be computed over the estimated useful life of the asset rather than the lease period.

## SAM – PROPERTY ACCOUNTING

### TRANSFER

8633

(Revised and Renumbered from 8655.3, 8656.2, 8656.3 3/1986)

Departments (transferees) which acquire property free of charge from other State departments (transferors) will record the asset at the same cost as that recorded on the books of the transferor department.

### GIFT

8634

(Revised 09/2010)

Record property acquired by gift from other than State departments at the fair market value on the date the gift is received. Retain receipts, letters, stock received reports, or other documents as evidences of gifts.

Government Code Sections [8647](#), [11005](#) and [16302](#) pertain to the State's acceptance of gifts. Gifts are normally either real property and intangibles or personal property such as equipment and cash. The following procedures apply to acceptance of gifts.

#### 1. Property (Tangible or Intangible)

A gift of real property must be approved by both the Department of General Services ([DGS](#)) and the Department of Finance ([DOF](#)) before it can be accepted. See SAM Section [1323.12](#).

A. Departments must prepare and submit to Department of General Services the following material as appropriate for real property:

1. Part I of DGS Form RES–212 Gift Deed Summary
2. Contract Transmittal STD. 15
3. Certificate of Acceptance
4. Environmental Document
5. Certificate of Inspection
6. Summary of title report exceptions
7. Copy of title report
8. Map of property or description of gift

B. Department of General Services will review material submitted by the department. Based on this review DGS will prepare and submit the following to the Department of Finance:

1. Copies of information submitted by the department
2. Cover memo requesting acceptance of the gift based on the findings of the review.

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## SAM – PROPERTY ACCOUNTING

(Continued)

### GIFT

8634 (Cont. 1)

(Revised 09/2010)

C. [Department of Finance](#) will accept or reject the gift after reviewing all data submitted by the [Department of General Services](#) and the requesting department. Department of General Services will then forward to the requesting department:

1. Copy of DOF acceptance or rejection of gift
2. Copy of deed, policy and invoice (for title policy) if gift is accepted  
If the proposed gift is rejected by the Department of General Services, the department will be advised of the reason for the rejection. Department of Finance will not be forwarded information unless Department of General Services recommends acceptance of the gift.

#### 2. Personal Property

State departments cannot accept gifts of personal property unless they have specific statutory authority to do so. If a department is not permitted by law to accept a gift, the department will notify the Department of Finance so that the Director of Finance can accept the gift for the State pursuant to authority by Government Code Section [11005.1](#).

All departments authorized by law to accept gifts are required by Government Code Section [11005](#) to secure the approval of the Director of Finance before a gift of personal property can be accepted, unless (1) the gift is an unconditional gift of money or (2) statutes specifically provide that such approval is not necessary. The Director of Finance's approval has been given to accept gifts of money if the only condition of the gift is to specify that it is for an existing fund in the Treasury.

If State departments need approval to accept a gift of personal property, they will notify their Department of Finance budget analyst by letter. The Department of Finance analyst will either approve or disapprove the acceptance of the gift. If the Department of Finance approves a gift of equipment, it will be recorded in the property records. When State agencies receive gifts of cash to be deposited in the State Treasury, they will prepare a State Controller's Remittance Advice, Form CA21. The department will then remit the money to the fund or appropriation specified by the donor.

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## SAM – PROPERTY ACCOUNTING

(Continued)

### **GIFT**

(Revised 09/2010)

**8634** (Cont. 2)

If the money is for a specific purpose, but the donor did not specify a fund or appropriation then the money will be deposited in the Special Deposit Fund. See SAM Section [19440](#).

If the money is donated but no fund, appropriation or specific purposes for it is stated by the donor, the money will be deposited in the State School Fund (Government Code Section [16302](#)).

The Director of Finance gives advance approval for the receipt of anticipated grants which will be included in the approved Governor's Budget. Unbudgeted grants must have the Department of Finance approval before acceptance. See SAM Section [0912](#).

## **SAM – PROPERTY ACCOUNTING**

### **INTERNALLY GENERATED INTANGIBLE ASSETS**

**8635**

(Revised 06/2011)

Intangible assets are considered internally generated if they are created or produced by the department or an entity contracted by the department, or if they are acquired from a third party but require more than minimal incremental effort on the part of the department to begin to achieve their expected level of service capacity.

Outlays incurred in the development of an internally generated intangible asset that are identifiable should be capitalized only upon the occurrence of all of the following:

- a. 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.
- b. Demonstration of the technical or technological feasibility for completing the project so that the intangible asset will provide its expected service capacity.
- c. 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.

Only outlays incurred subsequent to meeting the above criteria should be capitalized. Outlays incurred prior to meeting those criteria should be expensed as incurred.

### **INTERNALLY GENERATED COMPUTER SOFTWARE**

Computer software should be considered internally generated if it is developed in-house by department personnel or by a third-party contractor on behalf of the department.

Computer software is a type of intangible asset that is often internally generated. During the development stage, evaluate the expenditures to determine whether capitalization appears appropriate. Record the applicable capitalizable expenditures as Internally Generated Intangible Assets In Progress, General Ledger Account 2430.

Commercially available software purchased or licensed by a department that requires modification using “more than incremental effort” before being put into operation should be considered internally generated. For example, licensed financial accounting software that the department modifies to provide special reporting capabilities would be considered internally generated.

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## SAM – PROPERTY ACCOUNTING

(Continued)

### **INTERNALLY GENERATED INTANGIBLE ASSETS**

8635 (Cont. 1)

(Revised 06/2011)

**The activities involved in developing and installing internally generated computer software can be grouped into the following stages:**

**Preliminary Project Stage— Costs incurred during this stage are not capitalized.**

These costs include the following activities:

- a. Conceptual formulation of alternatives
- b. Evaluation of alternatives
- c. Determination of existence of needed technology
- d. Final selection of alternatives for development

**Application Development Stage—Costs incurred during this stage involve both internal and external costs incurred to develop the software and are capitalized.**

These costs include the following activities:

- a. Design of chosen path, including software configuration and software interfaces
- b. Coding
- c. Installation to hardware
- d. Testing, including the parallel processing phase
- e. Data conversion— only to the extent that the data is necessary to make the computer software operational.

**Post-Implementation/Operation Stage—Costs incurred during this stage are not capitalized.**

These costs include the following:

- a. Training
- b. Application maintenance
- c. Data conversion— data, such as historical, not necessary to make the software operational, but desirable from a management perspective.

For internally generated computer software, the criteria for internally generated intangible assets should be considered to be met only when *both* the following occur:

- a. The activities noted in the Preliminary Project Stage are completed.
- b. Management implicitly authorizes and commits to funding, at least currently in the case of a multiyear project, the software development project.

(Continued)

## **SAM – PROPERTY ACCOUNTING**

(Continued)

### **INTERNALLY GENERATED INTANGIBLE ASSETS**

**8635** (Cont. 2)

(Revised 06/2011)

Once the criteria for internally generated intangible assets have been met, outlays related to activities in the Application Development Stage should be capitalized. Capitalization of such outlays should cease no later than the point at which the computer software is substantially complete and operational. Outlays associated with activities in the Post-Implementation/Operation Stage should be expensed as incurred.

#### **INTERNALLY GENERATED MODIFICATION OF COMPUTER SOFTWARE**

Outlays associated with an internally generated modification of software that is already in operation should be capitalized when all internally generated software intangible assets criteria have been met if the modification results in any of the following:

- a. An increase in the functionality of the computer software, that is, the computer software is able to perform tasks that it was previously incapable of performing.
- b. An increase in the efficiency of the computer software, that is, an increase in the level of service provided by the computer software without the ability to perform additional tasks.
- c. An extension of the estimated useful life of the software.

If the modification does not result in any of the above outcomes, the modification should be considered maintenance, and the associated outlays should be expensed as incurred.

The following costs should be expensed as incurred:

- Internal and external costs during the preliminary project stage.
- Training during all project stages.
- Data conversion costs are normally considered part of the post implementation/operations stage unless they are determined to be necessary to make the computer software operational.
- Internal costs incurred for maintenance.
- General, administrative, and overhead costs.
- Maintenance costs in post implementation/operation stage.

(Continued)

## SAM – PROPERTY ACCOUNTING

(Continued)

### **INTERNALLY GENERATED INTANGIBLE ASSETS**

**8635** (Cont. 3)

(Revised 06/2011)

The following costs should be capitalized and amortized over the useful life:

- Internal and external costs incurred to develop internal use computer software during the application development stage.
- External direct costs of materials and services consumed in developing or obtaining software. Examples include fees to third parties for services provided to develop the software during the application development stage, costs incurred to obtain computer software from third parties, and travel expenses incurred by employees in their duties directly associated with developing software.
- Payroll and payroll-related costs such as benefits for employees who are directly associated with and who devote time to the computer software project, to the extent of the time spent directly on the project. Examples include coding and testing during the application development stage.

Methods for determining total cost should be retained as a record of the asset value.

### **ACCOUNTING FOR PROPERTY DISPOSITIONS**

**8640**

(Revised 03/2013)

#### General

Government Code sections [14673](#), [14674](#), and [14675](#) authorize the Director of General Services to approve the sale, exchange, or transfer between departments of personal property owned by the state if the sale, exchange, or transfer is in the best interest of the state. Before disposing of property, e.g. sale, transfer, trade-in, etc., departments must receive approval from the Department of General Services, Surplus Property and Reutilization.

Departments will prepare Property Survey Reports, [STD. 152](#), when disposal of property occurs. Departments will prepare Property Transfer Report, [STD. 158](#), when property is transferred to other state departments. Property listed on approved STD. 152 will be disposed of without delay, and items held in the suspense file more than 30 days will be reviewed by an agency official to determine why the disposition has not been completed.

## **SAM – PROPERTY ACCOUNTING**

### **SALE OF PROPERTY**

**8641**

(Revised 09/2010)

Accounting for property sales differs depending on the category of the owner fund. Property sold by governmental funds is removed from the Capital Assets Group of Accounts. Sale proceeds are recorded as miscellaneous revenue. One exception to this rule occurs when the sale is one step in a series of transactions which replaces the old asset with another asset. In this case, the sale proceeds are accounted as abatement. The replacement asset is recorded in the property account at cost with no reduction for the sale proceeds of the old asset.

Property owned by proprietary funds is depreciated up to the date of sale. Gains and losses are recognized to the extent that sales proceeds are more or less than the adjusted basis of the asset.

Property sold by fiduciary funds is accounted the same way as for governmental funds except property accountability is maintained within each fiduciary fund.

### **TRADE-IN OF PROPERTY**

**8642**

(Revised 03/2013)

Departments which plan to trade in property should first receive approval from the Department of General Services, Surplus Property and Reutilization (SP&R). See SAM section 8640, Accounting for Property Dispositions - General. The SP&R will determine whether the property being traded in should be acquired by another state department.

The property accounts will be reduced by the recorded cost of the property traded in. Replacement property will be recorded at the cost which would be required to be paid had a trade-in not occurred.

## SAM – PROPERTY ACCOUNTING

### LOST, STOLEN, OR DESTROYED PROPERTY

8643

(Revised 3/2014)

Whenever property is lost, stolen, or destroyed, departments will prepare a Property Survey Report form, [STD. 152](#). The department will adjust its property accounting records and retain the Property Survey Report as documentation. The report will contain:

1. A description of the events
2. Precautions to be taken to prevent repeat situations
3. A statement that the California Highway Patrol has been notified (Government Code Section [14613.7](#))

Losses of state property due to fraud or embezzlement will be reported to the Department of Finance (Finance), Office of State Audits and Evaluations and the [California State Auditor's Office](#). See SAM section [20080](#). Employees will be charged with any loss and damages to state property due to their negligence or unauthorized use.

Department management must promptly investigate incidents involving loss, damage, or misuse of information assets. Departments shall immediately notify the California Highway Patrol upon discovery of all Information Technology security incidents and computer related crimes. See SAM Sections [5340.1 through 5340.4](#).

Each department having ownership responsibility for information must complete a Security Incident Report. The Security Incident Report, part of the State Information Management Manual, is available at [http://www.cio.ca.gov/Government/IT\\_Policy/SIMM.html](http://www.cio.ca.gov/Government/IT_Policy/SIMM.html). The report must be submitted to the California Information Security Office within ten working days of the department's becoming aware of an incident involving the theft of such information, including information stolen in conjunction with the theft of a computer or data storage device.

## **SAM – PROPERTY ACCOUNTING**

### **ACCOUNTING AND CONTROL OF PROPERTY**

**8650**

(Revised 06/2013)

To maintain accountability of state assets, departments will maintain a record of state property, whether capitalized or not, in a property accounting or inventory system. This system may be automated or manual.

When property is acquired, departments will record the following information in the system:

1. Date acquired
2. Property description
3. Property identification number
4. Cost or other basis of valuation
5. Owner fund
6. Rate of depreciation (or depreciation schedule), if applicable.

The property information for each item of property constitutes the property register (i.e., an inventory listing of all departmental property). It shall include both capitalized and non-capitalized property. The capitalized segment shall serve as the subsidiary ledger for the Capital Assets Group of Accounts or for the capital assets of Proprietary and Fiduciary funds. Groups of similar property may be combined on one record, but for convenience in analyzing movements and transfers, a separate record for each property is usually desirable.

## **SAM – PROPERTY ACCOUNTING**

### **IDENTIFICATION AND TAGGING**

**8651**

(Revised 3/1996)

All state property will be tagged after acquisition. This includes properties which do not meet all of the State's capitalization requirements.

The purpose of tagging assets is to designate the assets as belonging to the State. Tags will be placed so that they are in plain sight and easy to read. To the extent possible, all property will be tagged on the assets' front, left-hand corner. The identification number will not be changed when property is moved within the department.

Types of Tags:

Adhesive Tags

This type of tag includes tags manufactured from thin-gauge metal, plastic, or other materials which are attached by use of an adhesive. These tags are for general purpose use and will be used whenever practical. All tags will be 1 1/2" x 3/4" as illustrated below. Tags will be numbered sequentially.

State of California  
Department of Finance  
1685

Metal Tags

Metal tags will contain the same information as adhesive tags. These tags will be used when adhesive type tags are impractical.

## SAM – PROPERTY ACCOUNTING

### PROPERTY INVENTORY

8652

(Revised 10/1988)

Departments will make a physical count of all property and reconcile the count with accounting records at least once every three years. Inventory counting does not need to be performed at one time for an entire department's property. Departments may take a rotating inventory according to an inventory calendar.

Departments are responsible for developing and carrying out an inventory plan which will include:

1. Inventory Taking:
  - a. Time schedule;
  - b. Count procedure (type of listing or count sheet to be used); and
  - c. Count assignment (statement of who will take the inventory at the times and locations scheduled).
2. Internal Control:
  - a. Inventories will not be exclusively controlled by the custodian of the property records;
  - b. Worksheets used to take inventory will be retained for audit and will show the date of inventory and the name of the inventory taker;
  - c. Inventory records will be retained in accordance with provisions of SAM Chapter [1600](#); and
  - d. The person in charge of the stockroom, if one is used, will not be in charge of maintaining the inventory records nor the taking of physical inventories;
3. Reporting and Approval of Inventory Adjustments;
  - a. Adjustment and reconciliation of the records will take place after the physical count has been completed; and
  - b. Review and approval of all inventory adjustments will be made by the department director or the director's designee. This review and approval will be documented on a Property Inventory Listing Adjustment Sheet ([Std. Form 157](#)).

## SAM – PROPERTY ACCOUNTING

### FINANCIAL STATEMENT REPORTING REQUIREMENTS

8660

(Revised 6/2014)

Capital assets will be included in year-end financial reports. Proprietary funds will report capital assets and accumulated depreciation/amortization in the funds themselves. Fiduciary funds will record capital assets (fully reserved) in the funds themselves. Departments which acquire property with resources of governmental funds will prepare a Statement of Changes in Capital Assets Group of Accounts – Report No. 18 and a Statement of Capital Assets Group of Accounts – Report No. 19.

1. The Statement of Changes in the Capital Assets Group of Accounts – Report No. 18 will contain the following for each asset type:
  - a. A listing of asset beginning balances in General Ledger Account Number order (e.g., land, building, computer software etc.).
  - b. A listing of asset additions.
  - c. A listing of asset deductions.
  - d. A listing of asset ending balances.

Refer to SAM section [7977 Illustration](#) for the required report format.

2. The Statement of Capital Assets Group of Accounts – Report No. 19 will contain the following:
  - a. A listing of assets, in General Ledger Account Number order (e.g., land, building, computer software etc.), for each asset type.
  - b. A listing of the investment in these capital assets by sources of the governmental funds used to acquire each.
  - c. A footnote that inventories of property were conducted in accordance with SAM section 8652.
  - d. A footnote that subsidiary capital assets records are in agreement with the general ledger control accounts.

Refer to SAM section [7978 Illustration](#) for required report format.

### STANDARD JOURNAL ENTRIES—PROPERTY

8670

(New 3/1986)

The tables in SAM Section 8671 and 8672 show the standard journal entries for governmental and proprietary funds. Special rules apply to fiduciary funds (contact [Fiscal Systems and Consulting Unit](#) for instructions).

**SAM – PROPERTY ACCOUNTING**

**ENTRIES FOR FUNDS USING THE CAPITAL ASSETS  
GROUP OF ACCOUNTS**  
(Revised 09/2010)

8671

| <b>Accounting Event</b>              | <b>Budgetary/Legal Basis:<br/>Governmental Cost Funds,<br/>Bond Funds, Federal Funds,<br/>and some trust funds.<br/>GAAP:<br/>Governmental Funds</b> | <b>Capital Assets Group of<br/>Accounts</b>  |
|--------------------------------------|--|--|
| A. Acquisition                       |  |  |
| 1a. Purchase                         | Dr. 9XXX Expenditure Account Cr.<br>3020 Claims Filed  | Dr. 23XX or 24XX Asset<br>Account Cr.<br><br>5200 XXXX Investment in<br>Capital Assets   |
| 1b. Purchase<br>with Trade-In        | Dr. 9XXX Expenditure Account Cr.<br>3020 Claims Filed<br><i>(net expenditure)</i>  | Dr. 23XX or 24XX Asset<br>Account Cr.<br><br>5200XXXX Investment in<br>Capital Assets<br><i>(full cash value of new<br/>asset)</i><br><br><i>and</i><br><br>Dr. 5200XXXX Investment<br>in Capital Assets Cr. 23XX<br><br><i>or</i><br><br>24XX Asset Account<br><i>(recorded cost of property<br/>traded in)</i> |
| 2. Lease/<br>Installment<br>Purchase | Dr. 9XXX Expenditure Account Cr.<br>3020 Claims Filed  | Dr. 23XX or 24XX Asset<br>Account Cr. 5200XXXX<br>Investment in Capital<br>Assets  |

(Continued)

**SAM – PROPERTY ACCOUNTING**

(Continued)

**ENTRIES FOR FUNDS USING THE CAPITAL ASSETS  
GROUP OF ACCOUNTS**

**8671 (Cont. 1)**

(Revised 09/2010)

|  |  |  |
|--|--|--|
| 3. Transfer  | No Entry   | Dr. 23XX or 24XX<br>Asset Account Cr.<br>5200XXX Investment in<br>Capital Assets   |
| 4. Gift  | No Entry   | Dr. 23XX or 24XX<br>Asset Account Cr.<br>5200XXXX Investment<br>in Capital Assets  |
| 5. Internally Build or<br>Generate   |  |  |
| a. Accumulation of<br>development<br>costs until<br>completed or in<br>use   | Dr. 9XXX Expenditure<br>Account Cr. 3020 Claims<br>Filed (net expenditure)                           | Dr. 2350 Construction<br>Work in Progress or<br>2430 Internally<br>Generated Intangible<br>Asset in Progress Cr.<br>5200XXXX Investment<br>in Capital Assets |
| b. Upon completion<br>or at the time the<br>asset is put in<br>use, move<br>accumulated<br>costs from in<br>progress account<br>to the actual<br>asset account | No Entry   | Dr. 23XX or 24XX<br>Asset Account Cr. 2350<br>Construction Work in<br>Progress or 2430<br>Internally Generated<br>Intangible Asset in<br>Progress            |
| B. Use   | No Entry   | No Entry   |
| C. Disposition   |  |  |
| 1. Sale  | Dr. 1110 General Cash Cr.<br>8000 Revenue or Cr. 9000<br>Appropriation Expenditure<br>(see SAM 8641) | Dr. 5200XXXX<br>Investment in Capital<br>Assets Cr. 23XX or<br>24XX Asset Account  |
| 2. Trade-Ins   | See 1b. Purchase with<br>Trade-In  | See 1b. Purchase with<br>Trade-In  |
| 3. Transfer  | No Entry   | Dr. 5200XXXX<br>Investment in Capital<br>Assets Cr. 23XX or<br>24XX Asset Account  |
| 4. Lost, Stolen or<br>Destroyed  | No Entry   | Dr. 5200XXXX<br>Investment in Capital<br>Assets Cr. 23XX or<br>24XX Asset Account  |

(Continued)

**SAM – PROPERTY ACCOUNTING**

**ENTRIES FOR FUNDS NOT USING THE CAPITAL ASSETS  
GROUP OF ACCOUNTS**  
(Revised 06/2011)

8672

| Accounting Event              | <b>Budgetary/Legal Basis:</b><br><b>Working Capital Revolving Fund, Public Service Enterprise Fund, and some trust funds (not federal)</b><br><b>GAAP:</b><br><b>Proprietary Funds and Fiduciary Funds</b>  |
|-------------------------------|---|
| A. Acquisitions               |   |
| 1a. Purchase                  | Dr. 23XX or 24XX Asset Account Cr. 3020 Claims Filed  |
| 1b. Purchase with Trade-In    | Dr. 23XX or 24XX Asset Account<br><i>(full cash value of new asset)</i><br><br>Dr. 23XX or 24XX Accumulated Depreciation/Amortization<br><i>(asset traded-in)</i><br><br>Dr. 9XXX Operating Expense Account<br><i>(if loss on trade-in)</i><br><br>Cr. 23XX or 24XX Asset Account<br><i>(asset traded-in)</i><br><br>Cr. 3020 Claims Filed<br><i>(net cash or boot)</i> |
| 2. Lease/Installment Purchase | Dr. 23XX or 24XX Asset Account<br>Cr. 4220 Lease-Purchase Contracts   |
| 3. Transfer                   | Contact Fiscal Systems and Consulting Unit  |
| 4. Gift                       | Contact Fiscal Systems and Consulting Unit  |

(Continued)

**SAM – PROPERTY ACCOUNTING**

**ENTRIES FOR FUNDS NOT USING THE CAPITAL ASSETS  
GROUP OF ACCOUNTS**

**8672 (Cont. 1)**

(Revised 06/2011)

|   |  |
|---|--|
| <p>5. Internally Build or Generate</p> <p>a. Accumulation of development cost until completed or in use</p> <p>b. Upon completion or at the time the asset is put in use, move accumulated costs from in progress account to the actual asset account</p> | <p>Dr. 2350 Construction Work in Progress<br/>or<br/>2430 Internally Generated Intangible Asset<br/>In Progress Cr. 3020 Claims Filed</p> <p>Dr. 23XX or 24XX Asset Account Cr. 2350<br/>Construction Work in Progress<br/>or<br/>2430 Internally Generated Intangible Asset<br/>in Progress</p> |
| <p>B. Use</p>   | <p>Dr. 9XXX Operating Expense Account Cr.<br/>23XX or 24XX Accumulated<br/>Depreciation/Amortization</p>   |
| <p>C. Disposition</p>   |  |
| <p>1. Sale</p>  | <p>Dr. 1110 Cash<br/>Dr. 23XX or 24XX Accumulated<br/>Depreciation/Amortization Dr. 9XXX<br/>Operating Expense Account<br/><i>(if loss on sale)</i><br/>Cr. 23XX or 24XX Asset Account<br/>or<br/>Cr. 8XXX Operating Revenue Account<br/><i>(if gain on sale)</i></p>                            |
| <p>2. Trade-In</p>  | <p>See 1b. Purchase with Trade-In</p>  |
| <p>3. Transfer</p>  | <p>Dr. 23XX or 24XX Accumulated<br/>Depreciation/Amortization Dr. 9XXX<br/>Operating Expense Account Cr. 23XX<br/>or<br/>24XX Asset Account</p>  |
| <p>4. Lost, Stolen, or Destroyed</p>  | <p>Dr. 23XX or 24XX Accumulated<br/>Depreciation/Amortization Dr. 9XXX<br/>Operating Expense Account Cr. 23XX<br/>or<br/>24XX Asset Account</p>  |