STATE OF ARKANSAS

DEPARTMENT OF FINANCE AND ADMINISTRATION

OFFICE OF ACCOUNTING

CAPITAL ASSET GUIDE

EFFECTIVE JULY 1, 2024

Preface

The purpose of the Capital Asset Guide (Guide) is to provide accountability over financial and administrative affairs of Arkansas State Government as it relates to capitalized assets. Ark. Code Ann. § 19-1-209 (a) requires the Secretary to publish such rules issued by him for compliance with the State's Public Finance Law. To meet this requirement, the Secretary has published this Guide. State property is the responsibility of the head of a department, board, commission, office, institution, authority, council, or system. The term "department" is used throughout this manual to denote any of these entities.

On July 1, 2001, the State was required to implement Governmental Accounting Standards Board (GASB) Statement No. 34 and No. 35, Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments and Public Colleges and Universities. Two key implementation challenges continue to be infrastructure reporting and accounting for depreciation.

The Secretary of the Department of Finance and Administration (Secretary) is required by the General Provisions of the Public Finance Law (Ark. Code Ann. § 19-1-207) to exercise supervision over the general accounting system of the State and of State departments. The Secretary also serves as the Chief Fiscal Officer of the State. To achieve this supervision, the Secretary is vested with the authority to make such reasonable rules that are necessary or desirable (Ark. Code Ann. 19-1-208).

The Guide resides on the Department of Finance and Administration's (DFA) website at this link[1] or can be obtained in print form upon request. Requests for printed copies of the Guide may be made by email to DFA – Office of Accounting (OA) at dfa-officeofaccounting@dfa.arkansas.gov or by writing to the DFA-OA at P.O. Box 3278, Little Rock, AR 72203.

All State of Arkansas departments must comply with this Guide unless otherwise exempted from particular provisions by specific legislation contained in the Arkansas Code or the Constitution of the State of Arkansas.

The Department of Finance and Administration adheres to the spirit and letter of the Freedom of Information Act of 1967 as stated in Ark. Code Ann. §§ 25-19-101 – 25-19-112 as amended.

[1] https://www.dfa.arkansas.gov/office/accounting/financial-management-guide/

Table of Contents

Introduction

This Guide was prepared to assist with implementing the capital asset reporting requirements. All On-line User Agencies and Service Bureau Agencies are required to record their asset inventory in the Arkansas Administrative Statewide Information System (AASIS) system based on established tracking and capitalization thresholds found herein. Included in this Guide are asset category definitions, capitalization/tracking thresholds, depreciation methodologies, and examples of expenditures for each class of assets. Additionally, guidelines for right-to-use leases, right-to-use Subscription Based IT Arrangements (SBITA), and construction in progress have been included.

All appendices are numbered with a “P” at the beginning and refer to a form, process, or link to other information. The number following the “P” identifies the Arkansas Code or rule to which the appendix applies (E.g., P1-19-4-905).

The purpose of the appendices is to provide pertinent material that is subject to frequent change, particularly items that are related to the State’s Financial Management System. To the extent possible, processes, particularly those demonstrating transactions in AASIS will be referred to in the text but located outside the body of this document as appendices with links to them. This will permit the ability to change and update procedures and processes to conform to changes in the system without making policy changes.

In addition to changes in material located outside of this document, references to computer system screen titles, transaction codes, and General Ledger accounts may be changed (updated) from time to time in the Guide as considered necessary. These changes are considered to be technical in nature.

P1-19-4-1503 Property Management Responsibility

It is the responsibility of the executive head of every State agency, board or commission, regardless of whether they participate in AASIS, to maintain a record of all property of the agency belonging to the State of Arkansas.

All new acquisitions shall be promptly added to the detail of capital assets and all items transferred out, lost, stolen, destroyed, or sold must be promptly removed from the detail of capital assets.

All user agencies and service bureau agencies shall record their capital assets in AASIS based on established tracking and capitalization thresholds located in the Capital Asset Guidelines. Detailed instructions on adding or removing capital assets are located under Asset Management on the AASIS website at https://www.dfa.arkansas.gov/office/information-services/aasis/.

Definitions

Capital Assets Defined

Capital asset – real, personal, or intangible property that has a value equal to or greater than the capitalization threshold (detailed below) and has an estimated life of greater than one year.

Capital assets include: land, land improvements, buildings, building improvements, right-to-use leases/SBITAs, construction in progress, equipment, infrastructure, easements, works of art, historical treasures, and any other tangible or intangible assets used in operations with an initial useful life in excess of one year.

Low Value Items

Although capital assets costing less than the capitalization/tracking threshold as detailed in the Capital Asset Guide are not considered capital assets for financial statement reporting purposes; the executive head of each state institution, department, board, commission or other state agency is not in any way relieved of the duty to account for all State property under his/her control regardless of the dollar value.

Assets valued from $500 - $2,499.99 will be considered Low Value High Risk Equipment while assets valued from $2,500 - $4,999.99 will be considered Low Value Equipment. Assets that are easily susceptible to pilferage shall be included in either the Low Value Equipment category or Low Value High Risk Equipment category, depending on their value. If an agency has a specialized inventory system that provides more functionality for their business processes than the AASIS fixed asset module for those assets under $2,500 that are easily pilferable, they may use their system for tracking these items instead of AASIS. These items could include laptop computers, guns, camera equipment, video equipment, tools, cell phones, handheld radios, binoculars, and any other items that are easily susceptible to theft or loss.

Items costing less than $2,500 individually that are part of or used with a group or set such as kitchen utensils, groups of chairs, or hospital linens should be capitalized in groups or sets at total cost as Low Value Collective items. A listing of the contents of the aforementioned sets or groups should be maintained by the agency for internal control and audit purposes.

Donated Items

A donation is defined as a voluntary non-exchange transaction entered into willingly by two or more parties. Both parties may be governments, or one party may be a non-governmental entity, including an individual. Equipment donated to State agencies shall become property of the State and shall be accounted for and disposed of according to the procedures set forth for property of the State.

Donors may set restrictions on the use and disposition of property donated. In such instances, the donor's guidelines shall be followed. Adequate records must be maintained to demonstrate the guidelines were followed.

All donated equipment shall be valued and placed on the agency's capital asset records at acquisition value (per GASB 72) of the donated property at the time the donation is received. Donated items determined to have no value for its manufactured purpose shall be treated as consumable material, (i.e. donated items used for parts or training aids).

PLEASE NOTE: A voluntary contribution of resources between State agencies is not a donation and should be accounted for as a transfer.

Federal Surplus Property Donees

The Federal Surplus Property (FSP) is administered by the Arkansas Department of Emergency Management. Generally, property received from FSP must be put into use within twelve months from the date acquired and used for eighteen months from the date the property is put into service. After the eighteen months, ownership of the property passes on to the entity. The property must be entered on the entity's inventory and primarily used in Arkansas. At the time the asset is received, if the asset meets the capitalization requirements of the State, the acquisition value of the asset should be debited and deferred revenue should be credited. At the end of the eighteen-month period, the revenue should be recognized. Consumable items would be recorded like other consumable donations.

PLEASE NOTE: Items that are to be held in trust for the federal government (ownership will never be transferred to the State) are not handled in the above manner. They should be handled as described in the following subsection, "Loaned Assets".

Confiscated Assets

Although not voluntary, confiscated assets awarded to an agency by judicial decision are accounted for in the same manner as donations.

Loaned Assets

Loaned assets are assets that are possessed but not owned by an agency. The agency may have fiduciary or administrative responsibility for such assets, but the agency only has temporary control of the asset and does not hold the asset's title or other ownership responsibility. These assets include but are not limited to; art collections owned by families, estates or others, as well as equipment on loan from the federal government. Such assets shall not be included in the agency's capital asset records.

Adequate supplemental records must be maintained by the agency on assets loaned (not donated) to the agency. The records must include an acquisition date, an adequate description of the property, location (if feasible), serial number (if applicable), and the entity that owns the asset. Such information may be required to be reported to the Department of Finance and Administration-Office of Accounting-Financial Reporting Section (DFA-OA-FRS) for inclusion in the Annual Comprehensive Financial Report (ACFR) Year-End Disclosure Package.

The assets shall be subject to all other property procedures of the agency including, but not limited to, inventory and lost/stolen procedures.

State Owned Motor Vehicles

Motor vehicles shall be recorded and maintained in the capital asset records of the State Financial Management System. Refer to R1-19-4-903 and the Department of Finance and Administration-Office of Administrative Services website Link for additional information on motor vehicles.

Capital Asset Additions

All additions are to be promptly added to the agency's detail of assets in the State Financial Management System. In the event that assets, which should have been added, are not included on AASIS prior to the end of the fiscal year, the agency shall create a post cap asset shell and remit a "Post Capitalization Form to DFA-OA-FRS. Please request form from DFA-OA-FRS Asset Specialist. Post Capitalization forms shall be signed by Agency CFO or Designee.

Capital Asset General Information

Capital Asset Classification

The State has invested in a wide variety of capital assets used in State operations. These assets are broadly classified as follows:

- Land
- Land Improvements,
- Easements,
- Buildings/Building Improvements
- Equipment,
- Equipment-Low Value,
- Equipment-Low Value Collective,
- Works of Art/Historical Treasures,
- Library Holdings,
- Other Tangible and Intangible Assets,
- Infrastructure,
- Assets Under Construction and
- Right-to-Use – Lease
    - Right-to-Use Land
    - Right-to-Use Land Improvements
    - Right-to-Use Building
    - Right-to-Use Equipment
    - Right-to-Use Infrastructure
    - Right-to-Use Other
- Right-to-Use – SBITA

The Asset Class is used to organize capital assets in the broad classifications detailed above. An essential function of the asset class is to establish a link between the asset master record and the related posting to the accounting general ledger. Therefore, assets purchased, constructed, or donated that meet or exceed the capitalization threshold or minimum-reporting requirements must be uniformly classified, utilizing the existing 4-digit Asset Class structure, eg., 2100 Low Value Equipment. Each Asset Class is further detailed into Class Codes. The Class Code breaks the Asset Class into groups of similar items. The Class Code also contains the recommended estimated useful life (expressed in years) for that group of assets.

Capital Asset Acquisition Cost

Capital assets shall be recorded and reported at their historical costs. Historical cost includes the vendor's invoice (less the value of any trade-in), plus sales tax, initial installation cost (excluding in-house labor), modifications, attachments, accessories, or apparatus necessary to make the asset usable and render it into service. Historical costs also include ancillary charges such as freight and transportation charges, site preparation costs, and professional fees. Capital assets donated should be recorded at acquisition value at the time of donation.

The costs of capital assets do not include capitalized interest.

PLEASE NOTE: The book value of assets recorded at historical costs should never be increased/decreased to reflect appraised value, insurance value, replacement cost, etc.

Capitalization Threshold

Standard capitalization thresholds for capitalizing assets for each major class of assets are as follows:

Asset Class	Threshold
Land	Capitalize All
Land Improvements	$ 50,000
Easements	Capitalize All
Buildings/Building Improvements	$ 100,000
Equipment	$ 5,000
Equipment – Low Value*	$ 2,500 - $ 4,999.99
Equipment – Low Value High Risk*	$ 500 - $ 2,499.99
Equipment – Low Value Collective**	(See note below)
Works of Art/Historical Treasures	$ 5,000
Works of Art/Historical Treasures – Low Value	$ 0 - $ 4,999.99
Library Holdings	Capitalize All
Other Tangible/Intangible Assets	$ 5,000
Other Tangible/Intangible Assets – Low Value*	$ 2,500 - $ 4,999.99
Internally Generated Software	$ 1,000,000
Infrastructure	$ 50,000
Assets under Construction	Based on Asset Class
Right-to-Use – Leases	$ 25,000
Right-to-Use – SBITAs	$ 1,000,000

* Assets that are easily susceptible to pilferage shall also be included in either Low Value Equipment or Low Value High Risk Equipment depending on value. If an agency has a specialized inventory system that provides more functionality for their business processes than the AASIS fixed asset module for those assets under $2,500 that are easily pilferable, they may use their system for tracking these items instead of AASIS. These items could include laptop computers, guns, camera equipment, video equipment, tools,

cell phones, handheld radios, binoculars, and any others that are easily susceptible to loss or theft. Other Tangible/Intangible Assets – Low Value does not include purchased software licenses.

* * Equipment – Low Value Collective consists of groupings of smaller like items that would not individually meet the equipment threshold of $2,500 per item required for the Equipment – Low Value class.

Capital Asset Donations

Governmental Accounting Standards Board Statement No. 33, Accounting and Financial Reporting for Non-Exchange Transactions, defines a donation as a voluntary non-exchange transaction entered into willingly by two or more parties. Both parties may be governments, such as the Federal Government, another state, a county or municipality, or one party may be a nongovernmental entity, including an individual. Donated assets require the use of non-budget relevant asset shells.

PLEASE NOTE: A voluntary contribution of resources between State agencies is not a donation, but should be reported as a transfer.

The timing of recognition of the donated asset and related revenue is outlined as follows:

- When an asset has been received and the eligibility requirements to receive the asset have been met, capital assets are debited and revenue is credited in the fund financial statements of an enterprise fund and the government wide financial statements for a governmental fund.
- When an asset has been received but the eligibility requirements to receive the asset have not been met, capital assets are debited and deferred revenue is credited in the fund financial statements of an enterprise fund and the government wide financial statements for a governmental fund.

Promises of Capital Asset Donations

Promises should be recognized as receivables and revenues (net of estimated uncollectible amounts) when all applicable eligibility requirements are met, provided that the promise is verifiable, the resources can be reasonably estimated, and collection is probable. When such circumstances exist, a receivable (net of estimated uncollectible amounts) is debited and revenue is credited in the fund financial statements of an enterprise fund and the government wide financial statements (Fund 7006101) for a governmental fund.

Sale of a Capital Asset Donation

Governmental fund statements report financial resources which do not include capital assets. However, in instances when a government receives a gift of a capital asset that it intends to sell, the donation shall be reported as revenue on the governmental fund statements if the asset is either: sold prior to the end of the fiscal period or prior to the issuance of the financial statements and the proceeds of the sale are considered available (collected soon enough to pay liabilities of the current period). If the proceeds of the sale are not considered available, the receivable should be offset by a deferred inflow of resources on the fund financial statements.

Depreciating Capital Assets

Depreciation is the method by which the cost of an asset is systematically allocated over the asset's estimated useful life. It is intended to estimate the cost of using the asset. Capital assets should be depreciated over their estimated useful lives unless they are inexhaustible. Inexhaustible assets are assets that generally cannot be exhausted, such as land, or have an economic benefit or service potential that is used up slowly, and their estimated useful lives are extraordinarily long or have a cultural, aesthetic, or historical value, and efforts are applied to protect and preserve these assets in a manner greater than that for similar assets without such cultural, aesthetic, or historical value, such as works of art.

The State uses estimated useful lives as recommended by the Government Financial Officers Association (GFOA). These recommended lives are included with the class code descriptions. Although class code descriptions contain an estimated useful life (expressed in years) of the asset, the estimated useful life of the asset must be entered on the depreciation areas tab when creating a new asset record. Agencies wishing to use a different estimated life based on individual experience, must request approval from the Department of Finance and Administration – Office of Accounting – Financial Reporting Section (DFA-OA-FRS). Any substitution request must include a description of the asset and an explanation for the need to change the estimated useful life. Upon approval of the alternative estimated useful life, the DFA-OA-FRS will issue written authorization for the agency to change the asset's estimated useful life. The documentation shall be maintained by the agency until the asset is retired.

Depreciation data will be calculated using the straight-line depreciation method and stored by the Financial Management System for each eligible asset. Salvage value will not be considered in the calculation of depreciation expense. Accumulated depreciation will be summarized and posted to the accounting general ledger.

Assets Acquired by the Exchange of Other Assets

Similar assets – When recording an exchange of similar assets, agencies must use a book value basis for the assets surrendered or acquired.

- When assets are exchanged and no monetary consideration is paid or received, the cost of the asset acquired is recorded at the book value of the asset surrendered.
- Where monetary consideration is given, the new asset must be recorded at the sum of the cash paid plus the book value of the asset surrendered.

Dissimilar assets – When recording an exchange of dissimilar assets, agencies must:

- Record the value of the asset being traded and the resulting transaction for acquiring the new asset, using the fair value of the asset being traded.
- If cash is used to purchase the asset, agencies must record the transaction for the new asset as cash paid plus the fair value of the asset surrendered.

Asset Related Error Corrections

An asset related expense error correction is a journal entry that reclassifies expenses paid with the wrong fund, funds center (appropriation), commitment item (character code), general ledger account, WBS element, and/or internal order. In the instance where an asset was incorrectly expensed, an asset shell must be set up before an asset related error correction can be accomplished. Please request form from DFA-OA-FRS Asset Specialist. The Asset Expense Error Correction form should be used for the following reasons:

- If an asset was incorrectly recorded as an expenditure
- If an expenditure was incorrectly recorded as an asset
- If an asset was recorded with a wrong internal order or WBS element
- If an asset is paid from the wrong fund or cost center

After an asset shell is created, the agency will submit the completed asset related expense error correction form to the DFA-OA-FRS Asset Specialist. An asset related expense error correction cannot be utilized on expenses that accrued from a previous fiscal year.

Capital Asset Categories

Land – CI 512:00:11

Land is defined as the surface or crust of the earth, which may be used to support structures or grow crops, grass, shrubs, and trees. Land is characterized as having an inexhaustible life. All expenditures made to acquire land and to ready it for its intended use should be considered as part of the land cost.

Examples of Expenditures to be Capitalized as Land

- Purchase price or, if donated, acquisition value at time of donation
- Commissions
- Professional fees (title searches, architect, legal, engineering, appraisal surveying, environmental assessments, etc.)
- Permanent landscaping such as land clearing, excavation, fill, grading, drainage (includes movement of earth in preparation for water impoundment)
- Demolition of existing buildings and improvements (less salvage)
- Removal, relocation, or reconstruction of property of others on the land so that the land may be used differently (railroad, telephone, and power lines)
- Accrued and unpaid taxes at date of purchase
- Other costs incurred in acquiring the land
- Water wells (includes initial cost for drilling, the pump, and its casing)
- Right-of-way.

Land Improvements – CI 512:00:11

Land improvements are defined as attachments to the land that have limited lives and therefore are recorded separately and are depreciable.

Examples of Expenditures to be Capitalized as Land Improvements

- Fencing and gates
- Landscaping of temporary nature
- Parking lots, driveways, parking barriers, roadways
- Outside sprinkler systems
- Recreation areas and athletic fields (including bleachers)
- Golf courses
- Paths and trails
- Septic systems
- Signage
- Swimming pools, tennis courts
- Fountains
- Plazas, pavilions
- Retaining walls
- Lighting systems
- Water impoundment structures or attachments (dam, liner, other water control structures)

Buildings, Building Improvements

A building is defined as a structure that is permanently attached to the land, has a roof, is partially or completely enclosed by walls, and is not intended to be mobile.

Building improvements are defined as capital events that increase the value of a building, materially extend the useful life of a building or both. A building improvement should be capitalized as a sub-asset of the building and recorded as an addition of value to the existing building if the expenditure for the improvement is at the capitalization threshold and the expenditure increases the life or value of the building by 25 percent of the original life period or cost.

***Examples of Expenditures to be Capitalized as Buildings* – CI 512:00:11**

<u>PURCHASED BUILDINGS</u>

- Original purchase price
- Expenses for remodeling, reconditioning, or altering a purchased building to make it ready to use for the purpose for which it was acquired
- Environmental compliance (i.e., asbestos abatement)
- Professional fees (sales commission, legal, architect, inspection, appraisal, title search, etc.).
- Payment of unpaid or accrued taxes on the building at the date of purchase
- Cancellation or buyout of existing leases on the building

- Other costs required to place or render the asset into operation

CONSTRUCTED BUILDINGS

- Completed project costs
- Cost of excavation or grading or filling of land for a specific building
- Expenses incurred for the preparation of plans, specifications, blueprints, etc.
- Cost of building permits
- Professional fees (architect, engineer, management fees for design and supervision, legal)
- Costs of temporary buildings used during and for the construction
- Unanticipated costs such as rock blasting, piling, or relocation of the channel of an underground stream

***Examples of Expenditures to be Capitalized as Building Improvements* – CI 512:00:11**

- Conversion of attics, basements, etc., to usable office, clinic, research, or classroom space
- 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 wall or floor 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 windows or door frames, upgrading of windows or doors, built-in closets 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.
- 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)
- Permanently attached fixtures or machinery that cannot be removed without impairing the use of the building
- Additions to buildings (expansions, extensions, or enlargements)
- Other costs associated with the above improvements

PLEASE NOTE: For a replacement to be capitalized, it must be a part of a major repair or rehabilitation project, which increases the value, and/or useful life of the building by 25% of the original cost or life. A replacement may also be capitalized if the new item or part significantly improves the quality and or value of the asset as compared to the old item or part such as replacement of an old shingle roof with a new fireproof tile roof (**CI 11**). Replacement or restoration to original utility level would not qualify (**CI 02**). Determinations must be made on a case-by-case basis.

Building Maintenance Expense – CI 502:00:02

The following are examples of expenditures not to be capitalized as building improvements. Instead, these items should be recorded as repair and maintenance expense:

- 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
- Exterior decoration, such as detachable awnings, uncovered porches, decorative fences, etc.
- Maintenance-type interior renovation, such as repainting, touch-up plastering, replacement of carpet, tile, or panel sections; sink and fixture refinishing, etc.
- Maintenance-type exterior renovation such as repainting, replacement of deteriorated siding, roof, or masonry sections
- 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

Easements – CI 512:00:11

An easement is defined as an interest in land owned by another that entitles its holder to a specific limited use or enjoyment (right to use the land). Easements may have an inexhaustible life or a fixed term life. Inexhaustible easements would not be depreciated. Fixed term easements would be depreciated over the term of the agreement.

Equipment – CI 512:00:11

Equipment is defined as fixed or movable tangible assets to be used for operations. Improvements or additions to existing equipment that constitute a capital outlay or increase the value or life of the asset by 25 percent of the original cost or life should be capitalized and recorded as sub-asset of the existing asset.

PLEASE NOTE: Costs of extended warranties and/or maintenance agreements which can be separately identified from the cost of the equipment should not be capitalized.

Equipment-Low Value – CI 502:00:02

The equipment – low value asset class will be utilized for tracking equipment with a useful life in excess of one year and an initial value of at least $2,500 but not more than $4,999.99. Assets under $2,500.00 may be expensed unless the asset is easily susceptible to pilferage and those items must be recorded in the Equipment – Low Value High Risk category. This asset class is only used for tracking purposes and not for the capitalization of equipment.

Equipment-Low Value Collective – CI 502:00:02

Equipment – low value collective items are groups of like items of equipment or assets that may be secured and tracked due to the nature of the items. They also have a useful life in excess of one year and have an initial individual value under the Equipment – Low Value threshold of $2,500. Individual assets under $2,500 may be expensed unless the agency desires to track the existence and location of the property. This asset class is only used for tracking purposes and not for the capitalization of equipment.

Jointly Funded Equipment

Equipment paid for jointly by the State and other governmental entities should be capitalized by the entity responsible for future maintenance.

Examples of Expenditures to be Capitalized as Equipment

- Original contract or invoice price
- Freight charges
- Import duties
- Handling and storage charges
- In-transit insurance charges
- Sales, use, and other taxes imposed on the acquisition
- Installation charges
- Charges for testing and preparation for use
- Costs of reconditioning used items when purchased
- Parts and labor associated with the construction of equipment

Works of Art and Historical Treasures – CI 512:00:11

Works of art and historical treasures are defined as collections or individual items of significance that are owned by a State agency which are not held for financial gain, but rather for public exhibition, education, or research in furtherance of public service. Collections or individual items that are protected and cared for or preserved and subject to an organizational policy that requires the proceeds from sales of collection items to be used to acquire other items for collections are considered inexhaustible. As such, works of art and historical treasures are not depreciated. Works of art and historical treasures that do not qualify as inexhaustible are depreciated over their useful life.

Example Expenditures Capitalized as Works of Art & Historical Treasures

- Collection of rare books, manuscripts
- Maps, documents, and recordings
- Works of art such as paintings, sculptures, and designs
- Artifacts, memorabilia, exhibits
- Unique or significant structures

Low Value Works of Art – CI 502:00:02

The low value works of art asset class will be utilized for tracking works of art with an initial value of no more than $4,999.99. This asset class is only used for tracking purposes.

Library Holdings – CI 512:00:11

Library holdings are generally defined as collections of books and reference materials. A library book is a literary composition bound into a separate volume and identifiable as a separate copyrighted unit. Library reference materials are information sources other than books which include journals, periodicals, microforms, audio/visual media, computer-based information, manuscripts, maps, documents, and similar items which provide information essential to the learning process or which enhance the quality of academic, professional, or research libraries.

A professional, academic or research library has one or more of the following characteristics:

- Internal controls are in place in lieu of central property management
- Information is housed in a centralized location
- Physical security measures are in place to protect the assets
- Checkout procedures and policies exist and are used
- Individual item costs and supplemental information is generally contained in a supplemental database
- Volumes assigned to libraries are typically available to employees, students, and other individuals for checkout or use
- Existence of the library helps the entity fulfill its mission
- The value is material to the organization
- Equipment assigned to libraries typically remains under central security for on-premises use

Professional, academic, and research library books and materials are considered inexhaustible assets and should not be depreciated. Changes in value for professional, academic or research libraries however may be reported on a composite basis by making net adjustments to total value to reflect increase or decrease in total value. Net adjustments shall be made at least once annually before the close of the fiscal year.

Books, periodicals, and other materials purchased but not used in a library should be expensed unless they meet the $2,500 capitalization threshold.

Examples of Expenditures to be Capitalized as Library Books and Materials:

- Invoice price
- Freight charges
- Handling
- In-transit insurance charges
- Binding
- Electronic access charges
- Reproduction and like costs required to place assets in service, with the exception of library salaries

Intangible Assets – CI 512:00:11

Intangible assets are defined as assets that have no physical characteristics but are of value because of the advantages or exclusive privileges and rights they provide to the State. Intangible assets generally arise from exclusive privileges granted by governmental authority or by legal contract, such as patents, copyrights, franchises, trademarks and trade names, and leases. Internal-use computer software should be capitalized as an intangible capital asset and amortized over its anticipated useful life. Capitalization of computer software includes software license fees if the total dollar amount of the fee divided by the number licenses issued meets the criteria to capitalize the purchase. Internally generated intangible assets should be capitalized. Internally generated is defined as an asset that is created or produced by the government or an entity contracted by the government or it is acquired from a third party but requires more than minimal incremental effort on the part of the government to begin to achieve the expected service capacity. Commercially available software should be considered internally generated if it has been modified using more than minimal incremental effort before being put into operation. For internally developed software, only those costs incurred during the development stage would be capitalized (e.g. activities involving the design of the software, coding, installing, and testing). Training and maintenance will not be included as part of the capitalized cost.

GASB No. 51, Accounting and Financial Reporting for Intangible Assets which was effective July 1, 2010, required retroactive reporting for all intangible assets not previously recorded except for those considered to have indefinite useful lives or those that would be considered internally generated.

Infrastructure – CI 512:00:11

Infrastructure is defined as assets that are long-lived capital assets that are stationary in nature and normally preserved for a significantly greater number of years than most capital assets. Infrastructure assets are usually part of a larger system of assets, such as roads, bridges, tunnels, water and sewer systems.

As with buildings and equipment improvements, additions to existing infrastructure that constitute a capital outlay or increase the value or life of the asset by 25 percent of the original cost or life or increase the asset's capacity or efficiency should be capitalized and recorded as a sub-asset of the existing asset. Additionally, costs to preserve an infrastructure asset to extend the useful life of an asset beyond its original estimated useful life, but do not increase the capacity or efficiency of the asset, should be capitalized and recorded as a sub-asset of the existing asset.

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

Jointly Funded Infrastructure

Infrastructure paid for jointly by the State and other governmental entities should be capitalized by the entity responsible for future maintenance.

Examples of Expenditures to be Capitalized as Infrastructure:

- Highway and rest areas
- Roads, streets, curbs, gutters, sidewalks, fire hydrants
- Bridges, railroads, trestles
- Canals, waterways, wharf, docks, sea walls, bulkheads, boardwalks
- Dam, drainage facility
- Radio or television transmitting tower
- Electric, water, and gas (main lines and distribution lines, tunnels)
- Fiber optic and telephone distribution systems (between buildings)
- Light system (traffic, outdoor, street, etc.)
- Airport runway/strip/taxi area/apron

Assets under Construction – CI 502:00:02, 506:00:10, 512:00:11

Assets under Construction (AUC) are assets that have not yet been placed in service and are not depreciated for full accrual accounting. However, the cost associated to these assets must be reflected as capital outlay for modified accrual accounting. The AUC asset class allows this accounting representation.

Asset under construction reflects the economic construction activity status of equipment, buildings and other structures, infrastructure (highways, energy distribution systems, pipelines, etc.), additions, alterations, reconstruction, and installation which are incomplete. Assets under construction would also include internally generated software in development and SBITA's that are in the implementation stage.

Capitalized construction costs should be accumulated in WBS elements and settled to the asset under construction at the end of each fiscal year or the completion of the project, whichever comes first.

Depreciation/amortization shall not be recorded because an asset under construction has not been complete or has not been put into service. The asset under construction should be capitalized to its appropriate capital asset category upon the earlier occurrence of substantial completion, occupancy, or when the asset is placed into service. For more information and instructions see AASIS User Manual (PRJACT II 01) Project Accounting for Assets Under Construction and Major Maintenance Link. If you have any trouble locating instructions, please contact the DFA-OA-FRS Asset Specialist.

Right-to-Use – Leases – CI 502:00:02, 506:00:10

Definition of Lease for Financial Reporting Purposes

GASB Statement 87, as amended, defines a lease as "a contract that conveys control of the right to use another entity's nonfinancial asset (the underlying asset) as specified in the contract for a period of time in an exchange or exchange-like transaction." The contract does not need to be explicitly identified as a lease to meet this definition. The defining factor is whether the contract conveys the right use the underlying asset. Whether the contract conveys this right to use is determined by two factors:

- Whether the lessee has the right to obtain the present service capacity of the underlying asset.
- Whether the lessee has the right to determine how the underlying asset will be used.

Examples of nonfinancial assets are tangible assets such as land, buildings, vehicles, and equipment.

Recognition Principles

Whether a lease liability is recognized for financial reporting purposes depends on the length of the maximum lease term.

The maximum lease term is the period of time that the lessee has a noncancelable right to use the underlying asset of the contract (noncancelable period) plus time periods in which:

- The option to extend the lease by either the lessee or lessor is reasonably certain, unless both parties must agree to extend the lease.
- The option to terminate the lease by either the lessee or lessor with permission of the other party is reasonably certain.

The sum of these time periods is the maximum lease term. A fiscal funding or cancellation clause would not affect the determination of the maximum lease term unless it is reasonably certain to be exercised.

Accounting for Leases

The process of determining the maximum lease term begins with a review of the contract. The agency should provide a copy of any potential GASB 87 lease to the DFA-OA-FRS.

The Contract Lifecycle Management (CLM) Specialist in the Financial Reporting Section will complete a Lease Inventory Form to determine if the lease should be capitalized. The result will be provided to the agency and, if approved, the CLM Specialist will load information to the CLM module in AASIS.

All entries for the lease will be posted by the CLM module to Fund 7006102.

Lease Modifications

A lease contract may be amended while in effect. The agency will provide a copy of the modification to the Financial Reporting Section. If the lease should be modified, the CLM Specialist will provide a change form to the agency for approval and the CLM Specialist will load the information to CLM.

Right-to-Use – SBITA – CI 502:00:02, 506:00:10

Definition of SBITAs for Financial Reporting Purposes

GASB Statement 96, as amended, defines a SBITA "as a contract that conveys control of the right to use another entity's (a SBITA vendor's) IT software, alone or in combination with tangible capital assets (the underlying IT assets), as specified in the contract for a period of time in an exchange or exchange-like transaction." The contract does not need to be explicitly identified as a SBITA to meet this definition. The defining factor is whether the contract conveys the right use the underlying IT assets. Whether the contract conveys this right to use is determined by two factors:

- Whether the government has the right to obtain the present service capacity from use of the underlying IT assets as specified in the contract.
- Whether the government has the right to determine the nature and manner of use of the underlying IT assets as specified in the contract.

Recognition Principles

Whether a SBITA liability is recognized for financial reporting purposes depends on the length of the maximum SBITA term.

The maximum SBITA term is the period of time that the government has a noncancelable right to use the underlying asset of the contract (noncancelable period) plus time periods in which:

- The option to extend the SBITA by either the government or SBITA vendor is reasonably certain, based on all relevant factors, that the government or SBITA vendor will exercise that option.
- The option to terminate the lease by either the government or SBITA vendor with permission of the other party is reasonably certain, based on all relevant factors that the government or SBITA vendor will not exercise that option.

The sum of these time periods is the maximum SBITA term. A fiscal funding or cancellation clause would not affect the determination of the maximum SBITA term unless it is reasonably certain to be exercised.

Accounting for SBITAs

The process of determining the maximum SBITA term begins with a review of the contract. The agency should provide a copy of the contract to the Financial Reporting Section. The CLM Specialist in the Financial Reporting Section will complete the SBITA Inventory Form to determine if the SBITA should be capitalized. The result will be provided to the agency, and if approved, the CLM Specialist will load information in the Form to the CLM module in AASIS.

All entries for the SBITA will be posted by the CLM module to Fund 7006102.

SBITA Modifications

A SBITA contract may be amended while in effect. The agency will provide a copy of the modification to the Financial Reporting Section. If the SBITA should be modified, the CLM Specialist will provide a change form to the agency for approval and the CLM Specialist will load the information to CLM.

Right-to-Use – PPP and APA – CI 502:00:02, 506:00:10

Definitions of Public-Private and Public-Public Partnerships (PPPs) and Availability Payment Arrangements (APAs) for Financial Reporting Purposes

GASB Statement 94, defines a PPP as “an arrangement in which a government (the transferor) contracts with an operator to provide public services by conveying control of the right to operate or use a nonfinancial asset, such as infrastructure or other capital asset, the underlying PPP asset, for a period of time in an exchange or exchange-like transaction."

- Some PPPs are service concession arrangements (SCAs). An SCA is a PPP arrangement between a transferor and an operator in which all of the following criteria are met:
  - The transferor conveys to the operator the right and related obligation to provide public services through the use and operation of an underlying PPP asset in exchange for significant consideration, such as an up-front payment, installment payments, a new facility, or improvements to an existing facility.
  - The operator collects and is compensated by fees from third parties.

GASB Statement 94, defines an APA as "an arrangement in which a government compensates an operator for activities that may include designing, constructing, financing, maintaining, or operating an underlying nonfinancial asset for a period of time in an exchange or exchange-like transaction. The payments by the government are based entirely on the asset's availability for use rather than on tolls, fees, or similar revenues or other measures of demand. Availability for use may be based on specified criteria such as the physical condition of the asset, construction milestones, or the achievement of certain availability measures. In an APA, a government procures a capital asset or service, rather than receiving compensation to allow another entity to provide public services. An APA may be similar to a PPP that includes a variable payment provision; however, in contrast to a PPP, the other party to an APA is receiving compensation from the government based entirely on availability to perform and not the actual performance of a public service.

Recognition Principles

Whether a PPP liability is recognized for financial reporting purposes depends on the length of the maximum PPP term.

The maximum PPP term is the period of time that the government has a noncancelable right to use the underlying asset of the contract (noncancelable period) plus time periods in which:

- The option to extend the PPP by either the transferor or operator is reasonably certain, based on all relevant factors, that the transferor or operator will exercise that option.
- The option to terminate the PPP by either the transferor or operator with permission of the other party is reasonably certain, based on all relevant factors that the transferor or operator will not exercise that option.

The sum of these time periods is the maximum PPP term. A fiscal funding or cancellation clause would not affect the determination of the maximum PPP term unless it is reasonably certain to be exercised.

Accounting for PPPs and APAs

The PPP or APA and or its components may be accounted for as capital assets, expenses, a GASB 87 lease as defined above, as well as installment receivables and deferred inflows of resources.

The process of determining the maximum PPP or APA term as well as the correct classifications begins with a review of the contract. The agency should submit a copy of the contract to the DFA-OA-FRS. The

CLM Specialist in the Financial Reporting Section will complete the PPP Inventory Form to determine if the PPP should be capitalized. The result will be provided to the agency and, if approved, the CLM Specialist will load information to the CLM module in AASIS.

All entries for the PPP will be posted by the CLM module to Fund 7006102.