

<b>OREGON ACCOUNTING MANUAL</b>		Number 15.60.10.PR
Oregon Department of Administrative Services State Controller's Division		Effective Date July 1, 2005
Chapter	<b>Accounting and Financial Reporting</b>	.1 OF .8
Part	<b>Capital Assets</b>	
Section	<b>Classification and Capitalization</b>	Approval  Signature on file at SCD

### Classification

- .101 **Capital assets** are major tangible or intangible assets that benefit an agency more than a single fiscal year. If assets meet the definition of capital assets, but are held primarily for resale, they are not considered capital assets. Agencies must classify capital assets, including **infrastructure**, in the applicable general ledger account based on the nature of the asset. Examples of capital assets include land, land improvements, easements, buildings, vehicles, infrastructure, and works of art and historical treasures.
- .102 Infrastructure assets are long-lived capital assets that normally are stationary in nature and normally can be preserved for a significantly greater number of years than most capital assets. Examples of infrastructure assets include roads, bridges, tunnels, water and sewer systems, and lighting systems. Buildings are not considered infrastructure assets, except buildings that are an ancillary part of a network of infrastructure assets, such as road maintenance shops associated with roadway systems.
- .103 Accounts related to capital assets reported in the State's **Comprehensive Annual Financial Report (CAFR)** include:
- Land (not depreciated)
  - Construction in Progress (not depreciated)
  - Works of Art and Historical Treasures (not depreciated)
  - Buildings, Property and Equipment
  - Infrastructure
  - Accumulated Depreciation and Amortization
  - Invested in Capital Assets, Net of Related Debt
- .104 The general ledger accounts included within these reporting categories can be found on the D31 profile in **R\*STARS**. Agencies must use the most appropriate account to classify their capital assets using the guidance and definitions provided in this procedure. Asset accounts are offset by accounts for Invested in Capital Assets and/or Accumulated Depreciation and Amortization.
- .105 **Land:** Reflects the carrying value of land owned by the State. Land includes easements, right of ways, and non-depreciable land improvements. If land is purchased, this account includes the purchase price and costs incurred to get the land in condition for its intended use such as legal fees, title fees, surveying costs, appraisal and negotiation charges, site preparation and excavation costs (clearing, filling, and leveling) and similar costs. If land is purchased as a building site, demolition costs to remove existing buildings are added to the cost of the land. Land purchased for resale is accounted for as inventory. If land is acquired by donation, the account reflects its fair market value at the time of donation. Land is not depreciated.

- .106 Construction in Progress: Represents temporary capitalization of labor, materials, and overhead costs of a construction or capital improvement project undertaken but not yet completed. When the project is complete (i.e., asset is ready for its intended use), capitalized costs are reclassified from Construction in Progress to the appropriate capital asset class (e.g., Buildings and Building Improvements). Depreciation on capital assets does not begin until the asset is placed in service.
- .107 Works of Art and Historical Treasures (generally): Works of art and historical artifacts held as individual items or in a collection. Examples include statues, paintings, sculptures, and historical documents or artifacts. These items may or may not be considered depreciable. If items are depreciable, see paragraph .110 below.
- .108 Collections of works of art and historical treasures meet the definition of a capital asset and normally should be reported in the financial statements. However, agencies are not required to capitalize collections if they meet all of the following criteria:
- a. The collection is held for reasons other than financial gain (i.e., public exhibition, education, or research as a public service, rather than financial gain).
  - b. The collection is protected, kept unencumbered, cared for, and preserved.
  - c. The collection is subject to an organizational policy requiring that the proceeds from sales of collection items be used to acquire other items for collections.
- .109 Works of Art and Historical Treasures – not depreciated: This classification is used to report works of art and historical treasures that are inexhaustible; that is, their economic benefit or service potential is used up so slowly that their estimated useful lives are extraordinarily long.
- .110 Buildings, Property and Equipment: Includes the following general ledger accounts:

Works of Art and Historical Treasures (*depreciable*) – Art or historical treasures, held as individual items or in a collection, that are exhaustible, such as exhibits whose useful lives are diminished by display, educational, or research purposes. As a practical matter, artwork required by the “one percent for arts” provision should be included in the general ledger account Buildings and Building Improvements.

Equipment and Machinery – Tangible property of a permanent nature (other than land, buildings, and improvements to land or buildings) used in agency operations. Examples include machinery, tools, and equipment. Data processing hardware is not included in this asset class.

Motor Vehicles – Cars, vans, trucks or other motorized vehicles used in agency operations.

Data Processing Software – Computer software programs either purchased or developed for internal use. See [OAM 15.60.40](#) on Computer Software.

Data Processing Hardware – Computers and peripheral equipment such as modems and servers.

Buildings and Building Improvements – Permanent structures and improvements to structures normally used to house people or property. Fixtures attached to and forming a permanent part of a building are included in the cost. The cost to improve existing buildings, such as an enlargement, must be capitalized. However, the cost of normal repairs must not be capitalized; repairs must be expensed. An addition or improvement, unlike a repair, either enhances a building’s functionality (effectiveness or efficiency), or it extends a building’s expected useful life. When constructing a new building on land owned by the agency, the cost of demolishing existing buildings is included in the cost of the new building. The value of land associated with buildings is reported separately as land. Normally, this account does not include outbuildings related to airports, buildings associated with roadways, or buildings that are considered historical treasures.

Land Improvements – Permanent improvements, other than buildings, that add value to land. Examples include fences, gates, retaining walls, pedestrian bridges, sidewalks, paved paths, parking lots, lighting, irrigation systems, septic systems, swimming pools, fountains, signage, kiosks, and landscaping.

Leasehold Improvements – Permanent additions or improvements made to a leased asset that revert to the owner of the property upon termination of the lease.

Capital Leased Property – A lease of real or personal property that meets the criteria for capitalizing an asset and recording a liability for the obligation. See [OAM 15.60.30](#).

.111 Infrastructure: Includes the following general ledger accounts:

State Highways – All state highway roads maintained by an agency including interstate highways, principle arterials, minor arterials, major collectors and minor collectors. Cost includes construction of the road, associated lighting, signage, traffic control devices, pipes, wires, guard rails, culverts, drainage systems, and retaining walls. Maintenance buildings (such as sand sheds) and rest areas are allowed to be included in this account when they are considered a subsidiary part of state highways.

Other Roads – Any graveled or paved section of land maintained by an agency and used by motorized vehicles, not associated with state highways. Cost includes construction of the road, associated lighting, signage, traffic control devices, pipes, wires, guard rails, culverts, drainage systems, and retaining walls. Maintenance or other buildings associated with roadways may be included in this account.

Tunnels and Bridges – Tunnels, bridges, trestles, and other similar items needed for the construction of roadway systems.

Airports – Any airport maintained by an agency. An airport includes elements such as air traffic control structures, hangars, taxiways, runways, fueling stations, outbuildings, helicopter landing pads, and lighting.

Utility Systems – Systems designed to deliver facility services including, for example, sanitary sewer collection systems (not septic systems), fiber optics systems, water distribution systems, electrical distribution systems, and vehicle fuel distribution systems. These systems are distinguished from land improvements in that they are not an integral part of the operation of a single building. A septic system, for example, that is an integral part of the operation of a single building would be classified as a land improvement, rather than as infrastructure.

Docks, Dikes and Dams – Infrastructure including docks, piers, dikes, levies, seawalls, dams and structures associated with dams, wharves, and other similar assets.

## Capitalization

.112 Criteria for Capitalization. Capital assets with a cost of \$5,000 or more and a useful life of at least one year must be capitalized and reported in the agency's accounting records. Capital assets purchased with resources from [proprietary funds](#) or [fiduciary funds](#) (or donated to those funds) are accounted for within the accounts of that fund. Capital assets purchased with resources from [governmental funds](#) (or donated to governmental funds) are considered general capital assets and are accounted for in the [government-wide reporting fund](#).

.113 Tangible or intangible property with a cost of less than \$5,000 is considered a [non-capital asset](#) and must not be capitalized. Non-capital assets must be expensed in the period they are purchased. An agency may, at its discretion, elect to inventory (not capitalize) property with a cost of less than \$5,000 for proper asset management. This listing of inventory would not be reflected in the agency's accounting records as an asset (since the assets are expensed, not

capitalized). The agency's decision on how these non-capital assets are managed should be governed by public stewardship, risk, and internal control concerns. See [OAM 15.55.00](#).

- .114 Acquisition. Capital assets may be acquired by purchase (with or without trade-in), construction, capital lease agreement, installment purchase contract, donation, transfer from another fund or agency, eminent domain, or by foreclosure. Normally, assets acquired through foreclosure are intended for resale and would be recorded on the accounting records as inventory rather than capital assets.
- .115 Purchase. Capital assets are reported at historical cost when purchased. The cost of a capital asset must include **ancillary charges** necessary to place the asset into use. Ancillary charges include costs that are directly attributable to acquisition of an asset, such as freight and handling charges, insurance on the asset while in transit, site preparation costs, and assembly or installation costs necessary to get the asset in its intended condition and location.
- .116 When capital assets are purchased, agencies should use the capital outlay expenditure comptroller object that best matches the type of asset acquired. Comptroller objects for capital outlay can be found on the D10 profile in R\*STARS and are included in the range 5000 through 5999 (e.g., 5800 Buildings and Improvements). For example, the following entries would record the purchase and capitalization of equipment that was acquired with governmental fund resources:

Governmental Fund

Generic entry to record expenditure using comptroller object 5150 Equipment and Machinery

DR Expenditure (C/O 5150)	xxx	
CR Cash		xxx

Government-wide Reporting Fund

T-code 545 to capitalize asset using comptroller object 5150 Equipment and Machinery

DR 0815 Equipment and Machinery	xxx	
DR 3074 Change in Capital Assets	xxx	
CR 3018 Invested in Capital Assets		xxx
CR 3600 GAAP Expenditure Offset – C/O 5150		xxx

- .117 Additions or Improvements to Existing Assets. The historical cost of a capital asset must include the cost of any subsequent additions or improvements but must exclude the cost of repairs. An addition or improvement, unlike a repair, either enhances a capital asset's functionality (effectiveness or efficiency) or extends a capital asset's expected useful life. For example, periodically resurfacing a road would be treated as a repair (the cost would not be capitalized), while adding a new lane constitutes an addition (a cost that would be capitalized).
- .118 Asset Impairment. When a significant, unexpected decline in the service utility of a capital asset is determined to be a permanent impairment, the carrying value of the capital asset would be written down by the amount of the impairment loss. Refer to [OAM 15.60.25](#) for guidance related to accounting for Capital Asset Impairments.
- .119 Purchase with Trade-In. When a trade-in allowance is granted by a seller, the cost of the new asset is recorded at the amount of the cash paid plus the unexpired cost (asset less accumulated depreciation) of the trade-in surrendered. This would apply to assets purchased and recorded in proprietary funds, fiduciary funds, and the government-wide reporting fund.
- .120 Construction. The cost of capital assets acquired through construction must include all costs to construct the asset and get it ready for its intended use. This may include architect fees, materials, labor, subcontractor charges, and other similar costs.

- .121 When proprietary funds finance capital construction, interest costs must be capitalized for assets requiring an "acquisition period" to get them ready for their intended use. The interest cost during the construction period is recorded as an expense in the proprietary fund and capitalized as part of the building cost (an ancillary charge). Interest to be capitalized starts from the date of the borrowing through the date the asset is ready for its intended use. Interest earned on unspent moneys borrowed for this same period of time reduces the amount to be capitalized. Capitalized interest is *not* included in the cost of assets purchased with resources from governmental funds.
- .122 Capital Lease Agreement. When a lease agreement is entered into to acquire a capital asset, the asset must be recorded for the amount of the net present value of future minimum lease payments. Certain criteria must be applied to the transaction to determine if it represents a capital lease. See [OAM 15.60.30.PR](#).
- .123 Installment Purchase Contract. The cost of capital assets acquired under an installment contract includes the same basic elements as those for cash purchases. However, interest charges included in the purchase payments are not part of the cost of the asset; they are expensed.
- .124 Donation. Donated capital assets must be reported at their estimated fair value at the time of donation plus ancillary charges, if any. Estimated fair value may be based on the applicable market value or, when the market value is not readily determinable, an appraisal value. If donated capital assets are considered **capital contributions**, the amount of the contribution must be reported separately on the operating statement. For example, the following entry would record equipment donated to a governmental fund:

Government-wide Reporting Fund

T-code 537R to capitalize donated asset using comptroller object 2550 Capital Contributions

DR 0815 Equipment and Machinery	xxx	
DR 3074 Change in Capital Assets	xxx	
CR 3018 Invested in Capital Assets		xxx
CR 3200 GAAP Revenue Offset – C/O 2550		xxx

- .125 Transfer of Assets. When capital assets are moved from one fund to another, the recipient fund will continue to report those assets at the net book value previously reported (that is, historical cost less accumulated depreciation) in the government-wide statement of net assets.

**Reconciliations**

- .126 **Capital outlay** expenditures must be reconciled to additions recorded in the property ledger quarterly. The reconciliations would include changes during the year identifying dates of acquisition, voucher numbers, and amounts. This is to ensure capital outlay expenditures agree to the amount of assets capitalized and added to the general ledger. If agencies budget capital asset purchase or construction as services and supplies expenditures, certain services and supplies comptroller objects will need to be included on the reconciliation. This reconciliation would also match capital asset deletions to property disposition records. Subsidiary property records must be reconciled to general ledger control accounts in R\*STARS at least quarterly.

**Subsidiary Property Ledger**

- .127 Each agency must permanently affix a property identification tag to each capital asset when it is received by the agency. These property identification tags should be prenumbered. Unused property identification tags should be controlled.
- .128 All capital assets will be accounted for in a property ledger (manual or automated) to support and provide detail for capital assets recorded in the agency's accounting records. The property ledger, at a minimum, will contain the following information: (1) property identification tag number, (2) description of item, (3) date of acquisition, (4) acquisition voucher number, (5) acquisition cost

or fair market value, (6) accumulated depreciation, (7) location, and (8) value for insurance coverage purposes through the Department of Administrative Services, State Services Division, Property Fund (usually replacement value; refer to Risk Management Property Self-Insurance Manual).

- .129 At the option of each agency, non-capital assets may also be accounted for in the subsidiary property ledger. However, non-capital assets must not be recorded as assets in the agency's accounting records. The agency's decision on how these non-capital assets are managed should be governed by public stewardship, risk, and internal control concerns. See [OAM 15.55.00.PR](#).

### Physical Inventory Count

- .130 A **physical inventory** of the agency's property will be taken at least annually to physically verify all items listed on the subsidiary property records. Discrepancies between the physical count and the property records are to be investigated. Documented support that a physical inventory has been taken will be retained by the agency.

### Disposals and Retirements

- .131 As assets wear out or become obsolete, they may be sold, scrapped, traded in, or exchanged. When disposing of surplus capital assets, agencies are to follow the Department of Administrative Services, State Services Division policies. A property disposition request (PDR) form is completed for all surplus property and serves as documentation for removal of the asset from the agency's subsidiary property ledger.
- .132 Proprietary Fund Sale. When an asset is sold, the cost must be removed from the appropriate asset account and the related depreciation removed from the accumulated depreciation account. When an asset owned by a proprietary or fiduciary fund is sold, the difference between the unexpired cost (asset less accumulated depreciation) and the proceeds received on the sale represents a gain or loss.
- .133 For example, the entries below would record the sale of a fully depreciated piece of equipment that was originally purchased by an enterprise fund for \$50,000. At the time of sale, accumulated depreciation was \$50,000. The equipment was sold for \$20,000. Since the asset was fully depreciated, the entire \$20,000 represents a gain on the sale.

#### Enterprise Fund

T-code 149 to record sale proceeds using comptroller object 2330 Gain (Loss) on Disposition

DR 0065 Unreconciled Deposit	20,000	
CR 3100 Revenue Control-Cash (C/O 2330)		20,000

T-code 533 to remove accumulated depreciation

DR 0869 Accumulated Depreciation – Equipment	50,000	
CR 0815 Equipment and Machinery		50,000

- .134 Sale of General Capital Assets. When a general capital asset is sold, the cost must be removed from the appropriate asset account and the related depreciation removed from the accumulated depreciation account in the government-wide reporting fund.
- .135 For example, the entries below would record the sale of a partially depreciated vehicle that was originally purchased with special revenue fund resources for \$20,000. At the time of sale, accumulated depreciation was \$15,000. The vehicle was sold for \$5,000.

### Special Revenue Fund

T-code 149 to record sale proceeds using comptroller object 2330 Gain (Loss) on Disposition

DR 0065 Unreconciled Deposit	5,000	
CR 3100 Revenue Control-Cash (C/O 2330)		5,000

### Government-wide Reporting Fund

T-code 529 to remove accumulated depreciation

DR 0872 Accumulated Depreciation – Motor Vehicles	15,000	
CR 0816 Motor Vehicles		15,000

T-code 537 to remove unexpired cost using comptroller object 2330 Gain (Loss) on Disposition

DR 3018 Invested in Capital Assets	5,000	
DR 3200 GAAP Revenue Offset – C/O 2330	5,000	
CR 0816 Motor Vehicles		5,000
CR 3074 Change in Capital Assets		5,000

- .136 Trade-in. When a trade-in allowance is granted by a seller, the cost of the new asset must be recorded as the amount of the cash paid plus the unexpired cost (asset less accumulated depreciation) of the trade-in surrendered. The cost and accumulated depreciation of an asset traded in must be removed from the accounts in conjunction with recording the acquisition cost of the new asset. This would apply to assets purchased and recorded in proprietary funds, fiduciary funds, and the government-wide reporting fund.

## **Financial Statement Reporting**

- .137 In proprietary funds and in the government-wide reporting fund, capital assets are reported by type of asset, as noted in .103, within the capital assets category on the proprietary fund balance sheet and on the government-wide statement of net assets. Accumulated depreciation or amortization for proprietary fund and general capital assets is reported as a contra account to capital assets on the proprietary fund balance sheet and on the government-wide statement of net assets. Invested in capital assets is reported as part of net assets (equity) in the balance sheet and statement of net assets.
- .138 Gains and losses on disposition of proprietary or fiduciary fund capital assets are reported as a separate line item within nonoperating revenues and expenses on the statement of revenues, expenses and changes in fund net assets.
- .139 Generally, proceeds from the sale of general capital assets should be reported as other revenue in the governmental fund statement of revenues, expenditures and changes in fund balances. Although comptroller object 2330, Gain (Loss) on Disposition of Assets is used to record sales, it rolls up to Other Revenue for governmental fund reporting purposes. Since the State is not in the business of selling its general capital assets, such sales will be infrequent and thus the amounts will generally be insignificant. However, agencies should consider whether the sale of general capital assets meets the definition of a **special item** and would therefore be recorded and reported as a special item in the operating statement. If applicable, agencies would disclose the transaction as a special item when completing year end disclosure forms.
- .140 When governmental funds and the government-wide reporting fund are combined for presentation in the government-wide financial statements, gains and losses on disposition of general capital assets are reported as an adjustment to current year depreciation expense in the statement of activities. As long as gains and losses on general capital assets are generally insignificant in amount, gains are not required to be reported as **general revenues**, and losses are not required to be reported as general government-type expenses.

## Disclosure Requirements

- .141 Disclosure of capital asset activity is reported annually in the notes to the State's financial statements. This includes the beginning balance, increases, decreases, and ending balance of each asset class and its related accumulated depreciation account. Capital assets used in **governmental activities** are presented separately from capital assets used in **business-type activities**. Detail for these disclosure requirements is obtained through R\*STARS information in the SCD Accounting Data Mart.
- .142 Notes to the State's financial statements also include a schedule to illustrate the amount of depreciation expense charged to each function during the fiscal year. Depreciation for capital assets used in governmental activities is presented separately from depreciation for capital assets used in business-type activities. Detail for this disclosure requirement is obtained through R\*STARS information in the SCD Accounting Data Mart.
- .143 If an agency elects not to capitalize a work of art or historical treasure because it meets all of the criteria in .108, the agency must provide a description of the collection and an explanation of the reasons it has elected not to capitalize it. This information is needed for disclosure in the State's notes to the financial statements and is obtained through year end disclosure forms completed by agencies.
- .144 The amount of net assets (equity) reported as invested in capital assets must be net of any related debt outstanding at year end. In order for SARS to report the appropriate balance, agencies must complete a disclosure form to report the amount of outstanding debt that was issued to acquire or construct capital assets. This outstanding debt is subtracted from the agency's Invested in Capital Assets account to report invested in capital assets, net of related debt in the proprietary fund balance sheet and the government-wide statement of net assets.