

# **Capital Assets and Bond Proceeds Policy Discussion**

## **Tax Code and State Law Limit Use of Bonds Proceeds to Asset Acquisition**

**Certificates of Participation (COPs) are restricted to financing real or personal property that is or will be owned and operated by the state** or any of its agencies and for certain local government infrastructure associated with correctional facilities (ORS 283.085). COPs **cannot** be used for operating expenses.

**Proceeds of tax-exempt borrowing under the Internal Revenue Code (IRC) are generally restricted to acquiring capital assets.** Tax-exempt borrowing for working capital purposes is limited under the IRC and will only be done by DAS and the State Treasurer with Legislative approval to address overall State General Fund needs.

### **What is a capital asset?**

Please see Oregon Accounting Manual 15.60.10.PO and 15.60.10.PR

Capital assets are assets that have useful lives extending beyond a single reporting period. In its Statement of Financial Accounting Standards No. 34, The Governmental Accounting Standards Board (GASB) states that capital assets include the following items:

- Land and land improvements
- Easements
- Buildings and building improvements
- Vehicles
- Equipment
- Property rights related to capitalized leases
- Works of art, historical treasures, and other similar assets
- Infrastructure assets
- All other tangible or intangible assets used in operations

In some instances, established tax law may restrict use of bond proceeds for capital items beyond what is considered a capital expense under generally accepted accounting principles. Conversely, capital equipment under \$5,000 that is expensed under State policy is a permissible use of tax-exempt bond proceeds (assuming it has a useful life beyond a single reporting period).

### **What costs are included in the value of a capital asset?**

The value of capital assets includes historical costs, including, where appropriate, interest and ancillary charges. Ancillary charges typically include items such as shipping, installation, and other costs necessary to prepare an asset for its intended use.

### **What documentary evidence is required and how long must it be maintained?**

ORS 293.295 sets forth that payments cannot be made unless legally authorized and supported by the approval of the agency that incurred the obligation. IRS regulations and OAM 10.15.00.PO

require documentary evidence supporting the authenticity of and authority for the transaction, the purpose or reason for the transaction, and the vendor involved where applicable. Sufficient detail must be provided to support classification of the transaction as a capital expenditure.

The records retention period for capital expenditures from bond proceeds likely exceeds other program requirements. **Records should be retained until at least three years after the last bond in the series is no longer outstanding.** That could be as long as 33 years.

## **Can bond proceeds be used for the construction/development of a capital asset?**

Yes, provided adequate controls are in place to ensure proceeds are not used for operations (working capital) and that documentation is maintained to demonstrate proceeds were used solely for asset development/acquisition. This is particularly important for expenditure categories that are generally associated with operations.

The Capital Investment Section (CIS) will typically require the following controls/procedures.

- Project budgets including cost components, timelines and other details as necessary
- Position descriptions that clearly describe asset development functions for personnel costs (note: CIS Manager approval is required when positions funded are not “limited-duration” status. The work performed by a State employee must be work that would otherwise be performed by a private contractor, or is in lieu of purchasing an asset directly. In some cases, separate funds and PCAs may be required to clearly identify staff associated with asset development. See attached *Personnel Cost Invoice Example*)
- Documentation demonstrating that proceeds to pay rent, and similar charges are properly allocated to and solely used by project team involved in developing/constructing assets.

## **Other Frequently Asked Questions**

Can software “maintenance” costs be capitalized?

Generally software maintenance, like other maintenance costs cannot be capitalized. However, if the software is necessary for and being used in the development of an asset, the initial year’s vendor maintenance cost can be capitalized with the approval of the DAS CIS manager and the agency accounting staff.

Can travel and training costs be capitalized?

No. Exceptions may be granted by the manager of the Capital Investment Section (in cooperation with agency accounting staff). However, training generally enhances the skills of an employee and does not directly add to the value of an asset.

Can “Start-Up” costs be capitalized?

No. AICPA’s AcSEC Committee Statement of Position 98-5 establishes GAAP in this area.

**Please See Your Interagency Agreements with CIS for transaction specific requirements**

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