DAS DEPARTMENT OF ADMINISTRATIVE SERVICES

Statewide Policy

OREGON ACCOUNTING MANUAL

Subject:	Accounting and Financial Reporting	**Number:**	15.60.10
Division:	Chief Financial Office	**Effective date:**	September 16, 2017
Chapter:	Accounting and Financial Reporting		
Part:	Capital Assets		
Section:	Classification and Capitalization		
Approved:	George Naughton, Chief Financial Officer	Signature on file	

PURPOSE: This policy provides guidance on accounting and financial reporting for capital assets.

AUTHORITY: **ORS 293.590**
GASB Statement No. 34
GASB Statement No. 42
GASB Statement No. 51
GASB Statement No. 72
GASB Comprehensive Implementation Guide 2016-1, Q. 4.71

APPLICABILITY: This policy applies to all state agencies included in the state's annual financial statements, except those agencies specifically exempted by **OAM 01.05.00**.

DEFINITIONS: **Capital Assets:** Tangible or intangible property used in agency operations having an initial estimated useful life of more than one year and an initial cost (including **ancillary charges**) of $5,000 or more. This definition does not include assets held primarily for resale; agencies account for these assets as inventory.

Acquisition Value: A market based entry price, representing the price that would be paid to acquire an asset with equivalent service potential in an orderly market transaction at the acquisition date, or the amount at which a liability could be liquidated with the counterparty at the acquisition date.

Click here for other **definitions**.

POLICY:

101. Agency management must ensure the proper accounting and reporting of **capital assets** and establish a system of internal controls that reduces the risk of theft or other loss. Agencies should refer to **OAM 15.60.40**, *Intangible Assets* for specific guidance on accounting for intangible capital assets.

102. Record **capital asset** additions in the appropriate capital asset general ledger (GL) accounts. Assets that cost less than $5,000 must be expensed according to **OAM 15.55.00**, *Non-Capital Assets*.

103. If an agency uses estimated historical cost to capitalize an asset, ensure the estimate is reasonable and supported by documentation that adequately describes the methodology and assumptions used to arrive at the estimate. Once calculated, reduce the estimated historical cost by an appropriate amount of accumulated depreciation or amortization.

104. Depreciate or amortize **capital assets** with limited lives on a straight-line basis according to **OAM 15.60.20**, *Depreciation and Amortization*. Do not depreciate or amortize capital assets with indefinite lives.

105. Reconcile **capital outlay** expenditures and property disposition records to the subsidiary property ledgers; reconcile the subsidiary property ledgers to the **capital asset** GL control accounts. Perform these reconciliations at least quarterly.

106. Conduct an annual physical inventory of **capital assets**.

107. When an agency sells or retires a **capital asset**, remove the asset and accumulated depreciation from the GL control accounts and the subsidiary property ledger, and recognize any gain or loss arising from the disposition. When disposing of surplus capital assets, contact the Department of Administrative Services (DAS), Enterprise Goods and Services Division, Surplus Property unit for instructions.

108. In addition to this policy, Statewide IT Policy 107-004-010, *Information Technology Asset Inventory and Management*, applies to *all* IT assets.

PROCEDURES:

Classification

109. The Statewide Accounting and Reporting Services (SARS) combines and reports the **capital asset** general ledger accounts in the state's **Comprehensive Annual Financial Report (CAFR)** under the following classifications:

- Land (not depreciated or amortized; includes land use rights with indefinite lives)
- Construction in Progress (not depreciated)
- Works of Art and Other Nondepreciable Assets (not depreciated/amortized)
- Buildings, Property, and Equipment (includes amortizable intangible assets)
- Infrastructure
- Accumulated Depreciation and Amortization
- Invested in Capital Assets, Net of Related Debt

The GL accounts included within each of these reporting categories appear on the D31 profile in **R*STARS,** as defined below.

110. Land: Assets capitalized as part of this classification are not subject to depreciation or amortization. Record land in the following GL accounts.

- *Land* – Record the carrying value of land owned by the agency in this GL account. When an agency purchases land, the capitalized cost includes the purchase price and any costs incurred to place 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 an agency purchases land for a building site, add the demolition costs to remove existing buildings to the cost of the land. If an agency acquires land by donation, the amount capitalized represents the estimated **acquisition value** at the time of donation, plus **ancillary charges**, if any. Account for land purchased for resale as inventory, not as a **capital asset**. Do not depreciate land.

Note: *Capitalize only those acquisition costs <u>directly</u> identifiable with a <u>specific</u> asset. For example, do not capitalize the cost of a site assessment or feasibility study undertaken to determine the best location for constructing a new building. Costs incurred during this early stage are not identifiable to a specific property. Capitalize such costs only if incurred <u>after</u> acquisition of the related asset becomes probable (i.e., likely to occur).*

- *Land Use Rights (not amortized)* – The cost of land use rights obtained by contract or other legal right that the agency must account for separately because the agency did not acquire the rights as part of the purchase or donation of the underlying land (see OAM 15.60.40, *Intangible Assets*). Land use rights recorded in this GL account have indefinite lives, for example, a permanent easement.

111. <u>Construction in Progress:</u> Use this GL account to record the costs of unfinished construction or capital improvement projects (i.e. labor, materials and overhead). When a project is complete (i.e., the asset is ready for its intended use), reclassify the capitalized costs from Construction in Progress to the appropriate **capital asset** GL account (e.g., Buildings and Building Improvements). Do not depreciate Construction in Progress. Do not begin depreciating a capital asset until the agency places the asset in service.

112. <u>Works of Art and Other Nondepreciable Assets (not depreciated/amortized):</u> Do not depreciate or amortize assets capitalized as part of this classification. Record these assets in the following GL Accounts.

- *Works of Art and Historical Treasures (not depreciated)* – Includes works of art and historical artifacts, held as individual items or in a collection, that are considered inexhaustible; i.e., their economic benefit or service potential is used up so slowly that their estimated useful lives are extraordinarily long. Examples include statues, paintings, sculptures, and historical documents or artifacts.

  Note*: For items considered exhaustible, or depreciable, see paragraph 113 below.*

  Normally, agencies report collections of works of art and historical treasures 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 a policy that requires the agency to use the proceeds from sales of collection items to acquire other items for collections.

- *Other Nondepreciable Assets (not depreciated/amortized)* – Includes the cost of intangible assets (other than land use rights) with indefinite lives, such as a trademark.

113. <u>Buildings, Property and Equipment:</u> Depreciate or amortize assets capitalized as part of this classification. Record these assets in the following GL accounts.

- *Works of Art and Historical Treasures (depreciable)* – Includes works of 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.

  *N**ote**: Agencies record artwork acquired as the result of the "one percent for arts" provision contained in ORS 276.080 in GL 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.

  ***Note**: Do not capitalize data processing hardware in this account. See below.*

- *Motor Vehicles* – Includes cars, vans, trucks or other motorized vehicles used in agency operations.

- *Data Processing Software* – Computer and Web site software programs purchased, internally generated, or acquired through a licensing agreement. See **OAM 15.60.40**.

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

- *Buildings and Building Improvements* – Use this GL account to record the cost of permanent structures (and improvements to structures) used to house people or property. Also, include the cost of fixtures attached to and forming a permanent part of a building. When constructing a new building on land owned by the agency, include the cost of demolishing existing buildings in the cost of the new building. Record the value of land associated with buildings separately in the GL account, Land. Outbuildings related to airports, buildings associated with roadways, or buildings that are considered historical treasures, normally, are not recorded in this account.

- *Land Improvements* – Includes the costs of 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* – The cost of permanent additions or improvements made to a leased asset that reverts to the owner of the property upon termination of the lease.

- *Capital Leased Property* – Property acquired through a lease that meets the criteria for capitalization. See **OAM 15.60.30**, *Capital Leases*.

- *Land Use Rights (amortizable*) – The cost of land use rights obtained by contract or other legal right that the agency must account for separately because the agency did not acquire the rights as part of the purchase or donation of the underlying land (see OAM 15.60.40, *Intangible Assets*). Limit the useful life of assets recorded in this GL account to the term of the contract or legal right. Examples include non-permanent easements and water, mineral, and timber rights.

- *Other Intangible Assets (amortizable)* – The cost of intangible assets (other than land use rights) that have limited lives, for example, patents.

114. Infrastructure: Infrastructure assets are long-lived **capital assets** that normally are stationary in nature and 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. Do not consider buildings as infrastructure assets, except buildings that are an ancillary part of a network of infrastructure assets, such as road maintenance shops associated with roadway systems. Infrastructure capital assets are subject to depreciation and are recorded in the following GL accounts.

- *State Highways* – All state highway roads maintained by an agency including interstate highways, principle arterials, minor arterials, major collectors and minor collectors. Costs includes construction of the road, associated lighting, signage, traffic control devices, pipes, wires, guard rails, culverts, drainage systems, and retaining walls. Also, include maintenance buildings (such as sand sheds) and rest areas if the agency considers these items 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. Costs includes construction of the road, associated lighting, signage, traffic control devices, pipes, wires, guard rails, culverts, drainage systems, and retaining walls. Also, include maintenance or other buildings connected with the roadways.

- *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, hangers, 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 differ from land improvements in that they are not an integral part of the operation of a single building. Example: Classify a septic system that is integral to the operation of a single building 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.

Acquisitions

115. Account for **capital assets** purchased with resources from **proprietary funds** or **fiduciary funds**, or capital assets donated to those funds, within the GL accounts of those funds. Capital assets purchased with resources from **governmental funds,** or donated to governmental funds, are considered *general* capital assets (assets associated with governmental activities). Account for general capital assets in the **government-wide reporting fund**.

116. Agencies may acquire **capital assets** 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, agencies intend to resell assets acquired through foreclosure. Record items for resale as inventory rather than capital assets.*

117. Purchase: Report purchased **capital assets** at historical cost. The cost of a capital asset includes **ancillary charges** necessary to place the asset into service. Ancillary charges include

costs that directly relate 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 to get the asset ready for its intended use and location.

118. When an agency purchases a **capital asset**, use the **capital outlay** expenditure/expense comptroller object that best matches the nature of the asset acquired. Comptroller objects for capital outlay appear on the D10 profile in **R*STARS** and are included in the range 5000 through 5999 (e.g., 5800 Buildings and Improvements). The following entries illustrate how to record the purchase and capitalization of equipment acquired with governmental fund resources.

<u>Governmental Fund</u>

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

DR Expenditure (C/O 5150)	5,000	
CR Cash		5,000

<u>Government-wide Reporting Fund</u>

T-code 545: To capitalize the asset using comptroller object 5150 - Equipment and Machinery.

DR 0815 Equipment and Machinery	5,000	
DR 3074 Change in Capital Assets	5,000	
CR 3018 Invested in Capital Assets		5,000
CR 3600 GAAP Expenditure Offset – C/O 5150		5,000

119. <u>Additions or Improvements to Existing Assets:</u> The historical cost of a **capital asset** includes the cost of subsequent additions or improvements but excludes the cost of repairs and maintenance. An addition or improvement, unlike a repair, provides additional value, enhances a capital asset's functionality (effectiveness or efficiency), or extends a capital asset's expected useful life. Repairs and maintenance only retain value. Example: The periodic resurfacing of a road is expensed as a repair, while adding a new lane constitutes an addition that is capitalized.

Upon purchase or completion of an addition or improvement, the agency must reevaluate the estimates used in the depreciation calculations (remaining useful life and salvage value) and adjust them prospectively, if necessary.

120. <u>Purchase with Trade-In:</u> When the seller grants a trade-in allowance, record the cost of the new asset at the amount of the cash paid, plus the unexpired cost (asset less accumulated depreciation) of the trade-in surrendered. This rule applies to assets purchased and recorded in **proprietary funds**, **fiduciary funds**, and the **government-wide reporting fund**.

121. <u>Construction:</u> The cost of **capital assets** acquired through construction includes all the costs required to build the asset and get it ready for its intended use, such as architect fees, engineering fees, materials, labor, subcontractor charges, and other similar costs.

122. <u>Capitalized Interest</u>: When enterprise funds use tax-exempt debt to finance the capital construction of specified assets, capitalize the interest costs incurred during the construction period as part of the cost to construct the asset. Interest capitalization starts on the date of the borrowing and continues until the date the asset is ready for its intended use. Interest earned during this period on unspent borrowings reduces the amount the agency capitalizes. *Do not include capitalized interest in the cost of assets purchased with resources from governmental funds. Do not include capitalized interest in the cost of assets purchased with the resources of*

internal service funds, as these are governmental activities for government-wide financial reporting purposes.

123. Capital Lease Agreement: If a lease agreement meets the criteria of a capital lease, capitalize the related asset using an amount equal to the net present value of future minimum lease payments. See **OAM 15.60.30**.

124. Installment Purchase Contract: The cost of a **capital asset** acquired through an installment purchase contract does not include the interest charges contained in each payment. Expense the interest charges. See **OAM 15.60.40**, the final paragraph, for an example of how to account for an installment purchase contract. The example involves a software licensing agreement that is accounted for as an installment purchase contract.

125. Donation of **Capital Asset** by External Party: Report capital assets donated to an agency by an external party at their estimated **acquisition value** at the time of donation, plus **ancillary charges**, if any. It's important to note that acquisition value is a market-based entry price, which is the price to acquire an asset, rather than an exit price, which is the price to dispose of an asset. If the agency cannot readily determine the acquisition value, use an appraisal value. If an agency considers donated capital assets as **capital contributions**, report the amount of the contribution separately on the operating statement. The following entry illustrates the donation of equipment to a governmental fund.

Government-wide Reporting Fund

T-code 537R: To capitalize a donated asset using comptroller object 2550 - Capital Contributions.

DR 0815 Equipment and Machinery	5,000	
DR 3074 Change in Capital Assets		5,000
CR 3018 Invested in Capital Assets	5,000	
CR 3200 GAAP Revenue Offset (C/O 2550)		5,000

Note that there is **no** entry to be made directly in the governmental fund to record the donation. Only an entry to the **government-wide reporting fund** is made. If a **proprietary fund** receives a donated **capital asset**, it does recognize the donation as a capital contribution.

126. **Capital Assets** Used for Pollution Remediation: Agencies account for the estimated costs to acquire facilities and equipment that will be used exclusively in pollution remediation activities as a component of the pollution remediation obligation. Agencies record the eventual purchase of the facilities and equipment as a reduction of the previously recognized liability for pollution remediation outlays.

127. Transfer of Assets: When **capital assets** move from one agency to another, the receiving agency reports those assets at the net book value previously reported (that is, historical cost less accumulated depreciation) by the sending agency in the government-wide statement of net position. Consequently, the sending agency recognizes no gain or loss. Record the transfer in **R*STARS** as a two-step process.

Step 1: Select the appropriate transaction code from the list below to remove the depreciated portion of the capital asset from the sending agency's GL accounts. The receiving agency records the depreciated portion of the capital asset in its GL accounts using the same transaction code with an "R" (reverse).

TC	Description	DR GL (Accum Depr)	CR GL (Asset)
529	FA Disp/Adj-Motor Veh-Prop/Govt-Wide/Fid	0872	0816
530	FA Disp/Adj-Bldg&Imp-Prop/Govt-Wide/Fid	0875	0852
531	FA Disp/Adj-Land Impr-Prop/Govt-Wide/Fid	0867	0856
532	FA Disp/Adj-DP Sftwr-Prop/Govt-Wide/Fid	0868	0817
533	FA Disp/Adj-Equip&Mach-Prop/Govt-Wide/Fid	0869	0815
534	FA Disp/Adj-Lesehld Imp-Prop/Govt-Wide/Fid	0870	0862
535	FA Disp/Adj Cap L'sd-Prop/Govt-Wide/Fid	0871	0863
538	FA Disp/Adj-DP Hrdware-Prop/Gov-Wide/Fid	0873	0818
539	FA Disp/Adj-Art/His Tres-Prop/Gov-Wide/Fid	0876	0812
543	FA Disp/Adj-St Highways-Prop/Gov-Wide/Fid	0880	0840
544	FA Disp/Adj-Tun'l/Brid-Prop/Gov-Wide/Fid	0881	0842
546	FA Disp/Adj-LandUse Rght-Prop/Gov-Wide/Fid	0865	0849
547	FA Disp/Adj-Oth Intangib-Prop/Gov-Wide/Fid	0866	0820
551	FA Disp/Adj-Airports-Prop/Gov-Wide/Fid	0882	0843
552	FA Disp/Adj-Util Syst-Prop/Gov-Wide/Fid	0883	0844
553	Disp/Adj-Docks,Dikes,Dams-Prop/Gov-Wi/Fid	0884	0845
557	FA Disp/Adj-Oth Roads-Prop/Gov-Wide/Fid	0885	0841

Step 2: Use transaction codes 900 and 901 (a balanced transfer) to transfer the remaining net book value of the capital asset from one agency to another. The sending agency uses T-code 900 and the appropriate agency transfer-out comptroller object. The receiving agency uses T-code 901 and the appropriate agency transfer-in comptroller object.

Note*: If the transfer involves a capital asset that is fully depreciated, T-codes 900 and 901 are not required.*

Use comptroller objects 1301 and 1401 only when transferring the net book value of a capital asset from one fund to another fund within the same agency (not transfers between agencies).

See the chart below for details.

TC	**Description**	**DR G/Ls**	**CR GLs**	**Optional G/Ls**	**Comp Object**
900	Capital Asset Transfer Out Between Funds/ Agencies	3550, 3018	3074	0811-0863	1401, 1430, 1800-1999 GASB 38 transfer number required
901	Capital Asset Transfer In Between Funds/ Agencies	3074	3150, 3018	0811-0863	1201-1301, 1305-1490 GASB 38 transfer number required

Ownership is Unclear

128. Sometimes it is unclear who owns a particular **capital asset**. Uncertainty of ownership may arise when an agency maintains or uses an asset, but another governmental entity finances the capital asset and retains a reversionary interest or is responsible for replacement of the asset. Under these circumstances, the agency records the asset in its accounting records and depreciates the asset, if either of the following conditions apply:

- The agency is party to an arrangement that makes it responsible for maintaining the asset, or

- The agency is the party that uses the asset in its activities and makes the decisions regarding when and how the asset will be used and managed.

Estimated Historical Cost

129. Agencies may use a variety of methods to estimate the historical cost of a **capital asset** when invoices are no longer available. One method is to use historical sources, such as old vendor catalogs, to establish the average cost of obtaining a similar asset at the time of acquisition (the standard costing approach). Another approach is to deflate the current cost of a similar asset using an appropriate price index (normal costing or backtrending). In either case, once calculated, reduce the estimated historical cost by an appropriate amount of accumulated depreciation or amortization.

Example: An agency acquired an asset 10 years ago and the asset has an estimated remaining useful life of 5 years. The current cost of a similar asset is $9,500, and the price index for that type of asset over the past 10 years is 1.90 (that is, a 90% increase).

$$\frac{9{,}500 \text{ (cost of new asset)}}{1.90 \text{ (price index)}} = 5{,}000 \text{ (estimated historical cost)}$$

$$\frac{10 \text{ years (past service life)}}{15 \text{ years (estimated total service life)}} \times 5{,}000 \text{ (estimated historical cost)} = 3{,}333 \text{ accum depr/amort}$$

Subsidiary Property Ledgers

130. Track and control **capital assets** by affixing permanent identification tags and recording them in subsidiary property ledgers. The tags must be pre-numbered and controlled. At a minimum, maintain the following details in the property ledgers:

a. Asset identification tag number
b. Asset description
c. Acquisition date
d. Acquisition voucher number
e. Acquisition cost for purchases or acquisition value for donations.
f. Location
g. Accumulated depreciation
h. Value for insurance coverage (usually replacement value). Refer to the *Property Self-Insurance Manual* maintained by DAS, State Services Division, Risk Management.

131. Agencies may also use subsidiary property ledgers to track and control non-capital IT assets and other non-capital assets at high risk of loss. In either case, do not record non-capital assets in the **capital asset** GL control accounts. See **OAM 10.50.00 PO,** *Capital and Non-capital Assets* for detailed internal control procedures related to capital and non-capital assets.

Reconciliations

132. Reconcile **capital outlay** expenditures to the additions recorded in the subsidiary property ledgers. If an agency budgets its **capital asset** purchases or construction as services and supplies expenditures, include those services and supplies comptroller objects in the reconciliation. Reconcile deletions recorded in the subsidiary property ledgers to the property disposition records. Lastly, reconcile the subsidiary property ledgers to the capital asset GL control accounts. Perform these reconciliations at least quarterly.

Physical Inventory Observation

133. Take a **physical inventory** of the agency's property at least annually to verify the existence of all items listed on the subsidiary property ledgers. Investigate and resolve discrepancies and adjust the GL control accounts accordingly. Maintain documented evidence that the agency has conducted a physical inventory.

Impairment

134. When a *significant, unexpected decline* in the service utility of a **capital asset** is determined to be a permanent impairment, reduce the carrying value of the capital asset by the amount of the impairment loss. For guidance, refer to **OAM 15.60.25**, *Capital Asset Impairments*.

Disposals and Retirements

135. As assets wear out or become obsolete, agencies may sell, scrap, or exchange them. When disposing of surplus **capital assets**, follow the guidelines established by DAS, State Services Division, Surplus Property unit. Use the property disposition request (PDR) form that agencies complete to dispose of surplus property as documentation for removing the asset from the agency's GL accounts and subsidiary property ledgers.

136. If an agency *permanently* retires a **capital asset** from service (either voluntarily or involuntarily) and does not immediately sell or otherwise dispose of the asset, the asset ceases to be a capital asset (because it no longer will be *used in operations*) and must be reclassified to state owned property held for sale (GL 0927). Report assets held for sale at the lower of book value or fair value.

137. **Proprietary Fund** Sale: When an agency sells an asset, remove the cost from the appropriate asset account and the related depreciation from the accumulated depreciation account. The difference between the unexpired cost (asset cost less accumulated depreciation) and the proceeds received on the sale equals the gain or loss.

138. The entries below illustrate the sale of a fully depreciated piece of equipment 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

139. Sale of General **Capital Assets**: When an agency sells a general capital asset, remove the cost from the appropriate asset account and the related depreciation from the accumulated depreciation account in the **government-wide reporting fund**.

140. The entries below illustrate the sale of a partially depreciated vehicle 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 received 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

141. Trade-in: When the seller grants a trade-in allowance, record the cost of the new asset as the amount of the cash paid, plus the unexpired cost (asset cost less accumulated depreciation) of the trade-in surrendered. Remove the cost and accumulated depreciation of an asset traded-in from the accounts in conjunction with recording the acquisition cost of the new asset. This rule applies to assets purchased and recorded in **proprietary funds**, **fiduciary funds**, and the **government-wide reporting fund**.

Financial Statement Reporting

142. SARS combines **capital assets** into the asset categories noted above in paragraph 109 on the **proprietary funds** statement of net position, the statement of fiduciary net position, and the government-wide statement of net position. SARS reports accumulated depreciation/amortization as a contra account to capital assets in the proprietary funds statement of net position and the government-wide statement of net position. Capital assets are reported net of accumulated depreciation in the statement of fiduciary net position. SARS reports invested in capital assets, net of related debt, as a component of net position (equity) in the proprietary funds statement of net position and government-wide statement of net position.

143. SARS reports depreciation/amortization expense in **proprietary funds** as an operating expense in the statement of revenues, expenses and changes in fund net position. Depreciation/amortization expense in **fiduciary funds** is reported in the statement of changes in fiduciary net position as a part of administrative expenses. SARS reports depreciation/amortization expense in the **government-wide reporting fund** as a program expense in the applicable function for governmental or business-type activities.

144. SARS reports gains and losses on disposition of **capital assets** of a **proprietary fund** in nonoperating revenues/expenses in the statement of revenues, expenses, and changes in fund net position. Similar gains and losses in **fiduciary funds** are reported as part of administrative expenses.

145. SARS reports proceeds from the sale of *general* **capital assets** 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 sale proceeds, it rolls up to Other Revenue for governmental fund reporting purposes.

146. When an agency transfers a **capital asset** to a **proprietary fund** from the **government-wide reporting fund**, SARS reclassifies the transfer-in and treats it as a capital contribution for financial reporting. The capital contribution appears as a separate line item within nonoperating revenues/expenses on the proprietary funds statement of revenues, expenses, and changes in fund net position.

147. When an agency transfers a **capital asset** from a **proprietary fund** to the **government-wide reporting fund**, SARS reclassifies the transfer-out and reports it as nonoperating expense on the proprietary funds statement of revenues, expenses, and changes in fund net position.

148. Because the state does not normally sell *general* **capital assets** (assets associated with governmental activities), sales of capital assets are usually infrequent and insignificant. However, agencies should consider whether a sales transaction meets the definition of a **special item** or an **extraordinary item** that must be reported separately in the operating statement. If applicable, agencies must disclose the transaction when completing the year-end General Disclosure forms.

149. In the government-wide statement of activities, SARS reports immaterial gains/losses on disposition of *general* **capital assets** as an adjustment to current year depreciation expense. If the gains are material, SARS reports them as **general revenues** (unlike gains on the sale of capital assets in **proprietary funds**, which are reported as part of the appropriate functional expense within business-type activities), or as a special item or an extraordinary item, if applicable.

Disclosure Requirements

150. The state must disclose **capital asset** activity in the **CAFR**, including beginning balance, increases, decreases, and ending balance of each asset classification and the related accumulated depreciation/amortization. The notes to the financial statements report capital assets used in **governmental activities** separately from capital assets used in **business-type activities**.

151. Notes to the state's **CAFR** also include a schedule to illustrate the amount of depreciation expense charged to each function during the fiscal year. The disclosures present depreciation/amortization for **capital assets** used in governmental activities separately from depreciation/amortization for capital assets used in business-type activities. Depreciation related to **fiduciary fund** activities is also presented.

152. If an agency elects not to capitalize a work of art or historical treasure because it meets all of the criteria in paragraph 114, the agency must provide a description of the collection and the reasons the agency has chosen not to capitalize it. If applicable, disclose this information when completing the year-end General Disclosure forms.

153. SARS reports the amount of net position (equity) invested in **capital assets**, net of any related debt outstanding at year end. To determine the appropriate balance, agencies complete a year-end General Disclosure form to report the amount of outstanding debt issued to acquire or construct capital assets. SARS subtracts the outstanding debt from the Invested in Capital Assets account and reports invested in capital assets, net of related debt, in the **proprietary fund** statement of net position and the government-wide statement of net position.