

## Accounting and Reporting of Capital Assets

April 30, 2004

Statewide Accounting and Reporting Services

## Training Topics

- Classifying capital assets
- Capitalization
- Computer software
- Construction in progress
- Depreciation and amortization
- Disposing of capital assets

## Training Topics (con't.)

- Non-capital assets
- Reconciliation to expenditures and to property ledger
- Reporting invested in capital assets
- Disclosure reporting requirements
- Impairments of capital assets (GASB Statement No. 42)



## Classifying Capital Assets

## Capital Assets Defined

Capital assets are:

- Major tangible or intangible assets
- Benefit agency for more than a single year
- Not held for resale
- Classified based on the nature of the asset

1. Cost of moving buildings in preparation for building the North Mall office building

- a. Buildings and building improvements
- b. Expensed not capitalized
- c. Land
- d. Land improvements

## Land

- Carrying value of land owned by the state
- Includes:
  - Easements
  - Right of way
  - Non-depreciable land improvements
  - If purchased, includes price plus the costs incurred to get the land in condition for its intended use

## 2. New Warner Creek correctional facility design phase preconstruction expenses

- a. Expensed not capitalized
- b. Land improvements
- c. Construction in progress
- d. Building and building improvements

## Construction in Progress

- Temporary capitalization of labor, materials, and overhead costs of a construction or capital improvement project undertaken but not yet completed



## 3. Building restoration within the fort area at Fort Stephens State Park

- a. Buildings and building improvements
- b. Works of art and historic treasures -not depreciated
- c. Not capitalized
- d. Leasehold improvements

## Works of Art and Historical Treasures-No Depreciation

- Works of art or historical artifacts held as individual items or in a collection
- And**
- Inexhaustible-the economic benefit or service potential is used up so slowly that their estimated useful life is extraordinarily long

## 4. Collection of 100 sea and landscapes in patient rooms at the Oregon Veterans' Home

- a. Works of art and historical treasures-not depreciated
- b. Works of art and historical treasures-depreciated
- c. Under the \$5,000 threshold for capitalization
- d. Buildings and building improvements

## Works of Art and Historical Treasures-Depreciable

- Works of art or historical artifacts held as individual items or in a collection
- But**
- Is exhaustible-the useful life is diminished by display, educational, or research purposes

## 5. Large Heidelberg offset printing press at the DAS print plant

- a. Data processing software
- b. Equipment and machinery
- c. Data processing hardware
- d. Capital leased property

## Equipment and Machinery

- Tangible property of a permanent nature (other than land, buildings, and improvements to land or buildings)
- Used in agency operations

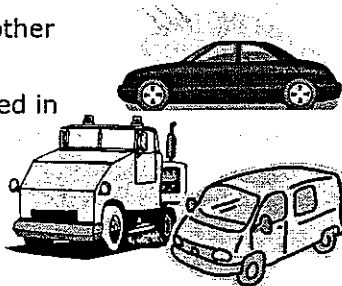


## 6. Parking lot sweeper

- a. Equipment and machinery
- b. Motor vehicles
- c. Land improvements
- d. Utility systems

## Motor Vehicles

- Cars, vans, trucks, or other motorized vehicles used in agency operations

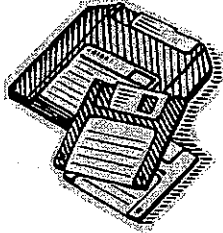


## 7. Computer program that runs the banking system

- a. Equipment and machinery
- b. Works of art and historical treasures-depreciated
- c. Capital leased property
- d. Data processing software

## Data Processing Software

- Computer software programs either purchased or developed for internal use

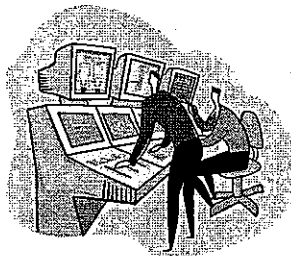


## 8. IBM computer that houses the datamart

- a. Data processing software
- b. Equipment and machinery
- c. Data processing hardware
- d. Leasehold improvements

## Data Processing Hardware

- Computers and peripheral equipment such as modems and servers



## 9. State archives building

- a. Building and building improvements
- b. Works of art and historical treasures-depreciated
- c. Leasehold improvements
- d. Land improvements

## Building and Building Improvements

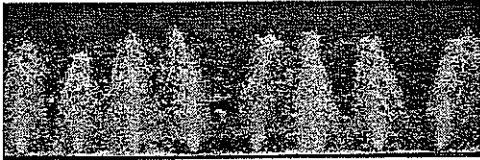
- Permanent structures or improvements to structures normally used to house people or property
- Fixtures attached to and forming a permanent part of a building
- The cost to improve or enlarge an existing building

## 10. State fair grounds paved carnival area

- a. Utility systems
- b. Land
- c. Building and building improvements
- d. Land improvements

## Land Improvements

- Permanent improvements, other than buildings
- Add value to land



## 11. Systems furniture installed in a leased facility

- a. Capital leases
- b. Building and building improvements
- c. Expensed not capitalized
- d. Leasehold improvements

## Leasehold Improvements

- Permanent additions or improvements made to a leased asset
- Reverts to the owner of the property upon termination of the lease

## 12. Computer server at the Department of Water Resources

- a. Data processing software
- b. Equipment and machinery
- c. Data processing hardware
- d. Capital leased property

## Capital Leased Property

A lease of real or personal property that meets the criteria for capitalization of the asset and recording a liability for the obligation

## Infrastructure

- Long-lived capital assets
- Normally stationary in nature
- Normally can be preserved for a significant number of years

13. Lighting along I-5 which was purchased with federal dollars

- a. Other roads
- b. State highway
- c. Not capitalized
- d. Utility systems

## State Highways

- All state highway roads maintained by an agency including interstate highways, principle arterials, minor arterials, major collectors, and minor collectors
- Includes construction of road, lighting, signage, traffic control devices, pipes, wires, guard rails, culverts, drainage systems, and retaining walls

14. Asphalt access roads within the South Santiam Fish Hatchery

- a. State highways
- b. Other roads
- c. Land improvements
- d. Docks, dikes, and dams

## Other Roads

- Any graveled or paved section of land maintained by an agency and used by motorized vehicles, not associated with state highways



15. Replacement of the I-5 bridge over the McKenzie River

- a. Works of art and historical treasures-depreciated
- b. Other roads
- c. Tunnels and bridges
- d. State highways

## Tunnels and Bridges

- Tunnels, bridges, trestles, and other similar items needed for the construction of roadway systems

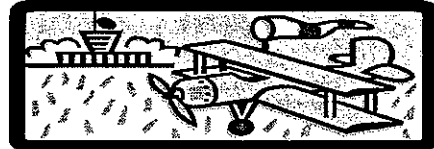


**16. Hanger building at the Independence State Airport**

- a. Building and building improvements
- b. Airports
- c. Land improvements
- d. Leasehold improvements

**Airports**

- Any airport maintained by an agency
- Includes: traffic control structures, hangers, taxiways, runways, fueling stations, outbuildings, helicopter landing pads, lighting



**17. Fiber optics network at the State Penitentiary complex**

- a. Buildings and building improvements
- b. Land improvements
- c. Data processing hardware
- d. Utility systems

**Utility Systems**

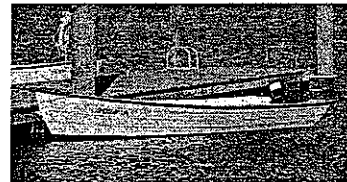
- Systems designed to deliver facility services
- Example: systems to distribute fiber optics, water, electricity, motor fuel, or a sanitary sewer collection system
- Serves more than one building

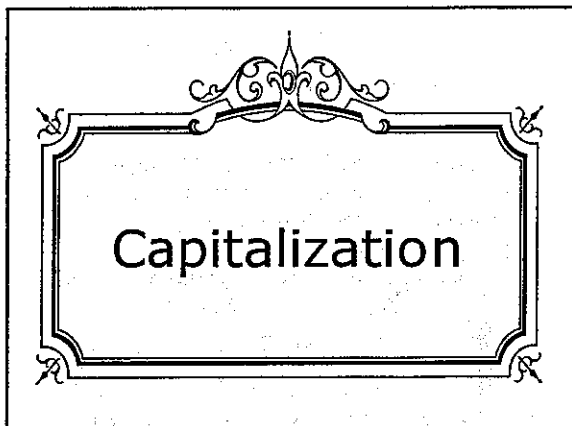
**18. Boat dock at Champoeg State Park**

- a. Land improvements
- b. Buildings and building improvements
- c. Docks, dikes and dams
- d. Utility systems

**Docks, Dikes, and Dams**

- Infrastructure including docks, piers, dikes, levies, seawalls, dams and structures associated with dams, wharves, and other similar assets





### Covered in this segment

- Difference in capitalization for governmental type funds vs. capitalization for proprietary type funds
- Capitalization (or not) of collections of Works of Art & Historical Treasures

### Covered in this segment

- Capitalization of assets acquired through
  - Purchase
  - Purchase with trade-in
  - Donation
  - Construction
  - Additions and improvements
  - Capital lease agreement

### Covered in this segment

- Capitalization of assets acquired through
  - Transfer from another fund
  - Eminent domain
  - Foreclosure
- Prior period adjustments related to capital assets

### Proprietary vs. Governmental

- Governmental Funds
  - Focus on current financial resources
  - Modified accrual basis of accounting
- Proprietary Funds
  - Focus on economic resources
  - Accrual basis of accounting

### Governmental Funds

- Capital outlay is reported in the fund
  - Decrease in current financial resources (cash)
- Capital assets are not reported in the fund
  - Not available for spending in the near future

### Proprietary Funds

- Capital outlay is not reported in the fund
- Capital assets are reported in the fund
  - One asset (cash) has been exchanged for another (capital asset)
  - No revenue or expense to report

### Government-wide Reporting Fund (GWRF)

- Focus on economic resources
- Accrual basis of accounting
- Used to report long-term assets (including capital assets) and liabilities of governmental funds
- Included only in government-wide financial statements

### Purchase of a Capital Asset

Cash Expenditure – entry is the same in all fund types

DR 3500 Expenditure Control-Cash  
comp. object 5150  
equipment & machinery  
CR Cash  
*Purchase new office equipment*

### Capitalization of Asset

Entry is the same for all fund types, but is made in different places

T-code 545

DR 0815 Equipment & Machinery  
DR 3074 Change in Capital Assets  
CR 3600 GAAP Expenditure Offset  
comp. object 5150  
CR 3018 Invested in Capital Assets  
*Capitalize new office equipment*

### Capitalization-Governmental

- T-code 545 entry is made in the GWRF
  - When combined for financial reporting, capital outlay in the governmental fund is offset by negative capital outlay in the GWRF
  - Capital outlay reported in fund financial statements is eliminated for government-wide statement of activities
  - Capital asset is reported only in the government-wide statement of net assets

### Capitalization-Proprietary

- For proprietary funds, t-code 545 entry is made in the same fund that the purchase is recorded in
  - Capital outlay in the proprietary fund is offset or eliminated within the same fund
  - Capital outlay is not reported in the fund financial statements or the government-wide statement of activities
  - Capital asset is reported in both the proprietary fund and the government-wide statement of net assets

### Capitalization Reminders

- Use same comptroller object as that used in purchase transaction
  - OAM chapter 60.20.00 RF lists all
  - Capital outlay objects begin with "5"
- Use appropriate GL account
  - OAM chapter 60.10.00 RF lists all GL accounts and includes brief descriptions
  - Capital asset GL accounts begin with "08"

For which of the following fund types are assets capitalized in the fund that acquired the assets?

- A. General fund
- B. Special revenue funds
- C. Internal service funds
- D. Enterprise funds
- E. Fiduciary funds

### Purchased Asset

- Capitalize at historical cost, which includes:
  - Purchase price
  - Ancillary charges necessary to place the asset in its intended location (freight)
  - Ancillary charges necessary to place the asset in its intended condition for use (installation & site preparation charges)

### Purchase of a Capital Asset

DR 3500 Expenditure Control-Cash  
comp. object 5150  
equipment & machinery

CR 0070 Cash

*Purchase new office equipment*

Purchase price \$10,000

Freight charge \$500

Set up fee \$200

### Capitalization of Asset

T-code 545

DR 0815 Equipment & Machinery

DR 3074 Change in Capital Assets

CR 3600 GAAP Expenditure Offset  
comp. object 5150

CR 3018 Invested in Capital Assets

*Capitalize new office equipment*

Capitalization amount = \$10,700

### Purchase with a Trade-in

- Capitalize at amount equal to cash paid plus unexpired cost (asset minus accumulated depreciation; book value) of asset traded in
- Example using previous facts but with addition of trade-in equipment
  - Historical cost - \$8,000
  - Accumulated depreciation - \$6,500
  - Unexpired cost (book value) - \$1,500

### New Equipment

Purchase price	\$10,000
Freight charge	500
Set up fee	<u>200</u>
Total cost	10,700
- trade-in allowance	<u>1,000</u>
Cash paid	9,700
+ Book value of trade-in	<u>1,500</u>
Amount to capitalize	\$11,200

### Accounting Entries

1. Purchase of new equipment
2. Capitalization of new equipment
3. Removal of old equipment
  - Fully depreciated portion
  - Unexpired cost (book value)

### Purchase of New Equipment

DR Expenditure – capital outlay

Comp object 5150

CR Cash

*Purchase new equipment*

- Amount of this entry: \$9,700
- Actual cash expenditure

### Capitalization of Asset

T-code 545

DR 0815 Equipment & Machinery

DR 3074 Change in Capital Assets

CR 3600 GAAP Expenditure Offset  
comp. object 5150

CR 3018 Invested in Capital Assets

*Capitalize new office equipment*

- Amount of this entry: \$11,200

### Removal of Old Equipment

- Fully depreciated portion - TC 533
  - DR 0869, Accumulated Depreciation
  - CR 0815, Equipment & Machinery
  - Amount of this entry: \$6,500
- Unexpired cost - TC 545R
  - DR 3600, Exp. Offset CO 5150
  - DR 3018, Invested in Capital Assets
  - CR 0815, Equipment & Machinery
  - CR 3074, Change in Capital Assets
  - Amount of this entry: \$1,500

### Capital Outlay

- Purchase of equipment 9,700
- Capitalization (11,200)
- Removal of depreciated cost 0
- Removal of unexpired cost 1,500
- Capital outlay reported 0

### Donated Capital Assets

- Capitalize at estimated fair value on the date of donation plus ancillary charges
- Estimated fair value may be based on:
  - Market value
  - Appraised value
- Record using t-code 537R
  - CO 2550, capital contributions

### T-code 537R

- DR 08XX capital asset
- DR 3074 change in capital assets
- CR 3200 GAAP Revenue Offset
  - CO 2550, capital contributions
- CR 3018 Invested in capital assets
- 'Other financing source' reported for financial reporting purposes

### Construction of Capital Asset

- Capitalize all costs to construct the asset
- Capitalize ancillary charges necessary to place the asset in its intended location and condition for use
  - Architect fees, subcontractor charges
  - Materials
  - Labor
  - Interest costs on debt (enterprise funds only)

### Construction of Capital Asset

- Until asset is completed, capitalize to GL account 0861, Construction in Progress
  - T-code 545
- Reclass to appropriate asset account upon completion
  - T-code 540

### Additions & Improvements

- The historical cost of a capital asset should include any subsequent additions or improvements (not repairs)
- T-code 545
- Use the same comptroller object that was used to record the purchase or costs associated with the addition or improvement

### Assets Acquired Through Capital Lease Agreements

- To qualify as a capital lease the contract must NOT have a cancellation clause
  - Cancellation clause allows lessee to terminate contract at any time for any reason
  - Ability to cancel for nonappropriation of funds does not eliminate the possibility that contract is a capital lease

- To qualify as a capital lease the contract must meet one of the following 4 criteria:
  1. Ownership of the leased property will be transferred to the lessee at the end of the lease term
    - Use GL 1715 Lease Purchase Contracts Payable-Noncurrent
  2. The lease contains a bargain purchase option
    - Use GL 1715 Lease Purchase Contracts Payable-Noncurrent

3. Lease term is equal to 75% or more of the estimated useful life of the leased property
  - use GL 1716 Obligations Under Capital Lease-Noncurrent
4. Net present value of the minimum lease payments equals at least 90% of the fair market value of the leased property
  - use GL 1716 Obligations Under Capital Lease-Noncurrent

### Assets acquired through capital lease agreements

- Capitalize at net present value of future minimum lease payments (or fair value of leased property if lower)
  - T-code 466
    - DR 0863 Capital Leased Property
    - DR 3074 Change in Capital Assets
    - CR 1715 or 1716 as applicable
    - CR 3018 Invested in Capital Assets
- Capitalize asset acquired through capital lease*

### Assets acquired through capital lease agreements

- Payments on capital lease
  - DR Expenditure (capital outlay)
  - CR Cash

*Make payment on capital lease*

- T-code 459
  - DR 1715 or 1716 as applicable
  - CR 3600 GAAP Exp Offset (capital outlay)

*Reduce capital lease liability*

### Transfer from Another Fund

- Recipient fund reports the asset at the same book value as reported by the fund that the asset is being transferred from (transferring fund)
- Move depreciated portion, using t-codes 529-535, 538, 539, 543, 544, 551-553, 557 (use reverse code in fund that is receiving the asset)
- Transfer book value using balanced t-codes 900 (transferring fund) & 901 (receiving fund)

### Transfer Example

- WRD transfers equipment to DAS
  - Historical cost \$41,382
  - Accumulated depreciation \$13,627
  - Net book value \$27,755
  - Capitalized in
    - GL 0815 Equipment & Machinery
    - GL 0869 (accumulated depreciation)
  - WRD's asset is in GAAP fund 8500, D23 fund 0400
  - DAS records asset in GAAP fund 5001, D23 fund 5250

### Transferring Fund

- Agency 690 GAAP fund 8500 D23 0400
- T-code 533
  - DR 0869 Accumulated Depreciation
  - CR 0815 Equipment & Machinery*Transfer depreciated portion of equipment*
- Amount of this entry - \$13,627

### Transferring Fund

- T-code 900
  - DR 3550 Operating Transfers Out Control
    - comp object 1801 Transfer Out to DAS
  - DR 3018 Invested in Capital Assets
  - CR 0815 Equipment & Machinery
  - CR 3074 Change in Capital Assets*Transfer book value of equipment*
- Agency GL required - 10752500
- Amount of this entry - \$27,755

### Transfers - Receiving Fund

- Agency 107 GAAP fund 5001 D23 5250
- T-code 533R
  - DR 0815 Equipment & Machinery
  - CR 0869 Accumulated Depreciation*Transfer depreciated portion of equipment*
- Amount of this entry - \$13,627

### Transfers -Receiving Fund

- T-code 901
  - DR 0815 Equipment & Machinery
  - DR 3150 Operating Transfers In Control
    - comp object 1375 Transfer In from WRD
  - CR 3018 Invested in Capital Assets
  - CR 3074 Change in Capital Assets*Transfer in book value of equipment*
- Agency GL required - 69004000
- Amount of this entry - \$27,755

### Eminent Domain

- Public acquisition of property
- Condemnation
- The power of government to seize private property for public use
- Capitalize costs associated with acquisition of property as well as ancillary charges necessary to prepare the property for its intended use
- Accounted for in the same manner as property acquired in a negotiated purchase

### Foreclosure

- Capitalize at lower of:
  - The amount due on the property
    - Taxes
    - Special assessments
    - Penalties and interest
    - Foreclosure costs
  - The appraised value of the property
- If intended for resale - record as inventory rather than capital assets

### Which of the following are capitalized at cost plus ancillary charges?

- A. Purchased asset
- B. Asset purchased with a trade-in
- C. Constructed asset
- D. Donated asset
- E. Capital leased asset
- F. Asset obtained by foreclosure

### Collections-Works of Art/HT

- If ALL of the following criteria are met, capitalization is not required:
- The collection is
  - Held for reasons other than financial gain (public exhibition, education, etc.)
  - Protected, kept unencumbered, cared for, and preserved
  - Subject to an organizational policy requiring that the proceeds from sales of collection items be used to acquire other items for collections

### Collections of Works of Art & Historical Treasures

- Collections already capitalized should remain capitalized even if they meet those criteria
- Subsequent additions to a capitalized collection should be capitalized
- Though not *required* if exception criteria are met, capitalization of collections of works of art & historical treasures is strongly encouraged

### Prior Period Adjustments

- Correction of errors or omissions from previous fiscal years
- T-code 114 GL 3060
- 2 examples
  - Capitalized asset at wrong amount in previous fiscal year
  - Depreciation recorded at wrong amount in previous fiscal year

### Capitalization Error

- Machinery capitalized for \$25,000 should have been capitalized at \$23,000 (capitalized maintenance contract in error)
- Correct the error - t-code 545R to reduce asset value
  - DR 3600 GAAP Exp Offset
    - CO ??? Same as in original entry \$2000
  - DR 3018 Invested in Cap Asset \$2000
  - CR 0815 Equipment & Machinery \$2000
  - CR 3074 Change in Capital Assets \$2000

### Capitalization Error

- Record prior period adjustment to eliminate any effect from current year operating statement
- T-code 114
  - DR 3060 Prior Period Adjust \$2000
  - CR 3600 GAAP Exp Offset
    - CO ????\$2000

*Record prior period adjustment*

### Depreciation Error

- Depreciation expense of \$5000 should have been \$3500
- Correct the error - t-code 542R to reduce depreciation expense
  - DR Accumulated Depreciation \$1500
  - DR Change in Capital Assets \$1500
  - CR Depreciation Exp (CO 7476) \$1500
  - CR Invested in Capital Assets \$1500

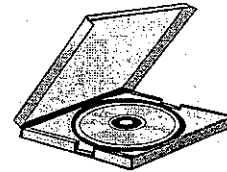
*Reduce depreciation expense recorded in FY 03*

### Depreciation Error

- Record prior period adjustment to eliminate any effect from current year operating statement
- T-code 114R
  - DR 3600 GAAP Exp Offset
  - CO 7476 \$1500
  - CR 3060 Prior Period Adjustment \$1500

*Record prior period adjustment*

### Internal Use Computer Software



### Internal Use Includes

- Used to meet agency internal needs:
  - Software purchased off-the-shelf
  - Software developed internally
  - Software developed by contractor

### Capitalization Guidelines

- ✓ Intangible asset with a cost of \$5,000 or more and useful life of at least 1 year
- ✓ Only appropriate if management has authorized and committed to funding the project, and it is probable the project will be completed
- ✓ Based on the *stage of computer software development* and the *nature of the costs*

## Preliminary Project Stage

Typical activities include:

- Conceptual formulation of performance requirements and alternatives
- Evaluation of alternatives
- Determination of existence of needed technology
- Final selection of alternatives

## Application Development Stage

Typical activities include:

- Design of chosen path, including software configuration and software interfaces
- Coding
- Installation to hardware
- Testing, including parallel processing phase

## Post-Implementation/ Operation Stage

Typical activities include:

- Training
- Application maintenance

## Capitalize vs. Expense

- Costs incurred during *preliminary project stage* are expensed as incurred
- Capitalization of costs begins once the preliminary project stage is complete; then, capitalize or expense based on nature of costs, not timing of incurrence

## Costs to be Capitalized

- Costs to develop or obtain software that allows for access or conversion of old data by new systems
- External direct costs of materials and services incurred to develop or obtain software (i.e., development fees, purchase costs, or travel expenses)

## Costs to be Capitalized

- Payroll and OPE costs for employees directly involved in project (i.e., coding and testing activities)
- Interest costs incurred by enterprise funds due to borrowing

## Costs to be Expensed

- Training costs (internal & external)
- Maintenance costs (internal & external)
- Data conversion costs, *except* costs to develop or obtain software that allows for access or conversion of old data by new systems

## Costs to be Expensed

- Administrative and overhead costs
- Interest costs incurred by governmental funds due to borrowing

## Software Enhancements

- Defined as modifications to existing internal use software that result in *additional functionality* (i.e., new tasks)
  - Normally require new specifications
  - May also require a change to existing specifications
  - Could be major upgrade that adds new capabilities
  - Capitalize costs, as long as modifications result in additional functionality

## Enhancement vs. Expense

- ❖ In contrast to an enhancement, the following costs would be expensed:
  - ✓ Costs incurred to correct a design flaw
  - ✓ Minor upgrade that may extend useful life of software, but does not add to its capabilities

## Amortization

- Begin amortization for each module or component of a software project after all substantial testing is completed
- If functionality of a module is entirely dependent on the completion of another module, begin amortization when both modules are ready for intended use

## Question 1

Which of the following should the decision to capitalize or expense costs of obtaining or developing software be based upon?

- a. The stage of software development
- b. The nature of the costs incurred
- c. A and B
- d. None of the above

## Question 2

For a software development project, when should the capitalization of costs begin?

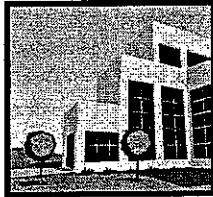
- a. When costs of at least \$5,000 are incurred
- b. After best alternative is decided upon
- c. After preliminary project stage is complete
- d. When final acceptance testing is complete

## Question 3

Which of the following costs would normally be expensed (not capitalized)?

- a. Coding costs
- b. Testing costs
- c. Training costs
- d. Development fees

## Capital Construction



## Capital Construction

- Expenditure for the construction of new buildings or additions to existing buildings
- These projects are to be separately budgeted and accounted for in a specific cost center
- Budgetary definitions only allow capital construction to be used if the project is \$500,000 or more
  - (OAM 65.00.00.RF)

## Capital Improvement

- Expenditure for land or improvements and remodeling of existing buildings
  - Increases value
  - Extends useful life of the property
  - Makes it adaptable to a different use

## Capital Improvement

- These projects are to be separately budgeted and accounted for in a specific cost center
- Budgetary definitions require capital improvement accounting for projects totaling less than \$500,000
  - (OAM 65.00.00.RF)

### Construction in Progress (GL 0861)

- Temporary Capitalization GL Account
  - Contains:
    - Labor
    - Materials
    - Overhead Costs
    - Other costs to complete
  - Project is not completed
    - (OAM 60.10.00.RF)

### Capital Projects Fund

- Fund segregating assets and liabilities for the construction or acquisition of major capital facilities
  - On June 30, the activity is capitalized in the government-wide reporting fund
  - Partially completed projects are included in the Construction in Progress account
  - Upon completion of a project, the buildings or other structures are recorded at cost (OAM 65.00.00.RF)

### Resources

- General Fund
- Debt Issuance
  - Certificates of Participation (normally)
  - Bonds
- Other Funds
  - Special Revenue, Enterprise or Internal Service Funds
- Federal Funds

### Budgeted Funds

- Capital Improvement
  - Appropriated funds XX10
    - 3010 Other Funds Capital Improve
    - 4010 Lottery Funds Capital Improve
    - 6010 Federal Fund Capital Improve
    - 8010 General Fund Capital Improve

### Budgeted Funds

- Capital Construction
  - Appropriated funds XX20
    - 3020 Other Funds Capital Construction
    - 4020 Lottery Funds Capital Construction
    - 6020 Federal Funds Capital Construction
    - 8020 General Fund Capital Construction

### Fund Reporting Requirements

- Capital Projects Fund (GAAP fund 3001)
  - Normally, all **governmental** capital construction and capital improvement projects should be reported in the Capital Projects Fund (this is what is preferred for State of Oregon reporting)
  - The main exception to this is that projects funded by the General Fund continue to be reported in GAAP Fund 0001
    - Appropriated funds 8010 and 8020

## Fund Reporting Requirements

- For Proprietary Funds (Enterprise & Internal Service Funds)
  - For these funds, the capital project will be reported in the fund itself, e.g. GAAP fund 4XXX or 5XXX, not the Capital Projects Fund

## Fund Reporting Requirements

- You need at least one D23 fund for your capital projects
  - Projects funded with proceeds deposited to Cash in Bank (trustee account) should be in D23 fund separate from any proceeds deposited to Cash in State Treasury
    - This is to assure cash control in R\*STARS of Cash in State Treasury

## What to Capitalize

- Preparation of site for use
  - Demolition of buildings
  - Land changes
  - Land improvements
  - Preconstruction costs
  - Permits
- Agency staff salaries
  - If directly related to the capital construction

## What to Capitalize

- Services and Supplies
  - Any S&S related to the construction
  - Contractor costs
- Indirect costs - administration related to the construction project
  - Accounting
  - Budgeting
  - Other administrative

## Interest Capitalization

- **Only if for an enterprise fund**
- Interest should be capitalized when:
  - Expenditures for the capital asset have been made
    - Includes deposits or progress payments
  - Interest is incurred in connection with new or existing debt used to finance construction

## Interest Capitalization

- Interest cost during construction should be recorded as expense in the enterprise fund and then capitalized as part of the asset 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 Capitalization

- Interest earned on unspent monies borrowed for the same period reduces the amount to be capitalized
- Capitalized interest is not included in the cost of assets constructed with resources from governmental funds

### What Not to Capitalize

- "Detachable" assets
  - Those assets that may be budgeted, but not a part of the final constructed asset
    - Systems furniture
    - Sound systems (not built-in)
    - Equipment used for project, but then to be used elsewhere

### Recording the Asset During Construction

- While work is in progress, **all** capitalizable costs are recorded to GL 0861 – Construction in Progress
- For general government construction projects, record Construction in Progress in the Government-wide Reporting Fund
- For Internal Service or Enterprise funds, record costs in the fund itself

### Recording the Asset During Construction

- **Do not** record the costs to the various GLs to which the asset will finally be recorded
  - Costs accumulate in Construction in Progress until asset is ready for use

### Recording the Asset During Construction

- For both governmental and proprietary funds, use TC 545 to record CIP:
  - DR 0861 Construction in Progress
  - CR 3018 Invested in Capital Assets
  - DR Change in Capital Assets
  - CR 3600 GAAP Expenditure Offset
- Be sure to use the appropriate Comptroller Objects when recording – **do not lump amounts into one comp object!**

### Recording the Asset During Construction

- **No** depreciation expense is recorded for assets in Construction in Progress
  - The asset is not in service yet and depreciation is defined as the allocation of costs of in-service assets

## Retainage

- An amount withheld from a contractor payment
- Usually held until completion and acceptance of a project
- Security to assure completion by the contractor

(OAM 65.00.00.RF)

## Accounting for Retainage

- Net payment (gross invoice less retainage)
  - TC 222 for Cash In Treasury
  - TC 566 for Cash in Bank
- Record Retainage in Capital Projects Fund
  - TC 457
  - DR GAAP Expenditure Offset
  - CR 1722 Contracts Payable - Retainage

## Accounting for Retainage

- Note that when the retainage liability is recorded, you use the appropriate comptroller objects to charge expenditure
- You **also** record the associated costs as part of Construction in Progress at the time you record retainage

## Accounting for Retainage

- When a stage of project is done and the work accepted, make payment like any other payment (TC 222 or 566)
- Reduce the retainage liability amount
  - TC 457R
  - DR 1722 Contracts Payable - Retainage
  - CR GAAP Expenditure Offset

## Recording the Asset(s) When Completed

- When the asset is completed and ready for its intended use
  - Construction in Progress should be reduced by the total amount of costs accumulated for the project in the account
  - Capital asset accounts should be increased by the amount of total costs removed from Construction in Progress

## Recording the Asset(s) When Completed

- To record reduction in CIP and increase in capital asset accounts, use TC 540
  - DR Capital Asset GL
  - CR 0861 Construction in Progress
- This TC reduces CIP and increases the appropriate capital asset - it does not affect expenditure like a TC 545, this is only a reclassification

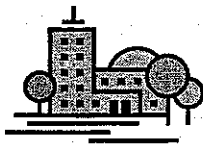
## Determining Project Completion

- Substantially ready for use
  - If you move in, your project is likely substantially complete
    - If there are additional costs, continue to record as additions to assets
  - If your agency signs off on final payment - you're complete!

## Depreciation

- Depreciation should begin when the asset is put into service
- Again, depreciation should **not** have been recorded during the construction of the asset
- Keep in mind the life of the asset **may** be much longer than an equivalent asset in the private sector

## Depreciation and Amortization



## Accounting Definition and Theory

- Depreciation and amortization are not a means of valuation  
*(Assets are not depreciated on the basis of fluctuations in fair market value.)*
- Depreciation and amortization are a means of cost allocation  
*(Costs are charged to expense in a systematic and rational manner to periods expected to benefit from use of the assets.)*

## Applicability

- All assets will be depreciated unless
  - They are inexhaustible (*land and certain works of art and historical treasures are not depreciated*)
  - They have not been placed in service (*construction in progress*)

## Method of Depreciation

- With the exception of infrastructure, agencies should use the straight-line method of depreciation
- Infrastructure may be depreciated using any generally accepted accounting principles (GAAP) method of depreciation as long as it is applied consistently from year to year
- At a minimum, depreciation must be calculated and recorded at the general ledger account level in R\*STARS

Transaction Code 542  
Example Accounts for Open G/L

- 0867 Accum Depr Land Improvements
- 0868 Accum Depr Data Proc Software
- 0869 Accum Depr Equip and Machinery
- 0870 Accum Amort Leasehold Imprvmt
- 0872 Accum Depr Motor Vehicles
- 0873 Accum Depr DP Hardware
- 0875 Accum Depr Bldgs & Bldg Imprvmts
- 0880 Accum Depr State Highways
- 0882 Accum Depr Airports

## Caveat

- Depreciation method must be in compliance with applicable statutes
- Selected depreciation method should meet the requirements of the federal government or other organizations related to rate determination or cost recovery

## Straight-line Method

- Deduct the estimated salvage value from the cost of the asset and divide the remaining depreciable cost by the estimated years of useful life
- Salvage value – *expected residual value at the end of useful life*
- Useful life – *recommended ranges, subject to professional judgment, are listed in OAM 15.60.20*

## Estimating Useful Life

Physical factors  
Economic factors

- Physical life and service (useful) life are not necessarily equal
- Reevaluate useful life when there is change to the asset or its environment

## Group Depreciation

- Single life (usually weighted average) for a group of assets in the same general class
- An annual depreciation rate for the group is determined
- Simplifies and tends to average or offset errors caused by over or under depreciation
- Option to depreciate at a more detailed level in subsidiary ledger

## Documentation Reminders

- Maintain a capital asset management system to track depreciation
- Depreciation computations for all capital assets must be retained for the life of the asset(s)
- Include a consistent policy for partial year depreciation

### GAAP Fund

- Depreciation expense for a capital asset recorded in a proprietary fund or fiduciary fund is recorded in the same fund as the asset
- Depreciation of general capital assets is recorded in the government-wide reporting fund

### Depreciation Example

- Historical cost of building (Governmental asset) \$5,250,000
- Useful life of 25 years
- Residual value after 25 years is \$250,000

### Depreciation Example

$$\frac{\$5,250,000 - \$250,000}{25}$$

Depreciation would be \$200,000 each year for 25 years

Transaction Code 542  
(Accum Deprec/Amort-Prop/Govt-Wide/Fid)

### Comptroller Objects

- 7475 Amortization of Leasehold Improvements
- 7476 Depreciation Expense
- 7477 Amortization of Leased Property
- 7478 Amortization Expense - Software

### R\*STARS Entry Depreciation Expense

TC 542 – GAAP Fund 8500

Dr 3600 GAAP Expenditure Offset	200,000
Dr 3018 Invested in Capital Assets	200,000
Cr 0875 Accumulated Depreciation -- Bldgs	200,000
Cr 3074 Change in Capital Assets (Comptroller Obj 7476)	200,000

### Capital Asset Disposals



All surplus capital assets will be disposed of in accordance with Department of Administrative Services Policy.

DAS Statewide Policy 107-02-001

Bob Laduke: 503-378-4714 ext. 224

### What T-Codes are used to record sales and removal of assets?

- TC 149: Record proceeds from sale
- TC 529 - 535, 538, 539, 543, 544, 551-553, and 557: Remove accumulated depreciation
- TC 537: Remove unexpired cost

### Proceeds from Sale of Capital Asset – TC 149

- Comptroller Object 2330 only – Gain (loss) on disposition of assets
- DR 0065 Unreconciled Deposit
  - CR 3100 Revenue Control – Cash

### Proceeds – TC 149

- For General Government Capital Assets
  - Proceeds are recorded in the Governmental Fund receiving the cash. (*Capital Assets and their depreciation are recorded in the Government-wide Reporting Fund*)
- For Capital Assets in Proprietary Funds
  - Proceeds are recorded in the Proprietary Fund in which the asset and depreciation are also recorded.

### TC 529 - 535, 538, 539, 543, 544, 551-553, and 557 – Dispose of Depreciated Portion of Asset

- Dr 08XX Accumulated Depreciation
- Cr 08XX Capital Asset

(No comptroller object)

TC	Dispose of or Adjust this asset type in proprietary, fiduciary or gov't-wide	DR GL (Accum Depr)	CR GL (Asset)
529	Motor Vehicles	0872	0816
530	Buildings & Improvements	0875	0852
531	Land Improvements	0867	0856
532	DP Software	0868	0817
533	Equipment & Machinery	0869	0815
534	Leasehold Improvements	0870	0862
535	Capital Leased Property	0871	0863
538	DP Hardware	0873	0818
539	Art/Historical Treasures	0876	0812

### TC 537 - Eliminate Asset Value/Record Loss

- Remove asset value greater than accumulated depreciation against gain/loss account in proprietary, government-wide or fiduciary fund  
(Remove Book Value)

Comptroller object - 2330 Gain (Loss) on disposition of assets

- DR 3600 GAAP Revenue Offset
- DR 3018 Invested in Capital Assets
  - CR 0811-0863 (Capital Asset)
  - CR 3074 Change in Capital Asset

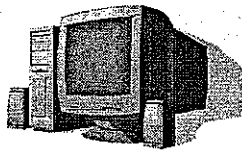
### Quiz

- What transaction code would *not* be used in recording disposal of a fully depreciated capital asset?

*Hint: (Transaction code used to remove book value)*

- What transaction codes would be used in recording disposal of a nondepreciable asset?
- True or False: Transaction code 545R is used to record the sale of an asset.

### Non-capital Assets



### Definition of Non-capital Asset

- Tangible or intangible property used in agency operations having a useful life **beyond a single year** and an initial cost (inclusive of ancillary charges) of less than \$5,000.
- What is intangible? A nonphysical resource like goodwill, copyrights/trademarks, patents, capitalized advertising costs, and organization costs.

### Examples of Non-capital Assets

- Scanner
- Cellular phone
- Calculator
- Tape recorder
- Gun
- Laptop computer
- Personal computer
- Camera
- This list is complete ... NOT!

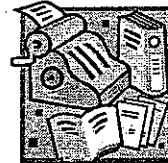
### Tracking Non-capital Assets

- OAM policy says that an agency may choose to track non-capital assets in the agency's property ledger. Let's assume this is off-R\*STARS (15.55.00.PO)
- Need controls over non-capital assets susceptible to theft or loss

### Other Definitions to Consider

- Risk Management Division defines Personal Property as moveable property. Examples are merchandise, furniture, goods, air, land or water vehicles, moveable machinery, tools, equipment, and supplies. (*Property Self Insurance Policy Manual*)
- An Annual Risk Report is required of agencies by Risk Management Division of all personal and real property. Alternative listings and ledgers can be used by you and by the auditors!

### Reconciling Capital Assets To Expenditures and to Property Ledger



### Objective: Quarterly 3-Way Reconciliations

- Reconcile capital outlay expenditures to increases in property ledger
- Reconcile increases in capital assets general ledger balances to capital outlay expenditures
- Reconcile general ledger balances to subsidiary property ledger

### What do you need?

- Detail transactions and summary amounts for
  - Capital outlay
    - Comptroller objects 5000-5999
    - All capital projects expenditures
  - Capital assets
  - Property ledger (may be outside R\*STARS)
  - Property disposition records

### The Reconciliation

- Create a spreadsheet for comparison
- Compare capital outlay expenditures to capital asset increases
- If the totals match, you are done
- If not, research all differences
- Make needed entries
- Keep all reconciliation data together

### Reconciliation Differences

- Capital assets not recorded on the books and/or property ledger by end of quarter
- Capital assets recorded in the incorrect fiscal year
- Capital Projects Fund expenditures not capitalized
- Expenditure not recorded in the correct comptroller object

## Auditing Considerations

From an auditing textbook: *"The inclusion of transactions that should properly be recorded as assets in Repairs and maintenance expense, Lease expense, Supplies, Small tools, and similar accounts is a common client error."* If the auditor concludes that material error is likely then *"it may be necessary to vouch (or trace) the larger amounts debited to the expense accounts."*

**NO!** You don't want that! Take the initiative and check out your material purchases!

## Additional thoughts on reconciling

- Don't forget the subsidiary ledger. My examples were fairly simplistic to illustrate capital outlay versus disbursements.
- Watch out for contractor postings to CObj 4500 (Prof Svcs) or CObj 4505 (Prof Svcs over \$75k).
- Bundled purchases can pose a difficulty. OAM 15.60.40.PR.113 says to allocate the costs among various elements.

## Quiz question #1

Your agency purchases three laptops for a total price of \$6,000? Do you:

- Capitalize the entire \$6,000 and record as GL 0818 (DP Hardware).
- Purchase the item using an appropriate Supplies Expense. Prepare no capitalization entry. Since the item is a supply item do not require the item to be inventoried.
- Purchase the item using an appropriate Data Processing Supplies Expense. Prepare no capitalization entry. Make sure this item is inventoried.

## Quiz question #2

Capital outlay expenditures must be reconciled to changes in the property ledger. In addition the general ledger and subsidiary property ledger should be reconciled. The reconciliation of the two ledgers should include:

- Changes during the period identifying amount.
- Changes during the period identifying amount and date of acquisition.
- Changes during the period identifying amount, date of acquisition, and voucher number.
- Changes during the period identifying amount, date of acquisition, voucher number, and property disposition records.

## Quiz question #3

In the OAM, how often should subsidiary property ledger records be reconciled to the General Ledger?

- Monthly
- Quarterly
- Yearly

## Extra credit: Quiz

Will Risk Management Division pay for the loss of personal property stolen in a state office building?

- Yes
- No, in all cases
- No, in some cases

## Reporting Invested In Capital Assets



## Definition of Invested in Capital Assets

This component of net assets consists of capital assets net of accumulated depreciation and reduced by outstanding balances of any bonds, certificates of participation, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

## Invested in Capital Assets in R-Stars

Total Capital Assets  
- Accumulated Depreciation  
 Net Capital Assets

Net capital assets is amount in GL Account 3018, Invested in Capital Assets

## Types of Debt Used to Finance Capital Assets

- Revenue Bonds
- General Obligation Bonds
- Certificates of Participation
- Capital Leases
- Lease Purchases

## Disclosure Form

- GAAP fund where debt is recorded  
 In the fund itself for Proprietary assets  
 Or the Government – Wide Reporting fund for governmental assets
- General Ledger Account
- Type of debt used to finance assets
- Year end outstanding balance of the debt related to capital assets
- Construction Capitalized

## How Disclosure Information is Used - Example

Capital Asset	2,000,000
Accumulated Depreciation	<u>400,000</u>
Invested in Capital Assets	1,600,000
Outstanding Debt	<u>600,000</u>
Invested in Capital Assets, Net of Related Debt	<u>1,000,000</u>

### Proprietary Funds Example

- Building Cost 1,000,000
- Borrow money - COPS
- Will finish in two years
- Capitalized 50% of the building - first year
- No principle payment made on COP yet
- Disclosure

### Example Results

- Construction in Progress 500,000
- Related Debt 999,650  
(1,000,000-350 (discount on cops))
- Zero Invested in Capital Assets, Net of Related Debt because debt exceeds amount of partially completed project that has been capitalized.

### Disclosure Requirements for Capital Assets



### Disclosure Areas

- State's policy for capitalization
- Depreciation method
- Useful life ranges
- Changes in capital asset balances
- Depreciation expense by function

### Disclosure Areas (cont.)

- Construction commitments
- Collections of historic artifacts and works of art not capitalized
- Capital leases

### Related Year End Disclosure Forms

- Outstanding debt related to capital assets
- Works of art and historical treasures not capitalized
- Capital lease obligations
- Construction contract commitments

### Works of Art and Historical Treasures Not Capitalized

- Disclosure requirement
- 3 conditions – must meet all 3
- Do not fill out disclosure if item has been capitalized or if historical cost or fair value at date of donation is less than \$5000.

### Capital Lease Disclosures

- Three disclosures
  - Schedule of future lease payments
  - Changes in liability in government-wide reporting fund
  - Book value of capital leased assets

### Construction Contract Commitments

- Disclosure form
- Project description
- Spent-to-date
- Remaining commitment funding source – 4 sources: GF,FF,LF, and OF

### Relevant Accounting Policies

- Capitalize: Cost of \$5,000 or more and estimated useful life of at least 1 year
- Straight-line depreciation used
- Estimated useful life ranges for major classes of capital assets

### CAFR Level Reporting

#### 5 Major Classes:

- Land
- Construction in Progress
- Works of Art and Historical Treasures
- Buildings, Property, and Equipment
- Infrastructure

### Changes in Capital Assets

- Beginning balance
- Increases (i.e., purchases, donations)
- Decreases (i.e., sales, disposals)
- Ending balance

## Depreciation Expense

- Disclosed separately for governmental activities, business-type activities, and fiduciary fund activities
- Shown by function (i.e., program)
- Total for fiscal year

## Capital Asset Impairments



## GASB Statement No. 42

- GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*
- Capital asset impairments
- Insurance recoveries
- Effective FY 2006

## Impairment

*A significant and unexpected decline in the service utility of a capital asset*

service utility = usable capacity

## Indicators of Potential Impairment

- ❖ Write-down only required if a specific, easily recognized **indicator** is present:
  1. Evidence of physical damage
  2. Changes in legal or environmental factors
  3. Technological changes or obsolescence
  4. Changes in manner or duration of use
  5. Permanent construction stoppage

## Test of Impairment

- Event or change must be outside the normal life cycle of the capital asset **and**
  - Outside effects of age and use
- The magnitude of the decline in service value must be significant
  - Excludes insignificant declines in service value

## Temporary vs. Permanent Impairments

- Temporary impairments are not recognized
- Permanent impairments must be recognized
  - Impairments are *presumed* to be permanent

## Example of Temporary Impairment

For example, a training center for police recruits that is not being used due to declining enrollment should not be written down if evidence, such as future police recruit projections substantiated by residential development data, college enrollment, or other economic indicators demonstrates that the closing of the training center will be temporary.

## Overview of GASB Treatment

	Out of service		Still in service	
	Permanently	Temporarily	Same useful life	Shorter useful life
Statement of Position	Lower of carrying value or fair value	Carrying value	Impairment loss subtracted from carrying value	Impairment loss subtracted from carrying value
Statement of activities	Write-down to fair value if necessary	Suspend depreciation until service resumes	Impairment loss net of insurance recoveries	Impairment loss net of insurance recoveries

## Changes in Demand or Usage

Two different situations

- A simple change in demand does *not*, of itself, constitute an impairment
- A change in demand associated with an **indicator**, on the other hand, can result in an impairment

## Calculation of Impairment

- Method used depends on reason for impairment
- Four methods
  - Restoration cost approach
  - Service units approach
  - Deflated depreciated replacement cost approach
  - Lower of carrying value or fair value

## Reason

- Evidence of physical damage
- Changes in legal or environmental factors
- Technological changes or obsolescence

## Measurement

- Restoration cost approach
- Service units approach
- Service units approach

Reason	Measurement
<ul style="list-style-type: none"> <li>• Change in manner or duration of use</li> <li>• Permanent construction stoppage</li> </ul>	<p>Two alternatives</p> <ul style="list-style-type: none"> <li>• Service units approach</li> <li>• Deflated depreciated replacement cost approach</li> <li>• Lower of carrying value or fair value</li> </ul>

**Question 1**

Which of the following is the appropriate method to use for an impairment related to a change in manner or duration of use?

- Service units
- Deflated depreciated replacement cost
- A or B
- None of the above

**Restoration Cost Approach**

- Used when there is physical damage
- Identify restoration costs (current year dollars)
  - Separate capitalizable amounts from noncapitalizable amounts, if relevant
- Choose dollar basis for comparison
  - Option 1 - Current year dollars
  - Option 2 - Year of acquisition dollars

**Restoration Cost Approach**

- Convert to single basis
  - Option 1 - Identify replacement cost of entire asset (i.e., current year dollars)
  - Option 2 - Deflate restoration costs (i.e., year of acquisition dollars)

**Restoration Cost Approach**

- Establish ratio
  - Option 1 - Restoration cost/current replacement cost
  - Option 2 - Deflated restoration cost/historical cost
- Apply ratio to carrying value to calculate gross loss
- Net against insurance recoveries

**Option 1 Example  
Mold Contamination**

Calculation of carrying value:

Historical cost	\$2,435,000
Accumulated depreciation	<u>(920,000)</u>
Carrying value	\$1,515,000

### Identify remediation/restoration costs

Remediation/restoration costs:

Restoration costs (capitalizable):	\$2,400,000
Remediation costs (noncapitalizable):	<u>1,600,000</u>
Total	\$4,000,000

### Convert to single basis

Option 1 – focus on current year dollars

Identify current replacement cost of entire asset:

Replacement cost	\$6,200,000
------------------	-------------

### Establish ratio (current year dollars)

Restoration cost: \$2,400,000  
Current replacement cost: \$6,200,000

$$\frac{\$2,400,000}{\$6,200,000} = 38.7\%$$

### Apply ratio to carrying value to calculate gross loss

Damaged portion x CV = gross loss

$$38.7\% \times \$1,515,000 = \$586,452$$

### Net against insurance recoveries

Gross loss	\$586,452
Insurance recoveries	<u>(0)</u>
Net impairment loss	\$586,452

### Example of adjusting carrying value

Carrying value	\$1,515,000
Less: impairment loss	<u>(586,452)</u>
Subtotal	\$ 928,548
Add: restoration costs	<u>\$2,400,000</u>
Adjusted carrying value	\$3,328,548

## Question 2

If the focus is on *current year dollars* using the restoration cost approach, the relationship between what two numbers should be expressed as a ratio?

- a. Restoration cost/replacement cost
- b. Deflated restoration cost/replacement cost
- c. Restoration cost/historical cost
- d. Deflated restoration cost/historical cost

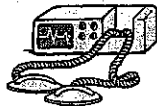
## Question 3

To what should the ratio calculated for the restoration cost approach be applied?

- a. Carrying value
- b. Historical cost
- c. Replacement cost
- d. A or B depending upon the option used

## Service Units Approach

- Used when there are:
  - Changes in legal or environmental factors
  - Technological changes or obsolescence
  - Changes in manner or duration of use (option)



## Service Units Approach

"Before and after" focus

Three ways to apply:

Impairment loss calculated using ratio:

1. Lost units over *total* life
  - Compare to historical cost
2. Lost units per period/total units per period
  - Compare to carrying value

## Service Units Approach

3. Impairment loss calculated by multiplying unit cost x number of remaining units

## Lost units over *total* life: underground storage tanks

- Change in legal/environmental factor
- Historical cost = \$700,000
- Unit = 1 year of storage
- Original number of units = 40 (years)
- Impairment: legal change shortens useful life to just 11 years
- Lost units = 29

### Ratio lost/total units (storage tanks)

Ratio of lost units/total units = 29/40

Ratio applied to historical cost:

$29/40 \times \$700,000 = \$507,500$  impairment loss

### Lost units over *remaining* life: stadium

- Change in manner/duration of use
- Historical cost = \$120 M
- Accumulated depreciation = \$68 M
- Carrying value = \$52 M
- Unit = Revenue for one major league game (other events = 1/5 unit)

### Lost units (stadium)

- Units before team lost = 85.8
  - 81 games + 24 other events (4.8 units)
- Units after team lost = 7.2
  - 36 other events
- Lost units per year:

$$\begin{array}{r} 85.8 \\ - 7.2 \\ \hline 78.6 \end{array}$$

### Ratio of lost/total units (stadium)

Ratio of lost units/total units =  
 $78.6/85.8$

Ratio applied to carrying value:

$$\frac{78.6}{85.8} \times \$52 \text{ M} = \$47,637,200 \text{ loss}$$

### Cost of *remaining* units: MRI

- Technological change/obsolescence
- Historical cost = \$2.25 million
- Accumulated depreciation = \$964,286
- Carrying value = \$1,285,714
- Unit = test

### Units before and after (MRI)

- Expected use prior to better option
  - >7 years (total estimated useful life)
  - >10 tests/day
  - >Tests 5 days/week
- Expected use after technological change
  - >4 years remaining
  - >1 test/day
  - >Tests 5 days/week

### Unit cost (MRI)

Total units (original):

10 tests/day x 5 days/week x 7 years  
x 52 weeks = 18,200 tests (total)

Unit cost:

\$2,250,000 cost/18,200 tests = \$124  
per test

### Cost of remaining units (MRI)

Units remaining:

1 test/day x 5 days/week x 4 years x  
52 weeks = 1,040 tests

Value of remaining units:

1,040 units x \$124/unit = \$128,960

### Impairment loss (MRI)

Carrying value	\$1,285,714
Value of remaining units	<u>(128,960)</u>
Impairment loss	\$1,156,754

### Question 4

Under the service units approach,  
when a ratio is used, lost units are  
compared to which of the following:

- Total units over entire life of asset
- Total units per period
- Weighted average units
- A or B

### Deflated Depreciated Replacement Cost Approach

- Used when there is a change in manner or duration of use
- Identify cost today of a hypothetical replacement asset specifically suited to the new use
- Depreciate the cost of the replacement asset
- Deflate the cost to restate it on the basis of acquisition year dollars
- Subtract deflated depreciated value from carrying value to calculate impairment loss

### School now used for storage

- Historical cost = \$10 M
- Accumulated depreciation = \$2.4 M
- Carrying value = \$7.6 M
- Replacement cost for equivalent storage space today = \$4.2 M
- Acquisition year dollars/current year dollars = 100/150

### Depreciate the cost of hypothetical replacement

Actual asset:

$\$7.6 \text{ M (carrying value)} = 76\%$   
 $\$10 \text{ M (historical cost)}$

Carrying value of depreciated hypothetical replacement asset:  
 $\$4.2 \text{ M cost} \times 76\% = \$3,192,000$

### Deflate cost of replacement asset to acquisition year

$\frac{\$3,192,000 \text{ (CV)} \times 100}{150} = \$2,128,000$

### Calculate loss (carrying value less new value)

Carrying value	\$7,600,000
Deflated depreciated replacement cost	<u>2,128,000</u>
Impairment loss	\$5,472,000

### Lower of Carrying Value or Fair Value

- Used when:
  - Asset is being taken out of service
  - Permanent construction stoppage
- Impaired capital asset that will no longer be used and asset impaired by construction stoppage should be reported at the lower of carrying value or fair value

### Classification of Impairment Losses

- Three possibilities
  - Extraordinary item
  - Special item
    - Must be subject to management control (e.g., change in manner of use)
  - Program/operating expense
    - Unlike gains/losses on disposal
    - Gain = *Charges for services* category

### Insurance Recoveries

- Applicable generally, not just to capital asset impairments
  - Such as for theft or embezzlement of cash or other monetary assets

### Recognition of Insurance Recoveries

- Only recognize when realized or realizable
- Restoration/replacement is a separate transaction

### Classification of Insurance Recoveries

- Governmental funds
  - Other financing source, or
  - Potentially extraordinary item

### Classification of Insurance Recoveries

- Proprietary funds and Government-wide
  - When recovery and loss occur in the same year, report impairment loss net of insurance recovery
  - When insurance recovery occurs in subsequent years, report as:
    - Program revenue, or
    - Nonoperating revenue, or
    - Extraordinary item

### Note Disclosures

- Amount and classification of impairment losses (if not visible in statements)
- Assets idle because of impairments
  - Whether impairment is temporary or permanent
- If not apparent, amount and classification of insurance recoveries

### Question 5

Which of the following would *not* constitute an asset impairment, if material?

- Equipment operating at less than anticipated levels because of new technological alternatives
- Equipment operating at less than anticipated levels because of changes in the legal environment
- Equipment operating at less than anticipated levels due to insufficient demand
- All of the above

### Question 6

An impairment should always be recognized if a capital asset is being used in a different manner or for a different use than originally intended.

- True
- False

## Question 7

Which off the following should be disclosed in the notes to the financial statements?

- a. Assets idle because of temporary impairments
- b. Assets idle because of permanent impairments
- c. Both A and B
- d. None of the above

## Resources

- OAM policies and procedures:
  - 15.60.10 Classification & Capitalization
  - 15.60.20 Depreciation & Amortization
  - 15.60.30 Capital Leases
  - 15.60.40 Computer Software
  - 15.55.00 Non-capital Assets
- SARS Analyst
- OAM link:  
[http://egov.oregon.gov/DAS/SCD/SARS/oam\\_toc.shtml](http://egov.oregon.gov/DAS/SCD/SARS/oam_toc.shtml)

## Capital Assets Training Classification Pretest

1. Cost of moving buildings in preparation for building the North Mall office building
  - a. Buildings and building improvements
  - b. Expensed not capitalized
  - c. Land
  - d. Land improvements
2. New Warner Creek correctional facility design phase preconstruction expenses
  - a. Expensed not capitalized
  - b. Land improvements
  - c. Construction in progress
  - d. Building and building improvements
3. Building restoration within the fort area at Fort Stephens State Park
  - a. Buildings and building improvements
  - b. Works of art and historic treasures-not depreciated
  - c. Not capitalized
  - d. Leasehold improvements
4. Collection of 100 sea and landscapes in patient rooms at the Oregon Veterans' Home
  - a. Works of art and historical treasures-not depreciated
  - b. Works of art and historical treasures-depreciated
  - c. Under the \$5,000 threshold for capitalization
  - d. Buildings and building improvements
5. Large Heidelberg offset printing press at the DAS print plant
  - a. Data processing software
  - b. Equipment and machinery
  - c. Data processing hardware
  - d. Capital leased property
6. Parking lot sweeper
  - a. Equipment and machinery
  - b. Motor vehicles
  - c. Land improvements
  - d. Utility systems
7. Computer program that runs the banking system
  - a. Equipment and machinery
  - b. Works of art and historical treasures-depreciated
  - c. Capital leased property
  - d. Data processing software
8. IBM computer that houses the datamart
  - a. Data processing software
  - b. Equipment and machinery
  - c. Data processing hardware
  - d. Leasehold improvements
9. State archives building
  - a. Building and building improvements
  - b. Works of art and historical treasures-depreciated
  - c. Leasehold improvements
  - d. Land improvements

10. State fair grounds paved carnival area
  - a. Utility systems
  - b. Land
  - c. Building and building improvements
  - d. Land improvements
11. Systems furniture installed in a leased facility
  - a. Capital leases
  - b. Building and building improvements
  - c. Expensed nor capitalized
  - d. Leasehold improvements
12. Computer server at the Department of Water Resources
  - a. Data processing software
  - b. Equipment and machinery
  - c. Data processing hardware
  - d. Capital leased property
13. Lighting along Interstate 5 (purchased with federal dollars)
  - a. Other roads
  - b. State Highway
  - c. Not capitalized
  - d. Utility systems
14. Asphalt access roads within the South Santiam Fish Hatchery
  - a. State highways
  - b. Other roads
  - c. Land improvements
  - d. Docks, dikes, and dams
15. Replacement of the I-5 bridge over the McKenzie River
  - a. Works of art and historical treasures-depreciated
  - b. Other roads
  - c. Tunnels and bridges
  - d. State highways
16. Hanger building at the Independence State Airport
  - a. Building and building improvements
  - b. Airports
  - c. Land improvements
  - d. Leasehold improvements
17. Fiber optics network at the State Penitentiary complex
  - a. Buildings and building improvements
  - b. Land improvements
  - c. Data processing hardware
  - d. Utility systems
18. Boat dock at Champoeg State Park
  - a. Land improvements
  - b. Buildings and building improvements
  - c. Docks, dikes and dams
  - d. Utility systems

## Capital Construction Exercise

### Facts for Exercise

Capital Construction Project - Other Funds

Contractors have a 10% retainage withheld until acceptance of project

No other construction projects in process

Land is owned by State already.

Buildings have a 50 year estimated useful life; half-year depreciation taken in 1st year of service

Equipment has a 5 year estimated useful life, half year depreciation taken in 1st year of service

### FY 2004 Transactions:

Preconstruction costs of \$30,000 paid to Architect (no retainage)

Preconstruction costs of \$25,000 for building demolition on State-owned land (no retainage)

Laptop purchased for project manager for \$4,000

Foundation contractor invoices \$100,000

Agency spends \$25,000 for Personal Services for project manager

Agency spends \$1,000 for Services & Supplies for project manager

### FY 2005 Transactions

Foundation work accepted & balance paid

Construction contractor invoices \$250,000 8/30/2004

Construction contractor invoices \$250,000 11/30/2004

Construction contractor invoices \$250,000 2/30/2005

Construction contractor invoices \$250,000 5/30/2005

Construction contractor invoices \$100,000 6/30/2005

Agency spends \$25,000 for Personal Services for project manager

Agency spends \$1,000 for Services & Supplies for project manager

### FY 2006 Transactions

Construction contractor invoices \$250,000 8/30/2005

Agency accepts project & pays balance of invoices 10/15/2005

Agency spends \$5,000 for Personal Services for project manager

Agency purchases systems furniture for \$35,000 10/30/2005

Agency Moves in 11/15/2005

### Capital Construction Exercise

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- 1) **What is the value of Retainage at the end of FY 2004?**
- A) 10,000
  - B) 18,500
  - C) 18,100
  - D) 15,500
- 2) **What is the value of Construction in Progress at the end of FY 2004?**
- A) 171,000
  - B) 181,000
  - C) 175,000
  - D) 185,000
- 3) **What is the total amount of expenditures reported in FY 2004 in the capital projects fund?**
- A) Personal Services \$25,000, S&S \$1,000, Capital Outlay \$155,000
  - B) Personal Services \$25,000, S&S \$5,000, Capital Outlay \$155,000
  - C) Personal Services \$25,000, S&S \$1,000, Capital Outlay \$145,000
  - D) Personal Services \$25,000, S&S \$5,000, Capital Outlay \$145,000
- 4) **What is the value of Retainage at the end of FY 2005?**
- A) 120,000
  - B) -0-
  - C) 10,000
  - D) 110,000
- 5) **What is the value of Construction in Progress at the end of FY 2005?**
- A) 1,187,000
  - B) 1,311,000
  - C) 1,307,000
  - D) 1,197,000
- 6) **What is the total amount of expenditures reported in FY 2005 in the capital projects fund?**
- A) Personal Services \$25,000, S&S \$5,000, Capital Outlay \$1,006,000
  - B) Personal Services \$25,000, S&S \$5,000, Capital Outlay \$1,126,000
  - C) Personal Services \$25,000, S&S \$1,000, Capital Outlay \$1,016,000
  - D) Personal Services \$25,000, S&S \$1,000, Capital Outlay \$1,100,000

**Capital Construction Exercise**

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7) **What is the value of Construction in Progress at the end of FY 2006?**

- A) -0-
- B) 1,557,000
- C) 1,562,000
- D) 1,441,000

8) **What is the total amount of expenditures reported in FY 2006 in the capital projects fund?**

- A) 290,000
- B) 245,000
- C) 280,000
- D) 255,000

9) **What was reclassified from Construction in Progress in FY 2006?**

- A) Land \$25,000, Buldings \$1,537,000, Equipment \$ 4,000
- B) Land \$ -0-, Buldings \$1,562,000, Equipment \$ 4,000
- C) Land \$ -0-, Buldings \$1,562,000, Equipment \$ -0-
- D) Land \$25,000, Buldings \$1,537,000, Equipment \$35,000

10) **How much depreciation should be charged in each fiscal year?**

- A) FY 2004 \$400, FY 2005 \$800, FY 2006 \$15,620
- B) FY 2004 \$ -0-, FY 2005 \$ -0-, FY 2006 \$15,970
- C) FY 2004 \$ -0-, FY 2005 \$ -0-, FY 2006 \$19,120
- D) FY 2004 \$ -0-, FY 2005 \$ -0-, FY 2006 \$15,620

### Example 1 - Partially Depreciated Governmental Asset Sale

T-Code	GL Acct No.	GL Account Title	Amount	
			Debit	Credit
<b>Special Revenue Fund</b>				
		<i>Record Sale Proceeds</i>		
149		Compt. Object 2330		
	0065	Unreconciled Deposit	5,000	
	3100	Revenue Control Cash -Gain/Loss on Sale		5,000
<b>Government-Wide Reporting Fund</b>				
		<i>Remove Accumulated Depreciation</i>		
529	0872	Accumulated Depreciation - Motor Vehicles	15,000	
	0816	Motor Vehicles		15,000
		<i>Remove Unexpired Cost</i>		
537		Compt. Object 2330		
	3018	Invested in Capital Assets	5,000	
	3200	GAAP Revenue Offset - Gain/Loss on Sale	5,000	
	0816	Motor Vehicles		5,000
	3074	Change in Capital Assets		5,000
Gain/Loss on Sale of Capital Asset =			0	
		TC 149 \$5000 (revenue); TC 537 \$5000 (offset)		
		(5,000) + 5,000 = 0		

## Example 2 - Fully Depreciated Proprietary Asset Sale

T-Code	GL Acct No.	GL Account Title	Amount	
			Debit	Credit
<b>Enterprise Fund</b>				
		<i>Record Sale Proceeds</i>		
149		Compt. Object 2330		
	0065	Unreconciled Deposit	200,000	
	3100	Revenue Control Cash -Gain/Loss on Sale		200,000
		<i>Remove Accumulated Depreciation</i>		
530	0875	Accumulated Depreciation - Buildings and Building Improvements	500,000	
	0852	Buildings and Building Improvements		500,000
		Gain on Sale of Capital Asset =		200,000
		TC 149 \$200,000 (credit to revenue)		

### Example 3 - Sale of Non-Depreciable Proprietary Asset

T-Code	GL Acct No.	GL Account Title	Amount	
			Debit	Credit
<b>Enterprise Fund</b>				
		<i>Record Sale Proceeds</i>		
149		Compt. Object 2330		
	0065	Unreconciled Deposit	75,000	
	3100	Revenue Control Cash -Gain/Loss on Sale		75,000
		<i>Remove Unexpired Cost</i>		
537		Compt. Object 2330		
	3018	Invested in Capital Assets	50,000	
	3200	GAAP Revenue Offset - Gain/Loss on Sale	50,000	
	0850	Land		50,000
	3074	Change in Capital Assets		50,000
		Gain on Sale of Capital Asset =		25,000
		TC 149 \$75,000 (Revenue); TC 537 \$50,000 (Offset) = 25,000		

**Handout #1A**

**GAAP FUNDS**

	8500 <i>Governmental</i> Assets	4003 <i>Proprietary</i> Assets
Increases per Books		
GL Acct 0815	35,000	5,000
GL Acct 0852	150,000	50,000
GL Acct 0856	35,000	-
	<u>220,000</u>	<u>55,000</u>
Capital Outlay Expenditures		
GAAP fund 1002	35,000	-
GAAP fund 3001	185,000	-
GAAP fund 4003	-	55,000
	<u>220,000</u>	<u>55,000</u>
Increases per Property Ledger	185,000	-
Unrecorded Assets for period	35,000	55,000
	<u>220,000</u>	<u>55,000</u>

**Handout #1B**  
**Sample Combined Reconciliation**

Governmental Capital Assets				
	Beginning Balance, July 1, 2003	Increases	Decreases	Ending Balance Sept 30, 2003
<b>Balance Per General Ledger:</b>				
GL 0815	2,451,600	110,000	-	2,561,600
GL 0817	765,230	125,500	-	890,730
GL 0818	1,250,250	180,000	-	1,430,250
GL 0852	10,850,653	125,000	-	10,975,653
Total per General Ledger	15,317,733	540,500	-	15,858,233

**Reconciling Items:**

Van Sold 9/29/2002 - not recorded on GL - PDR #142896789	-	-	20,000	(20,000)
Equipment Purchased 9/25/2002 not Recorded in GL	-	10,000	-	10,000
Adjusted GL balances	<u>15,317,733</u>	<u>550,500</u>	<u>20,000</u>	<u>15,848,233</u>

**Balance Per Property Ledger:**

Transactions Per Ledger	15,317,733	540,500	20,000	15,838,233
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**Reconciling Items:**

Equipment Purchased 9/25/2002 not Recorded in Property Ledger - Tag # 47893	-	10,000	-	10,000
Adjusted Property Ledger Balances	<u>15,317,733</u>	<u>550,500</u>	<u>20,000</u>	<u>15,848,233</u>

**Capital Outlay**

	Purchases
GAAP Fund 0001	120,000
GAAP Fund 1005	105,500
GAAP Fund 1006	60,000
GAAP Fund 1012	3,000
GAAP Fund 3001	225,000
Capital Outlay per DAFR6610	<u>513,500</u>

**Reconciling Items:**

Personal computer with capital outlay expenditure object. Need to reclass to S&S.	(3,000)
Passenger van property tag #89734 not recorded from prior year - prior period adjustment needed.	25,000
Copy center copier recorded to S & S object 4150 Out of State Lodging . Need to reclass to 5150 Equipment and Machinery.	15,000
Reconciled Capital Outlay	<u>550,500</u>

Handout #2

							8500
Gl Acct	Gl Acct Title	Compt Obj	Compt Obj Title	Fund	Tcod	Deb Pos Trans Amt	
0815	EQUIPMENT AND MACHINERY			0400	474	6,688.00	
					533	-536,327.25	
		2330	GAIN (LOSS) ON DISPOSITION OF A	0400	537	-621,523.27	
		5150	EQUIPMENT AND MACHINERY	0400	545	231,372.70	
		5200	TELECOMMUNICATIONS	0400	545	292,472.80	
		5250	TECHNICAL EQUIPMENT	0400	545	104,375.74	
		5900	OTHER CAPITAL OUTLAY	0400	545	13,379.28	
	Total					-509,562.00	
0816	MOTOR VEHICLES			0400	474	-6,688.00	
					529	-2,229,153.59	
		2330	GAIN (LOSS) ON DISPOSITION OF A	0400	537	-210,791.42	
		5170	MOTOR VEHICLES	0400	545	2,008,748.47	
	Total					-437,884.54	
0817	DATA PROCESSING SOFTWARE	5300	DATA PROCESSING SOFTWARE	0400	545	77,032.00	
		5350	DATA PROCESSING HARDWARE	0400	545	10,023.24	
			Total				87,055.24
0818	DATA PROCESSING HARDWARE			0400	538	-28,730.05	
		2330	GAIN (LOSS) ON DISPOSITION OF A	0400	537	-486.95	
		5200	TELECOMMUNICATIONS	0400	545	106,478.00	
		5250	TECHNICAL EQUIPMENT	0400	545	756,507.00	
		5350	DATA PROCESSING HARDWARE	0400	545	142,883.83	
	Total					976,651.83	
Total						116,260.53	

Side Labels: Gl Acct • Gl Acct Title • Compt Obj • Compt Obj Title • Fund • Tcode

Top Labels: Gaap Fund

Facts: Deb Pos Trans Amt

**Handout #3**

GAAP fund  
8500: GW Rptg fund

**GL 0815**  
**Equip and Machinery**

<b>Increases</b>	
Tcode 545: record purchase, increase or adj	
Cobj	
5150 Equipment and Machinery	231,372.70
5170 Motor Vehicles	0.00
5200 Telecommunications	292,472.80
5250 Technical equip	104,375.74
5300 Data Processing Software	
5350 Data Processing Hardware	
5900 Capital Outlay	13,379.28
subtotal	<u>641,600.52</u>
Tcode 474: reclass	6,688.00
Total Increases	<u>648,288.52</u>
<b>Decreases</b>	
Tcode 537 : eliminate excess value	(621,523.27)
Tcode 538: disposal or adj of capital Assets - Govt wide	
Tcode 533: dispose of depreciated portion of Equipment	(536,327.25)
Tcode 529: dispose of depreciated portion of Motor Vehicle	0.00
Total Decreases	<u>(1,157,850.52)</u>
<b>Change</b>	<u>(509,562.00)</u>
<b>Capital Outlay</b>	
<b>Cobj 5150: Equip and Machinery</b>	
Tcode 222 purchases	233,866.70
Tcode 415: reclass betw funds	1,738.97
Tcode 416: reclass betw funds	(4,232.97)
Net Outlays	<u>231,372.70</u>
Vs Capital Asset additions above	231,372.70
difference	<u>0.00</u>

**Handout #4**

GAAP fund  
8500: GW Rptg fund  
0816  
**Motor Vehicles**

**Increases**

Tcode 545: record purchase, increase or adj Cobj		
5150 Equipment and Machinery		0.00
5170 Motor Vehicles	<b>A</b>	2,008,748.47
5200 Telecommunications		0.00
5250 Technical equip		0.00
5900 Capital Outlay		0.00
		<hr/>
		2,008,748.47
Tcode 474: reclass		(6,688.00)
Total Increases		<hr/>
		2,002,060.47

**Decreases**

Tcode 537 : eliminate excess value		(210,791.42)
Tcode 538: disposal or adj of capital Assets - Govt wide		
Tcode 533: dispose of depreciated portion of Equipment		0.00
Tcode 529: dispose of depreciated portion of Motor Vehicle		(2,229,153.59)
Total Decreases		<hr/>
		(2,439,945.01)

Change (437,884.54)

**CAPITAL OUTLAY**

**Cobj 5170: Motor Vehicles**

Tcode 222 purchases		2,008,748.47
Tcode 415 reclass betw funds ~ Criminal gaming		51,162.00
Tcode 416 reclass betw funds ~ Criminal gaming		(51,162.00)
Tcode 415 reclass betw funds ~ Gen fund		68,985.00
Tcode 416 reclass betw funds ~ Gen fund		(68,985.00)
Tcode 416: reclass due to ROX		(229,990.42)
		<hr/>

Postings to Cobj 5170 **B** 1,778,758.05

**A-B** (229,990.42)

**PLEASE NOTE: differences here between A and B are due to prior period adjustments resulting from Reduction of expense transactions Tcode 113 and 114R will be used to correct.**





**Handout #6**

**0817  
Data Processing Software**

**Increases**

Tcode 545: record purchase, increase or adj

Cobj

5250 Technical equip

5300 Data Processing Software

5350 Data Processing Hardware

5900 Capital Outlay

77,032.00

10,023.24

---

87,055.24

Tcode 474: reclass

Total Increases

---

87,055.24

**Decreases**

Tcode 537 : eliminate excess value

Tcode 538: disposal or adj of capital Assets - Govt wide

Tcode 533: dispose of depreciated portion of Equipment

Tcode 529: dispose of depreciated portion of Motor Vehicle

Total Decreases

---

0.00

Change

87,055.24

**CAPITAL OUTLAY**

Postings to Cobj 5170

**Cobj 5300**

Tcode 222 vouchers paid

Tcode 415 reclass betw funds

Tcode 416 reclass betw funds

78,430.00

24,636.50

(26,034.50)

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77,032.00

Handout #7

Sort		Compt Obj	Fiscal Year	Batch Date								
Line		Gl Acc	Compt Obj	Fiscal Year								
	Agv Obj	Compt Obj	Appn Year	Batch No	Batch Date	Doc No	Dras Fund	Fund	Fund Title	Gl Acc	Invoice Desc	Deb Pos Trans Amt
1	5300	5300	2003	905	07/08/02	ZE20708R	1103	6230	FEDERAL FUNDS-CRIMINAL/GAM	3500		11,970.00
2	5300	5300	2003	905	07/24/02	ZE20724R	1103	6230	FEDERAL FUNDS-CRIMINAL/GAM	3500		16,587.00
3	5300	5300	2003	925	09/03/02	ZE20903R	1103	6230	FEDERAL FUNDS-CRIMINAL/GAM	3500		1,398.00
4	5300	5300	2003	156	09/04/02	8TA20599	1103	6230	FEDERAL FUNDS-CRIMINAL/GAM	3500	TO CORRECT TO 4999	-1,398.00
5	5300	5300	2003	710	09/13/02	8TD09864	0001	7580	CFAA-GF-ICMD	3500	MVTD CFAA PCA 17040	8,441.00
6	5300	5300	2003	710	09/13/02	8TD09864	0001	7550	GENERAL FUNDS-DSP	3500	MVTD CFAA PCA 17040	-8,441.00
7	5300	5300	2003	804	10/02/02	ZE21002R	1103	4350	OTHER FUNDS-OSP	3500		21,575.00
8	5300	5300	2003	998	10/17/02	ZE21017R	1103	6240	FEDERAL FUNDS-OSP	3500		5,515.00
9	5300	5300	2003	910	01/27/03	ZE30127R	0001	7540	GENERAL FUNDS-FORENSIC/ME	3500		9,385.00
10	5300	5300	2003	995	03/05/03	ZE30305R	1103	6230	FEDERAL FUNDS-CRIMINAL/GAM	3500		12,000.00
11	5300	5300	2003	003	04/30/03	8TD10709	0001	7550	GENERAL FUNDS-OSP	3500		-16,195.50
12	5300	5300	2003	003	04/30/03	8TD10709	0001	7580	CFAA-GF-ICMD	3500		16,195.50
13												77,032.00
14												77,032.00

**CAFR GENERAL DISCLOSURES  
YEAR ENDED JUNE 30, 2004**

Agency #

**7. OUTSTANDING DEBT RELATED TO CAPITAL ASSETS**

Please complete the schedule below to provide necessary information about your agency's outstanding debt that was issued to purchase or construct capital assets. Please use these types of debt: Revenue Bonds, General Obligation Bonds, Certificates of Participation, Lease-Purchases, and Capital Leases. (General ledger accounts in which the capital asset debt may be recorded are 1240, 1276, 1279, 1280, 1281, 1701-1705, 1709, 1711-1716 and 1750.) Also, indicate the GAAP fund in which the debt is recorded. This disclosure will be used by SARS to calculate your agency's amount of Invested in Capital Assets, Net of Related Debt.

When debt is related to a construction project, only the amount that has been capitalized (i.e., in Construction in Progress, Buildings, etc.) should be used to calculate the amount of Invested in Capital Assets, Net of Related Debt. Thus, for construction projects that are partially complete or complete, please indicate the amount that has been capitalized as a capital asset.

GAAP Fund	GL Account	Type of Debt	Balance Outstanding At Year End	For construction projects partially complete or complete, amount that has been capitalized
4013	1279	COP PAY Current	100,000.00	500,000.00
4013	1702	Discount on COPS	(350.45)	
4013	1704	COP PAY Noncurrent	900,000.00	

**CAFR GENERAL DISCLOSURES  
YEAR ENDED JUNE 30, 2003**

**Agency #**

**8. WORKS OF ART AND HISTORICAL TREASURES – NOT CAPITALIZED**

Whether held as individual items or in a collection, Works of Art and Historical Treasures should be capitalized at their historical cost or fair value at date of donation unless a collection meets all three of the following conditions. The collection is:

- 1) Held for public exhibition, education, or research in the furtherance of public service, rather than financial gain; and
- 2) Protected, kept unencumbered, cared for and preserved; and
- 3) Subject to an organizational (agency) policy that requires the proceeds from sales of the collection items to be used to acquire other items for collections.

If your agency has Works of Art and Historical Treasures that meet all of these conditions, and your agency has chosen not to capitalize the assets, this disclosure form needs to be completed. Please provide a brief description of the Works of Art and Historical Treasures that are not being capitalized and a brief explanation as to why they are not capitalized (i.e., explain how they meet all three conditions for exemption from capitalization).

This disclosure form should not include items that are already recorded in your agency's accounting records as Works of Art and Historical Treasures. Also, this disclosure form should not include items with a historical cost or fair value at date of donation of less than \$5,000, since these assets are not considered capital assets and should not be capitalized.

**CAFR GENERAL DISCLOSURES  
YEAR ENDED JUNE 30, 2004**

Agency #

**9. CAPITAL LEASE OBLIGATIONS**

A. Schedule of Future Lease Payments

Capital Leases  
Minimum Future Lease Payments and  
Present Values of the Net Minimum Lease Payments

Fiscal Year Ended	Government- Wide Reporting Fund	Enterprise Funds	Internal Service Funds	Fiduciary Funds	Totals
June 30, 2005	7,032.00				7,032.00
June 30, 2006	7,032.00				7,032.00
June 30, 2007	7,032.00				7,032.00
June 30, 2008					
June 30, 2009					
June 30, 2010-2014					
June 30, 2015-2019					
June 30, 2020-2024					
June 30, 2025-2029					
June 30, 2030-2034					
June 30, 2035-2039					
June 30, 2040-2044					
Total Future Minimum Lease Payments	28,128.00				28,128.00
Less: Interest & Executory Costs *	0.00				0.00
Present Value of Net Min Lease Payments (A)	28,128.00				28,128.00
GL Acct 1280 Bal	7,032.00				7,032.00
GL Acct 1281 Bal	0.00				0.00
GL Acct 1715 Bal	21,096.00				21,096.00
GL Acct 1716 Bal	0.00				0.00
Total Liability (B)	28,128.00				28,128.00
Difference (A-B)	0.00				0.00

If the difference between the Present Value of Net Minimum Lease Payments and the liability recorded in R\*STARS accounts 1280, 1281, 1715 and 1716 is greater than \$1,000, please attach an explanation of what caused the difference.

\* Interest Costs are defined as the interest rate implicit in the lease. Examples of Executory Costs are insurance, maintenance, and taxes paid in connection with the leased property.

**CAFR GENERAL DISCLOSURES  
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**9. CAPITAL LEASE OBLIGATIONS**

**B. Changes in Liability in Government-Wide Reporting Fund**

Beginning Fiscal Year Balance, Account 1280	\$0.00
Beginning Fiscal Year Balance, Account 1281	\$0.00
Beginning Fiscal Year Balance, Account 1715	\$0.00
Beginning Fiscal Year Balance, Account 1716	\$0.00

Increases: (Show fund(s) owing the Lease)

Purchase Equipment on Contract:

GAAP Fund _____		
GAAP Fund _____		

Purchase Equipment on Lease:

GAAP Fund <u>0001</u>		\$35,160.00
GAAP Fund _____		

New Capital Lease:

GAAP Fund _____		
GAAP Fund _____		

Other Increase:

GAAP Fund _____		
GAAP Fund _____		

Decreases:

Payments on Contracts (principal):

GAAP Fund Paying <u>0001</u>	Principal Object _____	
Interest Compt Object _____	Interest Amount _____	\$7,032.00

Payments on Lease – Purchase (principal):

GAAP Fund Paying _____	Principal Object _____	
Interest Compt Object _____	Interest Amount _____	

Payments on Capital Lease (principal):

GAAP Fund Paying _____	Principal Object _____	
Interest Compt Object _____	Interest Amount _____	

Other Decreases:

Compt Object _____		
	<b>Total Decreases</b>	<b>\$7,032.00</b>

Ending Fiscal Year Balance, Account 1280	\$7,032.00
Ending Fiscal Year Balance, Account 1281	\$0.00
Ending Fiscal Year Balance, Account 1715	\$21,096.00
Ending Fiscal Year Balance, Account 1716	\$0.00

**CAFR GENERAL DISCLOSURES  
YEAR ENDED JUNE 30, 2004**

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**9. CAPITAL LEASE OBLIGATIONS**

C. Book Value of Capital Leased Assets.

Provide original cost and accumulated depreciation for all assets under outstanding capital and lease-purchases. Include only those assets with current outstanding capital or lease-purchase liabilities.

<b>Asset</b>	<b>GAAP Fund</b>	<b>Purchase Price</b>	<b>Accumulated Depreciation</b>
Paragon Mailing System	8500	\$35,160.00	\$3,516.00

