AAM 55. CAPITAL ASSETS

AAM 55.010 Capital Assets Accounting (06-02)

Purchases of capital assets are recorded as expenditures against appropriations in the benefiting fund to demonstrate budgetary compliance as required by Alaska's Constitution. They are reclassified from expenditures to assets using fund-only adjustments for financial reporting in the State's Annual Comprehensive Financial Report (ACFR). Depreciation expense on capital assets (except land and construction in progress) is also recognized in the benefiting fund.

Capital assets used in fiduciary or propriety (enterprise and internal service) funds are recorded in each of the respective funds for the following reasons:

- Capital assets are used in the production of the fund's service or product.
- Depreciation on the capital assets is an essential element in determining the fund's total expenses, net income, and changes in fund net assets.
- Capital assets may serve as security for the issuance of debt by the fund.

All other capital assets are reported as expenditures in the governmental fund financial statements, but are reclassified to capital assets in the Government-wide Statement of Net Assets and depreciated in the Government-wide Statement of Activities for the ACFR.

AAM 55.020 Valuation of Capital Assets (10-23)

Capital assets include land, buildings, machinery and equipment, computer software, construction in progress, infrastructure (roads, bridges, dams, curbs and gutters, streets and sidewalks, drainage systems, lighting systems, and similar assets that are immovable and of value only to the governmental unit), and museum and library collections. Capital assets should be accounted for at cost or, if the cost is not practically determinable, at estimated cost. Donated capital assets should be recorded at their estimated fair value at the time received.

At the acquisition date of the capital asset, cost is measured by the amount of consideration given or received, whichever is more objectively determinable. The cost of a capital asset includes not only its purchase price or construction cost, but also ancillary charges necessary to place the asset in its intended location and condition for use. Ancillary charges include costs such as freight and transportation charges, site preparation expenditures, professional fees, and legal claims directly attributable to asset acquisition.

The asset cost recorded for land should include, in addition to the purchase price, such ancillary costs as: legal and title fees, surveying and other professional fees (engineers, attorneys, etc.), appraisal and negotiation fees, damage payments, site preparation costs (clearing, filling, and leveling), and demolition of unwanted structures.

Costs of buildings, building improvements, betterments, and additions should include: the purchase price, contract price, or job order cost; professional fees of architects, attorneys, appraisers, financial advisors, etc.; damage claims; costs of fixtures and equipment that are an integral part of the structure or permanently attached to a building or other structure; insurance premiums, interest, and related costs incurred during construction; and any other expenditure necessary to put a building or structure into its intended state of operation. Landscaping and other improvements to land related to a building should be capitalized as part of the building cost.

Machinery and equipment costs should include the total purchase price, transportation and freight charges, installation costs, taxes, and any other expenditures required to place the asset in its intended state of operation.

Computer software costs that are capitalizable include external direct costs of materials and services consumed in developing or obtaining internal-use software, payroll and payroll-related costs devoted directly to the project, and interest costs incurred during development. Such costs include those associated with the design once an alternative is selected (including the software configuration and the software interfaces), coding, installation to hardware and testing (including the parallel processing phase). Upgrades and enhancements that increase the functionality of the product should be capitalized. Capitalization should occur only after the preliminary project stage is complete. Preliminary project stage costs, training, and data storage costs should not be capitalized.

Construction in progress represents a temporary capitalization of labor, materials, equipment, and overhead costs of a construction project. When the project is completed, costs in the Construction in Progress account are classified to one of the other major capital asset classes such as buildings.

Infrastructure costs should include: the purchase price, contract price, etc.; professional fees of engineers, attorneys, appraisers, financial advisors; surveying fees; appraisal and negotiation fees; damage claims; site preparation costs; costs related to demolition of unwanted structures; and any other expenditures necessary to put the infrastructure into its intended state of operation. Landscaping and other improvements to land related to infrastructure should be capitalized as part of the infrastructure. The cost or any land related to infrastructure should be capitalized separately because land is not depreciable.

AAM 55.025 Thresholds for Capitalizing Capital Assets (07-12)

Capitalizing refers to reclassifying the cost of a capital asset from expenditures to assets for financial reporting in the State's Annual Comprehensive Financial Report (ACFR). The Division of Finance has established capitalization thresholds for each category of capital assets.

- All land acquisitions (including ancillary costs) are capitalized, regardless of cost.
- All buildings with a unit cost of $1,000,000 or greater are capitalized.
- All building improvements, betterments, and additions with a unit cost of $100,000 or greater are capitalized unless otherwise noted. See AAM 55.040 for additional criteria.
- Machinery and equipment with a unit cost (including ancillary costs) of $100,000 or greater is capitalized unless otherwise noted.
- Construction in progress is capitalized as a single asset.
- Infrastructure, including betterments and additions, is capitalized if the cost is $1,000,000 or greater.
- Software and other intangible assets and software with a unit cost of $500,000 or greater.

If a proprietary or fiduciary fund/program has its own capitalization policy, capital assets should be capitalized under that policy rather than in accordance with the policies of the Administrative Manual.

Please note that the value for capitalization under these policies is higher than the value that is required for an asset to be included in inventory (see AAM 55.060), or accounted for or capitalized under federal requirements. Office of Procurement and Property Management (OPPM) thresholds are set for property control purposes. The U.S. Office of Management and Budget Circular A-87, Attachment B, section 15, establishes policies for an asset acquired in whole or in part with federal funds, to determine when a particular purchase of an item may be expensed against federal programs, and when it must be amortized or depreciated over the useful life of the asset. The table below compares the dollar valuation thresholds for capitalizing a capital asset under this policy and other requirements. (n/a = not applicable as the item is not tracked by this system; n/v = no value listed, review OMB A-87 or specific federal grant agreement).

Capital Asset	DGS Inventory	OMB A-87	Comprehensive Annual Financial Report
Land	n/a	n/v	All
Buildings	n/a	n/v	$1,000,000
Building improvements	n/a	n/v	$100,000
Machinery/equipment	$1,000	$5,000	$100,000
Construction in progress	n/a	n/v	material
Infrastructure	n/a	n/v	$1,000,000
Intangible assets and computer software	All	$5,000	$500,000

Art Collections, Library Reserve Collections, and Museum and Historical Collections, that are considered inexhaustible in that their value does not diminish over time, will not be capitalized and reported in the State's ACFR if all of the following conditions are met:

- The collection is held for public exhibition, education, or research in furtherance of public service, rather than financial gain.
- The collection is protected, kept unencumbered, cared for, and preserved.
- The collection is subject to an agency policy that requires the proceeds from sales of collection items to be used to acquire other items for the collections.

However, agencies responsible for collections that meet the above criteria must be able to provide an inventory with descriptions of the collections.

Art Collections, Library Reserve Collections, and Museum and Historical Collections that do not meet the conditions described above are required to be capitalized and will be reported in the ACFR.

Library resources for general circulation are not capitalized.

AAM 55.030 Acquisition of Capital Assets (10-23)

Capital assets may be acquired by outright purchase, construction, contracts that transfer ownership, installment purchase contract, eminent domain, tax or special assessment foreclosure, or gift.

Eminent domain

Eminent domain is the power of a government to acquire private property for public purposes, and is used to obtain real property that cannot be purchased from owners in a voluntary transaction. When the power of eminent domain is exercised, owners are compensated by the government in an amount determined by the courts. Capital assets acquired by eminent domain should be capitalized in that amount.

Foreclosure

Capital assets acquired by tax or special assessment foreclosure, which are to be resold in the near future, are generally accounted for in the governmental fund to which the taxes or assessments are owed. Such assets, which are to be retained by the government for its own use should be capitalized at their fair market value on the date foreclosed.

Gift

Capital assets acquired by gift should be capitalized at their fair market value on the date of the gift.

AAM 55.040 Capital Assets Repairs, Improvements, Betterments, and Additions (07-12)

Repair and maintenance costs are defined as expenditures which neither materially add to the value of the property, nor appreciably prolong its life, but merely keep it in an efficient operating condition. Repair and maintenance costs are not capitalized.

Extraordinary repairs, improvements, betterments, or additions are capitalized if they exceed the thresholds in AAM 55.025 and they increase future benefits from an existing capital asset. Expenditures of this nature extend the useful life of a capital asset, or significantly increase its productivity, or both. Expenditures for work performed on capital assets should be analyzed to determine what part of the expenditure has resulted in bettering the asset and what part has merely restored the asset to its former condition (a renewal or overhaul). The part that has bettered the asset should be capitalized if it exceeds the thresholds, in which case it is added to the original cost of the asset, whereas the other part (renewal) should be treated as a current expenditure. In general, if the useful life of the asset is significantly prolonged, or the asset is made significantly more productive, the expenditure should be capitalized.

AAM 55.050 Capital Assets Depreciation (01-22)

Depreciation expense and accumulated depreciation related to capital assets is not recorded in the accounts of governmental funds. It is calculated and reported only in the government-wide financial statements. Depreciation of capital assets accounted for in a proprietary or fiduciary fund should be recorded in the accounts of that fund. Depreciation expense is reported in the year the asset is acquired and is calculated by the day within the financial system. Additions to depreciating assets will be depreciated over the remaining useful life of the asset.

AAM 55.060 Assets Inventory Records (06-02)

Inventory records for various classes of assets are maintained in several different systems and locations. Appropriate legal and descriptive records (for example, deeds, maps, and listings) should be maintained for all capital assets. Inventory records for individual capital assets should include the following information: (1) major asset class; (2) reference to acquisition source document; (3) acquisition date; (4) short description of asset; (5) organization unit charged with custody; (6) location; (7) fund and account from which purchased; (8) method of acquisition and (9) date, method, and authorization of disposition. For depreciable assets, inventory records should also include estimated useful life and estimated salvage value.

The Department of Natural Resources maintains the inventory of all state-owned land, other than that controlled by the Department of Transportation and Public Facilities (DOTPF). DOTPF maintains inventory records on right-of-way land. Both of these inventories are sources for reporting the value of state-owned land in the Annual Comprehensive Financial Report (ACFR).

The Division of Risk Management maintains a list of all state-owned buildings and other facilities for purposes of risk coverage.

The Division of Facility Services in DOTPF, maintains the inventory of buildings that are managed by the Alaska Public Building Fund, one of the State’s internal service funds. The Division of Finance maintains the inventory of other state-owned buildings for reporting in the ACFR.

The Office of Procurement and Property Management (OPPM) maintains the inventory of machinery and equipment which is a source for financial reporting in the ACFR. AS 37.05.160 provides that the Department of

Administration shall direct the use of inventory records by all state agencies to show all fixed and movable property of the state. The records must be based on a physical inventory and charged with all subsequent purchases and reduced by all property traded in, condemned, or disposed of.

OPPM publishes requirements for state property inventory control in the State Property Control Manual. The manual is a guide for department property officers and property custodians within executive branch departments and agencies of state government.

DOTPF, through their State Equipment Fleet operation maintains a complete inventory of all state vehicles. The fleet vehicles that are a part of the Highway Equipment Working Capital Fund are reported as assets of that internal service fund. Fleet vehicles that are a part of other proprietary funds are reported as assets of those funds. All other vehicles that meet capital asset capitalization thresholds are added to the machinery and equipment inventory records maintained by OPPM for reporting in the State's ACFR.

The Office of Information Technology maintains the inventory of equipment used in the operation of the Information Services Fund (ISF). The ISF operates the State's computing and telecommunications services.

The Department of Corrections maintains and controls the inventory of all assets used in the operations of the Correctional Industries Fund, an internal service fund of the State of Alaska.

DOTPF maintains and controls the inventory of highways and roads, bridges, airport runways, and land that is under these infrastructure assets.

The Department of Education and Early Development maintains and controls the inventory of library and museum collections.

AAM 55.070 Capital Assets Useful Life Table (10-23)

The estimated useful life of capital assets acquired in new condition is shown in the table below. However, a shorter or longer estimated life may be used depending on factual circumstances, environmental conditions, replacement policies, or industry practices. Proposed deviation in useful life requires prior written approval from the Division of Finance.

Agencies are responsible for establishing and utilizing an appropriate useful life for assets acquired in less than new condition.

For leasehold improvements, the useful life is the estimated service life of the leasehold improvements, or the remaining term of the lease, whichever is shorter.

Capital Asset	Useful Life (years)
Land	Not applicable
Buildings	50
Improvements to Buildings	15
Machinery & Equipment:	
Agricultural equipment	10
Aircraft	15
Automobiles, light trucks	7
Barges	30
Boats - collapsible, fabric, inflatable	5
Boats - fiberglass, metal	15
Computers & accessories - desktop	3
Electronic equipment	5
Heavy equipment - i.e. graders, loaders, etc.	15
Marine vessels - large	60
Office equipment	5
Specialized equipment	7-10
Trucks - large	10
Software	3-7
Infrastructure:	
Highways (new)	40
Airfields (new)	40
Improvements to infrastructure	15
Bridges	75
Dams	75

AAM 55.080 Leases (01-24)

Government Accounting Standards Board issued GASB Statement No. 87 Leases in June 2017 and was effective for FY22. Pre GASB 87, there were two types of leases, capital leases and operating leases. GASB 87 eliminates the definition of capital lease and operating lease, all leases meeting GASB 87 criteria requires the lessee to recognize a lease liability and an intangible right to-use lease asset and the lessor to recognize a lease receivable and a deferred inflow of resources. There are a variety of reasons leases may not meet the GASB 87 criteria for ACFR reporting, the two biggest being short term leases and transfer ownership contracts (TOC). See below for how these will be accounted for in the ACFR:

- Short-term leases: Leases that have a maximum possible term of 12 months or less, including any options to extend, regardless of their probability of being exercised. Departments are already posting an expenditure/revenue for these leases. No additional entries are required for ACFR reporting. Because of the short nature of these leases, they are not required to be entered into IRIS Debt Module, but can be.

- Transfer Ownership Contracts (TOC): Contracts that transfer ownership of the underlying asset to the lessee by the end of the contract and does not contain any termination options, and if it contains a fiscal funding or cancellation clause, there must be reasonably certainty that it will not be exercised. These contracts should be reported as a financed purchase of the underlying asset by the lessee or sale of the asset by the lessor. A bargain purchase option does not transfer ownership until exercised and is therefore not reported as a financed purchase. These leases should not be entered into IRIS Debt Module, as there are additional capital asset reporting requirements outside of intangible assets.

GASB 87 defines a lease as a contract that conveys control of the right to use another entity's nonfinancial assets (the underlying asset) as specified in the contract for a period of time in an exchange or exchange like transaction. Examples of nonfinancial assets include buildings, land, vehicles and equipment. Any contract that meets this definition should be accounted for under GASB 87 lease guidance, unless specifically excluded in this Statement.

GASB 87 changed the way we report leases in the ACFR. Departments will have their lease activity and make payments out of the IRIS Debt Module for all leases over $100,000. Entry of leases under $100,000 is optional. Leases with total principal payments greater than or equal to $100,000 should be reported to DOF and those that are greater than or equal to $250,000 will be reported in the ACFR. All leases need to be reviewed annually by departments to determine if a change in the lease has occurred that would cause the lease liability to be remeasured for ACFR reporting.

Definitions

- Lease – a contract that conveys control of the right to use another entity's nonfinancial asset (the underlying asset) as specified in the contract for a period of time in an exchange or exchange-like transaction.
- Right to use – the right to obtain the present service capacity from use of the underlying asset and the right to determine the nature and manner of its use.
- Nonfinancial asset – examples include land, building, vehicles and equipment.
- Period of time – the lease term is the period of time that the lessee has a noncancelable right to use the asset plus any periods that the lessee or lessor have the sole option to extend the lease and it is reasonably certain that the option will be exercised.

- Lease term includes:
    - Noncancellable period during which the lessee has the right to use the underlying asset.
    - Any periods in which either the lessee or lessor have the sole option to extend the lease, if reasonably certain the option will be exercised.
    - Any period in which either the lessee or lessor have the sole option to terminate the lease, if reasonably certain the option will not be exercised by that party.
- Lease term excludes:
    - Cancelable periods, periods for which either the lessee or lessor have the sole option to terminate the lease without permission from the other party. Exchange or exchange-like transaction – both parties to the contract/lease receive or give up essentially equal value or not quite equal value.

Interest rates: The future lease payments should be discounted using the interest rate the lessor charges the lessee, which may be the interest rate implicit in the lease. If the interest rate cannot be readily determined by the lessee, the lessee's incremental borrowing rate (IBR) will be used. The State Accountant will send out the interest rates to be used for each fiscal year.