



SUBJECT

LONG-LIVED RESOURCES: CAPITAL ASSETS, ETC.

I. AUTHORITY

- A.R.S. § 35-131                      Accounting system; reports; notice of deficiency; forms
- A.R.S. § 41-722                    Powers and duties relating to finance
- A.R.S. § 41-2602                  Material management rules

II. INTRODUCTION

The needs and interests of Arizona Government are complex. SAAM attempts to reconcile modern, professional accounting standards with practical fiscal management considerations.

The release of GASB Statement No. 34 in June 1999 marked the beginning of a new era in state and local government accounting. The changes instituted by that publication having most directly impacted agency (as opposed to statewide) accounting may be those involving the recording and reporting upon what have traditionally been called fixed assets. The GASB's continuing efforts to improve governmental reporting of fixed assets resulted in the publication of GASB Statement Nos. 49 and 51. GASB Statement No. 49 deals with the capitalization of certain pollution remediation obligations; GASB Statement No. 51 deals with the treatment accorded intangible assets.

Given their wide applicability, the provisions of GASB Statement Nos. 34 and 51 are included in this section of the SAAM.

Because of its highly technical nature and its somewhat limited application, the provisions of GASB Statement No. 49 will not be dealt with in this section of the SAAM. Questions involving the appropriate accounting for capitalized pollution remediation obligations should be addressed to the appropriate GAO liaison.

Except for capitalized pollution remediation obligations, Section II-G-1 of SAAM deals with the treatment of all long-lived resources, including tangible and intangible resources, whether capitalized or expensed. Within this section of SAAM, there are numerous subsections dealing with specific types of long-lived resources and particular activities that may affect—or may be required for—all types of long-lived resources.

Some terminology has changed to more clearly identify the status and nature of acquisitions. The term "resource" is generally used for discussing items before a decision has been made to depreciate or expense them and in connection with resources which are expensed, but nonetheless subject special custodial obligations. Consistent with this, the term "non-capital asset" has been, depending upon context, replaced by "expensed tangible," "expensed intangible" or "stewardship resource." The foregoing notwithstanding, the use of "fixed asset" has, in some circumstances, been retained to foster clarity, particularly when dealing with the FAS when recording capital assets and stewardship resources.

Directions for the general use of FAS appear in SAAM Section II-G-2; instructions for correcting errors in FAS are detailed in Section II-G-3. An extensive set of instructions for recording and reconciling capital leases appears in Section II-G-4.



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### III. DEFINITIONS

Long-lived resources include land, improvements to land, rights of way, easements, infrastructure assets, buildings, building improvements, improvements other than buildings, construction in progress, leasehold improvements, vehicles and other transportation equipment, machinery, equipment of any description, furniture, fixtures, betterments, works of art, historical treasures, software, patents, copyrights, and any or all other tangible or intangible resources that have initial useful lives extending beyond a single reporting period.

These definitions are those used for general purposes and when dealing with the maintenance of AFIS. Different terminology may apply when dealing with grants, appropriations, closing packages, etc.

Acquisition – Acquisition is the act of obtaining an asset by purchase, trade-in, capital lease, donation or escheat.

Activity – In HRIS, a code that links costs to a PCA in AFIS.

ADOA – Arizona Department of Administration.

AFIS – The Arizona Financial Information System. The statewide system of computer programs used to record financial activity for the State of Arizona.

Amortization – When applied to a capital asset, amortization is the allocation of its cost over the period of its economic benefit. Amortization is calculated by expensing a prorated portion of the capital asset's cost each year of its estimated useful life. Amortization is computed with respect to an asset's period of legal benefit and may be applied to both tangible and intangible assets. For most purposes in this section of SAAM, the term "depreciation," in any grammatical form, is deemed to include "amortization," in any corresponding grammatical form.

Ancillary Costs – Costs required to bring a capital asset into use. Such costs include delivery, installation, sales taxes, legal fees, documentation charges, etc.

Application Development Stage – A phase in the internal development of software which includes design, coding, configuration, testing, installation and, if applicable, parallel processing.

ARRA – American Recovery and Reinvestment Act of 2009; an economic stimulus package enacted by the Federal Government.

Bargain Purchase Option – A provision of a lease agreement that allows the lessee to purchase (typically at the end of the initial lease term) the leased asset at a price that is so low (generally substantially lower than the estimated fair market value) as to make its exercise relatively certain.

Betterment – An addition made to, or change made in, a tangible or intangible capital asset, which is expected to prolong its useful life, to alter its original functionality, or to increase its efficiency or level of service over and above the effects arising from repairs and maintenance. The cost of a tangible betterment that meets or exceeds the State's capitalization threshold is therefore added to the book value of the original tangible capital asset to or into which the tangible betterment is added, affixed or installed. The term "betterment" is not deemed to include building improvements, land improvements or leasehold improvements. Additions or changes



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involving intangible capital assets and determined to be an intangible betterment are treated as discussed in Subsection IV-C-7.

Book Value – The cost of an asset less its accumulated depreciation or amortization.

Building Improvements – Fixtures, machinery and other items attached to or installed in State-owned buildings in such a way that they cannot be removed without causing damage to themselves or the buildings to which they are affixed.

Buildings – Structures, generally roofed and walled, including constructed buildings and manufactured buildings, or the cost to purchase, erect or install such structures.

Business-type Activities – Activities of government that operate similarly to private businesses. Such activities are most often substantially financed by fees, subscriptions, service charges and licenses charged to users or licensees. Business-type activities are typically accounted for in proprietary (i.e., enterprise and internal service) funds.

Cannibalization – The act of using one object (such as a computer) as a source of spare parts for other objects.

Capital Asset – A long-lived tangible or intangible asset that meets its capitalization threshold, is reported on the balance sheet, and the cost of which is to be recovered over several fiscal years. Examples of tangible capital assets include buildings, land and equipment; examples of intangible capital assets include software, patents and easements. Capital assets include depreciable and amortizable assets, inexhaustible capital assets, and infrastructure assets that qualify for the modified approach. In the past, tangible capital assets were often referred to as fixed assets. (The term “fixed asset” is used somewhat interchangeably with “capital asset” in SAAM, particularly when referring to FAS or to any of the reports or screens that relate to that program.)

Capital Lease – A fixed-term and generally non-cancelable lease that, during the term of the lease, results in a substantive transfer of the rights and risks of ownership of a capital asset from the lessor to the lessee. At the end of a capital lease, title to the underlying property is transferred from the lessor to the lessee at a bargain price. Reflecting its substance rather than its form, the transaction is treated as a purchase by the lessee and a sale by the lessor.

Capitalization — Capitalization is the method used to record the State's long-lived assets in such a way that they appear on the balance sheet and their costs are (with the exception of infrastructure assets qualifying for and subject to the modified approach) recovered over several fiscal years. The cost recovery related to tangible assets is, in most circumstances, called depreciation, while that related to intangible assets is called amortization. Capitalization requires the proper selection of a comptroller object listed in the Capital Outlay Expenditure section of the Chart of Accounts (See Section IV Comptroller Objects 8001 through 8499) to match the item acquired.

Capitalization Threshold – The cost at or above which a long-lived resource should be capitalized. The State's current capitalization threshold for tangible resources is \$5,000; the State has multiple capitalization thresholds for intangible resources, depending upon the nature and cost of the underlying resource. Agencies may obtain permission from the GAO to adopt capitalization thresholds that are less but not greater than the State's threshold. Amounts spent to acquire long-lived resources with a cost falling below the capitalization threshold should be expensed.



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Capitalize – To record a long-lived tangible or intangible resource in such a way that it appears on the balance sheet as an asset; the cost of an asset (with the exception of infrastructure assets qualifying for and subject to the modified approach) is recovered over several fiscal years by way of depreciation or amortization.

Closing Instructions – An annual memorandum prepared by the GAO outlining certain year-end accounting procedures. (The Closing Instructions are available for review and download from the GAO Website at [www.gao.az.gov](http://www.gao.az.gov).)

Closing Package – A set of instructions and work papers collected annually by the GAO to assist agencies in supplying the information required to report upon statewide financial activity, as provided by law. (The Closing Package is available for review and download from the GAO Website at [www.gao.az.gov](http://www.gao.az.gov).)

COBJ – Comptroller object. An accounting code that is part of a system of codes used to identify, categorize and group governmental revenues and expenditures.

Computer Hardware – Computer hardware consists of all the equipment that can be considered a component of, is typically attached to, or communicates with an information system. The term encompasses processing units, memory apparatus, input and output devices, storage devices, and connectivity equipment.

Computer Software – Computer software includes the non-equipment components—operating systems and applications—of an information system.

Constructed Building – A roofed and walled structure, of a permanent and immobile nature, principally erected upon the site it occupies.

Construction in Progress — Construction in progress includes the costs incurred for uncompleted capital projects involving the construction or installation of buildings, improvements, roadways, bridges, etc. The term also extends to other tangible and intangible capital assets, such as large computer or telecommunications systems, including the software components of such systems, which have been undertaken but not brought into service by the end of a reporting period.

Contractual Life – The life of an intangible or tangible asset that is established by contract or law, as might be the case with extraction rights, patents, or leasehold improvements.

Cost – The price paid, to be paid or deemed to have been paid to acquire an asset.

COP – Certificate of Participation. A financing arrangement under which a share of future revenues is sold to an investor.

Depreciation — The recognition of a tangible capital asset's deterioration or devaluation over the period of its projected physical utility. Depreciation is calculated by expensing a prorated portion of an asset's cost in each year of its estimated useful life. For most purposes in this section of SAAM, the term "depreciation," in any grammatical form, is deemed to include "amortization," in any corresponding grammatical form.

ERE – Employee Related Expense; a cost associated with an employee's compensation, such as pension, welfare and employment tax expense. Generally used in the plural form referring to all such expenses collectively.



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Escheat – The reversion of property to the State brought about by the death of an owner without legal heirs or by the owner’s abandonment of the property.

Excluded Intangibles – Classes of intangibles excluded by GASB 51 from treatment as an intangible asset. Such intangibles include financial assets such as cash, investment securities, receivables and prepayments. Excluded intangibles also include: intangibles that are acquired primarily for the purpose of directly obtaining income; intangibles resulting from capital lease transactions reported by lessees; and, goodwill created through the combination of a government and another entity.

Executory Costs – Expenses or expenditures incurred and/or paid during the life of a lease—such as insurance, maintenance and property taxes—with respect to the leased property.

Expense – To recognize a current period’s outlay or a portion of a prior period’s outlay as a current period cost or operating expenditure; an outlay recognized as a current period cost or operating expenditure. When applied to tangible and intangible resources, this term indicates that a given resource’s entire cost or an asset’s residual value is to be treated as an operating expenditure of a single fiscal year rather than being depreciated or amortized over its estimated remaining useful, contractual or legal life.

Expensed Intangible — An intangible that, because of its nature and relatively low monetary value, is expensed rather than capitalized.

Expensed Tangible – A tangible that, because of its nature and relatively low monetary value, is expensed rather than capitalized.

Fair Market Value – Fair market value is the amount at which an asset could normally be exchanged between willing parties. Fair market value at the time of acquisition can be estimated by reference to: manufacturers’ catalogs or price quotes in advertisements; contemporaneous sales of comparable assets; or, publications that specialize in listing prices of particular kinds of assets (e.g., the *Kelley Blue Book* of used car prices). Fair market value can also be established by using the services of an industry expert or appraiser.

FAS – The Fixed Asset Subsystem. The subsystem of AFIS, maintained by the GAO, that records tangibles and intangibles that are to be capitalized as well as tangibles and intangibles that, while expensed, are to be tracked to fulfill a fiduciary duty. FAS computes the depreciation or amortization of capitalized tangibles and intangibles.

FATC – Fixed Asset Transaction Code. A three-character code used by the FAS to identify the type of transaction being entered into the system. There are different codes for acquisitions, adjustments, depreciation, disposals, etc.

Fiduciary Funds – The type of funds used to record transactions and balances reflecting one entity’s acting in a custodial capacity for another entity; fiduciary funds include trust funds (such as pension trusts, investment trusts and private purpose trusts) and agency funds.

Fixed Asset – An accounting term that historically referred to tangible capital assets. The term “fixed asset” is used somewhat interchangeably with the terms “capital asset,” “tangible asset” and “intangible asset” in SAAM, particularly when referring to FAS or to any of the reports or screens that relate to that program.



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Furniture, Vehicles and Equipment — All tangible personal property including office furniture, automobiles, copiers, computer hardware, etc.

GAO – Arizona Department of Administration, General Accounting Office.

GASB – Governmental Accounting Standards Board. The GASB is the body authorized to establish accounting standards for state and local governments.

GASB Statement No. 34 – A pronouncement issued by the GASB in June 1999, entitled *Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments*.

GASB Statement No. 49 – A pronouncement issued by the GASB in November 2006, entitled *Accounting and Financial Reporting for Pollution Remediation Obligations*.

GASB Statement No. 51 – A pronouncement issued by the GASB in June 2007, entitled *Accounting and Financial Reporting for Intangible Assets*.

GITA – Government Information Technology Agency.

Governmental Funds – The type of fund used to record governmental-type activities. Governmental funds include: the general fund, special revenue funds, debt service funds, capital project funds and permanent funds.

Governmental-type Activities — Non-business, general activities of government, usually financed by taxes and grants. Governmental-type activities involve the provision of social goods and services, such as public health, welfare, education and safety as well as the administration of government as a whole. Governmental-type activities are typically accounted for in governmental (i.e., general, special revenue, capital projects, permanent and debt service) funds. The capital assets used to support governmental-type activities are typically accounted for in the SCAF.

HRIS – Human Resources Information Solution; the statewide suite of software programs used to record, process and report personnel and payroll activity for the State of Arizona.

Identifiable — A term applied to intangible resources. An intangible resource is identifiable either if it is separable, which is to say it can be isolated and sold independent of any other resource, or if the resource arises solely from contractual or legal rights, irrespective of whether it is separable.

IEU – Input, Edit and Update. A nightly AFIS process that performs a number of tasks including generating warrants and posting the day’s entries to the State’s general ledger.

Improvements other than Buildings — This includes the cost of land improvements, leasehold improvements and other improvements except buildings. Improvements in this account include the cost of landscaping, retaining walls, fences and parking lots.

Incremental Expense – Additional costs incurred with respect to bringing a purchased intangible up to the expected, planned or necessary level of service or capacity. With respect to software, for example, incremental expenses would include custom programming to accomplish needed reporting or integration with other systems.

Indefinite – When applied to the lives of long-lived resources, this term means indeterminable or without a precise limit. The time span implied by this term is generally lengthy, but not infinite.



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Index — A coding system used by AFIS to accumulate and track costs along organizational lines.

Inexhaustible Capital Asset – An inexhaustible capital asset is one whose economic benefit or service potential expires so slowly that its estimated useful life is incalculable or, at least, extraordinarily long. Land is an inexhaustible capital asset. Works of art and historical treasures are also often considered inexhaustible capital assets.

Infrastructure Asset – An infrastructure asset is a stationary capital asset with a long useful life. Examples of infrastructure assets include roads, bridges, tunnels, water and sewer systems, street lighting and traffic control systems, dams, etc. Infrastructure assets are frequently components of infrastructure networks or subsystems.

Infrastructure Networks and Subsystems – An infrastructure network is composed of all assets that provide a particular type of service. An infrastructure subsystem is composed of all assets that make up a portion or segment of a network. For example, a highway system could be considered a network. Roadbeds, pavement, guard rails, signage, and lights could be considered subsystems of that network.

Installment Purchase Agreement – A contract used to finance the acquisition of capital assets. Under the terms of such an agreement, the buyer pays the seller the full purchase price by making a series of partial payments over time. The payments include stated or imputed interest. The buyer takes title to the property at the inception of the agreement. The seller retains a security interest in the property until all of the specified payments have been made.

Intangible – Lacking physicality; unperceivable by the sense of touch.

Intangible Asset – An intangible resource that, because of its nature and value, is capitalized.

Intangible Betterment – A betterment made to an intangible asset.

Intangible Resource – An intangible resource is an identifiable resource that lacks a physical substance and has a useful life that extends beyond a single fiscal year. Specifically excluded from the term “intangible resource” are investments and other financial instruments, property held under the terms of a capital lease, and goodwill (which might arise from the creation of an organization that combines a public and a private entity). Also excluded are monetary assets, such as cash, or claims to monetary assets, such as accounts receivable, or prepayments for goods or services. Depending upon its nature and value, an intangible resource is treated, for accounting purposes, either as an expensed intangible or as an intangible asset.

Internally Generated Intangible Resource – An intangible resource is internally generated if it is created by the Government of the State of Arizona, one of its constituent units, or by an entity contracted by the Government of the State of Arizona or one of its constituent units. An intangible resource purchased from an outside source is considered internally generated, if incremental expenses exceed thirty percent (30%) of the cost of the underlying intangible that was purchased.

Internally Generated Intangible Asset – An internally generated intangible resource that by virtue of its cost is capitalized.

Internally Generated Software – A special class of internally generated intangible resource that incorporates the programs and related files designed to operate on a computer.



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Internally Generated Software Asset – Internally generated software that, due to its cost and related considerations, is capitalized.

Internet – An extensive computer network linking smaller computers and computer networks around the world, all using a standard set of communication protocols.

Land — Real estate acquired by purchase, capital lease, condemnation, gift, grant, escheat, or other lawful means.

Land Improvement — The cost of enhancements—other than buildings, building improvements, building betterments or leasehold improvements—to raw land. Land improvements include the non-maintenance aspects of landscaping, blacktopping, etc.

Leasehold Improvement — Permanently attached fixtures, machinery and other items, such as carpeting, that cannot be removed without cutting into walls, ceilings, floors or otherwise damaging the leased property or the items to be removed.

Legal Life – The life of an intangible asset—such as a patent or copyright—that is established by law.

Long-lived – Providing economic benefits for more than a single fiscal year.

Long-lived Resource – A term incorporating all tangible and intangible resources, whether capitalized or expensed, whether recorded in FAS or not, with an economic benefit that extends beyond a single fiscal year.

Maintenance – Expenditures, periodic in nature, designed to prevent a building or other capital asset from deteriorating in its basic capacity to perform the functions it was designed to perform over its expected useful life. Maintenance can include painting, replacing worn parts, cleaning, lubricating, etc.

Manufactured Building – A roofed and walled structure, often mobile in nature, installed at the site it occupies, but primarily fabricated elsewhere.

Minimal Incremental Effort – A threshold used to determine whether costs related to a given intangible resource—most frequently software—should be capitalized or expensed. Intangible resources, even those resources purchased from a third party, are considered to be internally generated if they require more than minimal incremental effort to begin to achieve their expected level of service capacity. The threshold of minimal incremental effort is considered crossed once the government's expenditures to place an intangible resource (such as computer software) into service exceed thirty percent (30%) of the cost of the underlying intangible that was purchased.

Modified Approach – A comprehensive system of condition assessment and maintenance that, when rigorously applied to infrastructure assets, may be used as an alternative to depreciation.

Modular Furniture System – A modular furniture system is comprised of all the interrelated components that make one or more workstations or cubicles. A modular furniture system includes the panels, work surfaces, storage units and hardware that make up the cubicles or workstations.



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OMB – Office of Management and Budget. A unit within the executive branch of the Federal Government that, among its other duties, promulgates accounting policies to be employed in the administration of Federal funds.

Operating Lease – A lease the provisions of which do not result in a substantive transfer of the rights and risks of ownership from the lessor to the lessee.

Otherwise Acquired – A term applied to intangible assets when they are not deemed to have been internally generated. To be otherwise acquired means to have been obtained by purchase, license, lease, donation or any means other than internal generation.

PCA – Program Cost Account. A coding system used by AFIS to accumulate and track costs by program.

Post-Implementation Stage – A phase in the internal development of software that follows application development. This phase includes the operation and maintenance of the software as well as the training of users, operators and those charged with its maintenance.

Preliminary Project Stage – A phase in the internal development of software. This phase includes the definition of functional and technical needs and the evaluation of alternative approaches to the development or acquisition of software.

Present Value – An amount determined by discounting a stream of future payments at a stated or imputed rate of interest.

Project – In AFIS, a coding structure used to accumulate costs.

Property Identification Number – Property number, property tag number, serial number, parcel number or other number uniquely and specifically identifying the capital asset.

Proprietary Funds – The type of funds used to record business-type activities; proprietary funds include enterprise and internal service funds.

Repairs – Expenditures, non-periodic in nature, focused on recovering from damage done to an asset. The goal of repairs is to return the asset to the same status that existed before it became damaged. Repairs can include replacing broken windows or damaged locks, fixing the results of accidents, storm damage or vandalism, and similar expenditures.

Residual Value – Book value; the cost of an asset less its accumulated depreciation claimed to date.

Resource – Except for excluded intangibles, a property, possession, right or other item of value, whether tangible or intangible. A resource, based upon its nature and value, may be capitalized, in which case it is referred to as a capital asset, or expensed. Some resources, even when expensed, must be inventoried and protected; such resources are referred to as stewardship resources.

SAAM – The State of Arizona Accounting Manual.

Salvage Value — The presumed or estimated value of a capital asset at the end of its useful life.



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SCAF – Statewide Capital Asset Fund. A fund used to account for the capital assets not accounted for in proprietary funds. The SCAF is similar in many respects to the General Fixed Assets Account Group (GFAAG) that existed before the implementation of GASB 34.

SLTLF – Statewide Long-Term Liability Fund. A fund used to account for long-term debt not accounted for in proprietary funds. The SLTLF is similar in many respects to the General Long-Term Debt Account Group (GLTDAG) that existed before the implementation of GASB 34.

Software – The collection of programmatic instructions employed to direct or manage the operation of a computer and the data collected, retained or manipulated by such instructions.

SPMO – Arizona Department of Administration, Management Services Division, Surplus Property Management Office.

SPO – Arizona Department of Administration, State Procurement Office.

SPRM – *State Surplus Property Reference Manual*, a publication of the SPMO that sets forth policies and procedures for correctly disposing of property belonging to the State of Arizona.

Stewardship Resource — A tangible or intangible resource, either capitalized or expensed, that because of its nature (e.g., a handgun kept by a law enforcement unit), intrinsic value (e.g., exceeding the capitalization threshold for a tangible asset), or its relatively high value compared to its transportability and concealability (e.g., a laptop computer) that should, to the extent practicable, be inventoried, tracked and protected from damage or loss. In the case of an intangible resource, that which is safeguarded might be a physical device upon which the intangible resource is stored (as a disk is used to store a copy of a computer program).

Straight-line Method – A way of computing depreciation or amortization. The straight-line method recognizes the reduction of a capital asset's value equally over all the months of its useful life.

SWCAP – Statewide Cost Allocation Plan. A method of determining the cost of a state's shared general and administrative services to be recovered from Federal funding sources.

Tangible – Possessing physicality; perceivable to the sense of touch.

Tangible Resource – A tangible resource is a resource that has a physical substance and has a useful life that extends beyond a single fiscal year. Depending upon its nature and value, a tangible resource is treated, for accounting purposes, either as an expensed tangible or as a tangible asset.

Tangible Asset – A tangible resource that, because of its nature and value, is capitalized.

Tangible Betterment – A betterment made to a tangible capital asset.

Useful Life — The estimated period during which a capital asset will be of economic benefit. In the case of most tangible assets, that useful life is indirectly related to the physical deterioration or obsolescence of the underlying asset; in the case of intangible assets and certain tangible assets, e.g., leasehold improvements, that useful life is either directly related to the legal period of its economic benefit or indirectly related to the underlying asset's obsolescence. Renewal periods can be included as part of the useful life if the contract is likely to be extended and the extension will maintain requisite service levels. The consent and intent of the third party need to be considered when contemplating the extension of a useful life beyond the initial contract term.



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Website – A group of programs, graphics, screens, documents and data maintained on the World Wide Web for a particular purpose and regarded as a single entity.

World Wide Web — The complete set of websites connected by the Internet.

Whole-month Convention – In computing depreciation and amortization, the practice of treating an asset as having been in service for an entire month, irrespective of which day of the month the asset is actually placed in service.

#### IV. POLICIES AND PROCEDURES

##### A. General Policies

The investment of public funds in land, improvements to land, rights of way, easements, infrastructure assets, buildings, building improvements, improvements other than buildings, construction in progress, leasehold improvements, vehicles and other transportation equipment, machinery, equipment of any description, furniture, fixtures, betterments, works of art, historical treasures, infrastructure, and any or all other tangible or intangible resources, whether capitalized or expensed, must be adequately safeguarded. As set forth in A.R.S. §§ 41-722 and 41-2602, physical and accounting control procedures established by the Director of the ADOA must be followed by each agency director. Consistent with this, each agency director must implement the following internal control and accounting policies as they relate to long-lived resources, whether tangible or intangible, capitalized or expensed:

1. Unless receiving specific authorization to the contrary from the GAO, all agencies must report their capital assets on FAS. This requirement extends to capital assets that must be retrospectively capitalized in order to satisfy the requirements of the GASB.
2. Stewardship resources that do not meet the State's capitalization threshold may be entered into FAS for identification and tracking purposes.
3. Each agency director must designate an agency property control officer to account for capital assets, stewardship resources and other tangible and intangible resources, and to ensure that all divisions within the agency comply with the requirements outlined in SAAM.
4. All agencies must use the capitalization guidelines established by the GAO. See Subsection IV.B - Capitalization Policy.
5. All acquisition and disposal of capital assets and stewardship resources must be properly authorized by the agency director or the agency director's designee.
6. All agencies must maintain a fixed asset listing of tangible assets, except for infrastructure assets, recording, at a minimum, the property identification number, description and location of the asset, as well as the method of acquisition, funding source, date of acquisition, date of disposal, purchase document number and cost. In the case of infrastructure assets, records appropriate to the identification and cost of such assets should be maintained. In the case of intangible assets, details appropriate to the type of asset (e.g., the location of a backup disc holding code) should be retained. A listing of all stewardship assets, even if not capitalized, should also be retained. See Subsection IV.H – Stewardship.



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7. All tangible assets, except for infrastructure assets, and stewardship resources must, to the extent practicable, be tagged or otherwise identified as State property. The assigned property identification number must be recorded on the fixed asset listing.
8. All capital assets must be included on the agency's fixed asset listing, maintained on FAS.
9. Purchases of capital assets should be added to the agency's fixed asset listing maintained on FAS within five (5) working days from the date the warrant paying for the capital asset is issued.
10. Capital assets that have been disposed of should be recorded as disposed of in FAS within five (5) working days of the disposal date. See Subsection IV.P - Disposals.
11. Except with a written exception granted by the GAO, a physical inventory of capital assets must be taken no less than annually by the agency property control officer. To enable the GAO to compile the statewide fixed asset listing, all additions and/or deletions must be properly recorded in FAS no later than the date specified in the annual Closing Instructions.
12. Agency property control officers should take a physical inventory of stewardship assets no less frequently than once a year.
13. All agencies must report lost, stolen or destroyed non-expendable material (accompanied by police reports, if applicable) through the SPMO to the State Comptroller, allowing adequate time for the report to reach the State Comptroller within ten (10) days after discovery of the loss, as required by Arizona Administrative Code R2-15-503. Such losses are to be reported to the Risk Management Section of the ADOA, as well, within the timeframes and in the manner prescribed by Arizona Administrative Code R2-10-102.
14. Agencies must maintain all documentation relating to the acquisition and disposal of a capital asset throughout the life of the capital asset and for a limited time after disposal. See Subsection IV.J - Document Retention.
15. Agencies must maintain all documentation relating to the acquisition and disposal of a stewardship resource throughout the life of the stewardship resource and for a limited time after disposal. See Subsection IV.J - Document Retention.
16. If an expenditure maintains the original condition of an asset, it should be classified as maintenance expenditure. (COBJs 7251 through 7269 or 7371, as appropriate.)
17. An expenditure that returns an asset to the condition it enjoyed before having been damaged should be classified as a repair. (COBJs 7251 through 7269 or 7371, as appropriate.)
18. An expenditure that extends the useful life, increases the value, augments the functionality, or enhances the level of service or efficiency of an underlying capital asset should, if it meets capitalization thresholds and other requirements appropriate to the asset, be treated as a betterment.
19. Agencies are required to account for capital assets and tangible stewardship resources (i.e., those items that are not capitalized but are considered to be at relatively high risk of loss or theft, such as weapons, computer hardware, smart phones, cameras, projectors, etc.) on FAS. Though not required to do so, to facilitate recordkeeping, an agency may record other items on FAS.



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20. Except as they pertain to the Arizona Board of Regents, the Arizona Department of Transportation and the Arizona Department of Administration, progress payments on all major capital projects shall be reviewed and approved by the Arizona Department of Administration, General Services Division. Acquisition of land or a building by purchase or condemnation requires the approval of the Joint Legislative Committee on Capital Review.

**B. General Capitalization Policies**

Certain types of assets have specific provisions contained in Subsection IV.C – Capitalization Policies for Specific Types of Assets. Moreover, certain activities that may affect any type of long-lived resource are discussed in Subsections IV.D through IV.U. Unless otherwise provided, the following policies may be applied to all long-lived resources owned by the State.

1. These policies go into effect for assets placed in service on or after July 1, 2009. Except as otherwise herein specifically provided—as may be the case with certain intangible capital assets—no adjustment of cost, method, useful life, depreciation or accumulated depreciation need be made for assets acquired before July 1, 2009.
2. Except as may otherwise be specifically provided herein, if a tangible resource costs \$5,000 or more, it must be capitalized and depreciated or amortized over its useful life.
3. Except as may otherwise be specifically provided herein, an intangible resource that exceeds the relevant capitalization threshold set forth herein must be capitalized and amortized.
4. Capital assets must be recorded using comptroller objects 8111 through 8499 when entering a claim on AFIS.
5. Tangible and intangible resources that are to be expensed must be recorded using comptroller objects 8511 through 8599 when entering a claim on AFIS.
6. Tangible and intangible resources that are not to be capitalized should be expensed. In spite of this treatment, such assets are of value to the State and may impose a custodial obligation upon those in possession of them. See Subsection 5 – Stewardship.
7. Improvements other than buildings (except for land improvements which must always be capitalized) are to be capitalized if (1) the total project cost is \$5,000 or more and (2) the capital improvement increases the utility of the asset or significantly extends its useful life.
8. Furniture, vehicles and equipment must be capitalized if the unit cost of such an asset is \$5,000 or more and the useful life of the asset is greater than one year. Tangible resources with a unit cost of \$4,999 or less are properly classified as expensed tangibles or (which is accomplished by the use of an “I” in the C/I indicator in screen S505 of AFIS). Expensed tangibles, such as equipment that costs less than \$5,000, must be recorded using comptroller objects 8551-8589 when processing a claim on AFIS.
9. Tangible resources with a cost of \$5,000 or more that are acquired under the terms of a capital lease are to be capitalized. Capital leases are discussed at length in SAAM Section II-G-4, Leases.



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10. A tangible betterment must be capitalized if its cost is \$5,000 or more. The cost of a tangible betterment is added to the book value of the underlying or original asset. Tangible betterments do not include building improvements (categorized as Buildings), land improvements (categorized as Improvements Other Than Buildings) or leasehold improvements. Tangible betterments that cost less than \$5,000 should be classified as expense items. See Subsection IV-C-7, Software and Other Intangible Resources, for the proper handling of intangible betterments.
11. Tangible resources with a unit cost of less than \$5,000 but more than a threshold cost established by the agency should be identified as equipment. This equipment should be tagged with a property identification number and for stewardship reasons should be kept on FAS using an "I" in the C/I Indicator, or on a supplementary list.
12. Agencies should use the straight-line method of depreciation or amortization.
13. Agencies should use the whole-month convention in computing depreciation or amortization.
14. Inexhaustible assets should not be depreciated.
15. Unless otherwise approved by the GAO, effective July 1, 2009, agencies should use the useful lives prescribed by SAAM.
16. Ancillary costs associated with acquiring a capital asset that span multiple fiscal years should be accumulated as deferred charges until the acquisition is accomplished or abandoned. If the asset is acquired, the ancillary costs should be added to the cost of the asset. If the asset is ultimately not acquired, the ancillary costs should be expensed at the time the acquisition is abandoned.

### C. Capitalization Policies for Specific Types of Assets

In case of conflict, the policies set forth for specific asset types set forth below take precedence over the general policy provisions outlined above.

#### 1. Land

- a. All land must be capitalized, irrespective of cost.
- b. Land is an inexhaustible asset and is not depreciated.

#### 2. Land Improvements

- a. Land improvements must always be capitalized, irrespective of cost.
- b. Land improvements should be depreciated.

#### 3. Infrastructure and the Modified Approach

- a. Infrastructure assets that are part of a network or subsystem of a network need not be depreciated if both of the following conditions are satisfied:



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- 1) A comprehensive asset management system is employed that accomplishes all of the following:
    - a) Maintains an up-to-date inventory of eligible infrastructure assets.
    - b) Performs regular, periodic and complete condition assessments of the assets and summarizes the results using a measurable scale.
    - c) Estimates, on an annual basis, the amount needed to maintain and preserve the eligible infrastructure assets at the condition level established and disclosed by the agency.
  - 2) The agency documents that the eligible infrastructure assets are being preserved at or above the condition level established and disclosed by the agency.
  - b. Using the modified approach, costs for both maintenance and preservation of eligible assets should be expensed when incurred. Additions and improvements to the network should be treated as betterments.
  - c. If the modified approach is used, it should be applied to all of the assets within the selected network or subsystem. The selection of the modified approach may be made independently for each network or subsystem.
  - d. Should an agency for any reason be unable to maintain and preserve the eligible infrastructure assets at the condition level established and disclosed, it must discontinue its use of the modified approach. When an agency discontinues use of the modified approach, it must depreciate infrastructure assets. Depreciation is to begin in the fiscal year following that in which the modified approach was discontinued. Depreciation should not be retroactively applied. This is, in effect, a change in the estimated useful life and should be reported as a change in accounting estimate.
  - e. Because of the stringent requirements related to the adoption of the modified approach, agencies considering its implementation should contact the GAO for additional information.
4. Buildings and Their Improvements
- a. All buildings and additions or improvements to buildings must be capitalized, irrespective of cost.
  - b. Buildings and additions or improvements to buildings should be depreciated.
  - c. If a building improvement extends the useful life of the building onto which it is affixed, then the useful life of the building should be extended to reflect its new life. The useful life of the improvement will be equal to the extended useful life of the building.
  - d. If a building improvement does not extend the useful life of the building onto which it is affixed, the useful life of the improvement is the shorter of:
    - 1) the estimated useful life of the improvement itself, or
    - 2) the remaining useful life of the building onto which it is affixed.



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## 5. Leasehold Improvements

For purposes of this subsection, a leasehold improvement is one which is acquired, installed or constructed at the direct cost of the lessee agency in a facility that is not owned by the State of Arizona or one of its agencies. Direct cost here means that the improvements are paid for separately rather than being remitted by way of an increase in the periodic lease rate.

- a. Leasehold improvements are to be depreciated (or, more properly, amortized) over the shorter of the asset's useful life or the remaining term of the lease. The remaining term of the lease includes the balance of the original term plus any quantified renewal periods. A quantified renewal period is one in which the lessee has an explicit option to renew for a finite amount of time at a definite and stated price that the lessee intends to exercise. If the leasehold and, hence, the leasehold improvements are abandoned before the expiration of the originally estimated useful life, the unamortized balance of the leasehold improvements should be expensed in the period when the abandonment occurs.

Example: An agency, with funds appropriated to it for the purpose, has had several offices constructed at its own expense in building it leases from a non-governmental entity. The total cost of construction was \$40,000. The construction is estimated to have a useful life of 40 years. The original term of the lease, which commenced one year ago, is five years; the lease contains a three-year option to renew, which the agency intends to exercise.

*The remaining term of the lease is 84 months (60 – 12 + 36); the estimated useful life of the construction is 480 months. The construction should be amortized over 84 months.*

- b. Buildings or improvements made or constructed under the terms of a special use permit on lands not owned by the State should be treated as leasehold improvements.
- c. Properties owned by political subdivisions of the State of Arizona—such as counties or municipalities—are deemed not to be owned by the State or one of its agencies.

## 6. Computer and Telecommunications Equipment

- a. Whether it must be capitalized or not, computer and telecommunications equipment must be safeguarded. In addition to a fiduciary duty to protect computer equipment, there is a responsibility to report inventories of computer equipment to the GITA.
- b. A computer hardware system or subsystem, or a computer component with a single-unit cost of \$5,000 or more, should be recorded using the appropriate comptroller object in the range of 8431 through 8459.

The use of a comptroller object in the prescribed range will result in a "C" being entered into the C/I Indicator field of the AFIS data entry screen which, ultimately, will result in the asset being treated as a capital asset in FAS.

If the hardware extends the useful life or expands the capacity of the asset to which it is added, it should be treated as a betterment. It should be recorded using the comptroller object and the property number of the previously recorded asset to which it is added; a "Y" should be entered into the Betterment field of the AFIS S505 Screen.



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Example 1: An agency purchased a new, high volume, duplex, full color scanner at a cost of \$7,500. This asset must be capitalized.

Example 2: A \$120,000 high-speed storage device is added to a two-year-old mainframe computer that cost \$3,000,000. The storage device will increase the speed and value of the computer and will extend its useful life by a year. At the time the storage device is added, the computer's net book value was \$1,800,000 ( $\$3,000,000 - (\$3,000,000 / 60 \times 24)$ ). Monthly depreciation expense for the remainder of the computer's useful life is \$52,500 ( $(\$1,800,000 + \$120,000) / (60 - 24 + 12)$ ).

- c. A computer hardware system or subsystem, or a computer component with a single unit cost of less than \$5,000 should be recorded in FAS using the appropriate comptroller object in the range of 8531 through 8559.

The use of a comptroller object in the prescribed range will result in an "I" being entered into the C/I Indicator of the FAS data entry screen. This will result in the asset's being treated as an inventory asset (i.e., expensed but identified for purposes of stewardship).

Example 1: An agency purchased 20 new laser printers in a single acquisition of \$6,000. Though the aggregate purchase price exceeded \$5,000, the single-unit cost was only \$300 ( $\$6,000 / 20$ ), so the printers should not be capitalized.

Example 2: An agency purchased, for a total cost of \$15,000, 120 memory chips to upgrade all of its personal computers. Though the aggregate purchase price exceeded \$5,000, and though the memory chips extend the useful lives of the computers into which they are installed, the cost of these chips should be expensed, not capitalized. The single-unit price of the components was only \$125.

- d. Because a computer is an aggregation of potentially interchangeable, reusable and independently operable components, the determination of whether its cost meets the capitalization threshold can be problematic. In general, agencies should adopt a unitary approach. If a computer, though an assemblage of separate components, is intended to be used as a unit, it should, for capitalization purposes, be treated as a single asset.

The unitary approach should be extended to computers, file servers, web servers and similar devices. It should not be extended to the peripheral devices (workstations and printers) attached to local or wide area networks (LANs or WANs), since each workstation or printer, though attached to and communicating with the network, can and is intended to be operated independently.

## 7. Software and Other Intangible Resources

- a. Software, websites and other intangible resources acquired from an external entity by way of purchase, license or donation are to be either capitalized or expensed depending upon their cost.

While computer software and websites are the most frequently encountered intangible assets in Arizona Government, it is important to note that the concepts, policies, practices and procedures discussed herein apply to other intangible assets such as patents and copyrights, as well.



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- 1) If the cost of these types of intangible resources meets or exceeds the monetary thresholds shown in Intangible Resource Capitalization table that follows, these intangible resources are to be capitalized and their cost amortized over the applicable useful life.
- 2) If the cost of these types of intangible resources is less than the monetary thresholds shown in the Intangible Resource Capitalization table below, these intangible resources are to be expensed.
- 3) If more than minimal incremental effort has been expended (i.e., more than thirty percent (30%) of the cost of the underlying purchased resource) with respect to an intangible resource in order for it to begin to achieve its expected level of service capacity, it is to be treated as an internally generated resource as hereinafter discussed.
  - a) In general, activities characterized as configuration are to be included as part of the base acquisition cost.
  - b) In general, activities characterized as customization are to be excluded from the base acquisition cost and should be treated as part of the incremental effort.
  - c) In determining the costs of incremental efforts, third party contract costs, direct labor and associated employee related expenses, and other direct costs should be included; allocations of indirect costs or overhead should be excluded.

Intangible Resource Capitalization				
	Capitalization Thresholds	Useful Lives	COBJs	
			Internally Generated	Otherwise Acquired
Computer Software > \$10 million	\$10 million	120 months	8482	8481
Computer Software < \$10 million	\$1million	60 months	8482	8481
Websites	\$100 thousand	36 months	8482	8481
Licenses and Permits	\$100 thousand	*	N/A	8483
Patents	\$100 thousand	*	8485	8484
Copyrights and Trademarks	\$100 thousand	*	8485	8484
Rights-of-Way and Easements	\$100 thousand	†	N/A	8486
Natural Resource Extraction Rights	\$100 thousand	‡	N/A	8486
Other Intangible Assets	\$100 thousand	*	8487	8487

\* The shorter of the legal or the estimated useful life is to be used; if the life is indefinite or unlimited—as may be the case with licenses or permits—then do not amortize.

† If the value is separable from the underlying land, then the shorter of the legal or the estimated useful life; if the life is indefinite or unlimited, then do not amortize. If the value is inseparable from the underlying land, then do not amortize.

‡ If the value of the intangible asset is identifiable, then the shorter of the legal or the estimated useful life is to be used for amortization; if the legal or useful life is indefinite or unlimited, then the underlying asset is not to be amortized. If the value of the intangible resource is indeterminable, unidentifiable, or inseparable from another asset to which it appertains (as might be the case when the purchase of land includes extraction rights, but no isolatable cost is attributed to those rights), then do not amortize the intangible asset.

- 4) Software, websites and other intangible resources acquired from an external entity by way of purchase, license or donation on or after July 1, 1980, which have previously been



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expensed, are to be retroactively capitalized when the resource is still in use and if the applicable acquisition cost equals or exceeds the relevant threshold. When records documenting the cost of such resources are no longer extant, estimates are to be used.

- b. Software, websites and other intangible resources that are internally generated are to be either capitalized or expensed depending upon their cost.
  - 1) If the cost of these types of intangible resources meets or exceeds the monetary thresholds shown in the Intangible Resource Capitalization table above, these intangible resources are to be capitalized and their cost amortized over the applicable useful life.
  - 2) If the cost of these types of intangible resources is less than the monetary thresholds shown in the Intangible Resource Capitalization table above, these intangible resources are to be expensed.
  - 3) There are several stages in the internal development of software and websites and the costs incurred during those stages should be treated differently.
    - a) Costs incurred during the preliminary project stage should be expensed.
    - b) Costs incurred during the application development stage should be considered for capitalization when incurred after all of the following conditions have been satisfied:
      - (1) The preliminary project stage has been completed.
      - (2) The specific object of the project, including its intended service capacity, has been determined.
      - (3) The technical feasibility of the project has been demonstrated.
      - (4) The intention and ability to complete or continue development has been demonstrated. The intention and ability to complete or continue development can be exhibited by a commitment to fund the project.
    - c) Costs incurred during the post-implementation stage, such as annual maintenance fees, should, unless such costs constitute a betterment, be expensed.
  - 4) Costs incurred during the application development stage that are to be capitalized should be accumulated as Development in Progress until the project is implemented. Upon implementation, project costs should be transferred from Development in Progress to Intangible Assets, at which time amortization of the cost of the project should begin.
  - 5) Appropriate stages, similar to those applied to the development of software and websites, should be applied to other internally developed intangible resources, such as patents and copyrights, in determining which costs should be expensed and which should be considered for capitalization.
  - 6) No retroactive capitalization of internally generated intangible resources that have previously been treated as expenses is required. Furthermore, no capitalization is required for projects that were started before, but not completed by, June 30, 2009, and the costs of such projects, even if incurred after June 30, 2009, should be expensed.



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Costs incurred in connection with projects that begin on or after July 1, 2009, and result in the internal generation of intangible resources should be capitalized if the total of the costs meets or exceeds the applicable threshold.

- c. For software internally generated or otherwise acquired, updates and minor upgrades to software that are often included with a maintenance subscription should be expensed. Major upgrades that are or can be sold separately from the annual maintenance contract should:
- 1) If the intangible resource to which the upgrade appertains has been capitalized and the upgrade costs more than thirty percent (30%) of the underlying cost of the originally acquired or internally generated software, the upgrade should be treated as a betterment and capitalized.
  - 2) If the intangible resource to which the upgrade appertains has not been capitalized (as might be the case with software that went into use before July 1, 2009), but the cost of the upgrade equals or exceeds the relevant capitalization threshold, the upgrade should be treated as a betterment and capitalized.
  - 3) If the upgrade does not satisfy the conditions set forth in either paragraphs 1) or 2) above, it should be expensed.
- d. Irrespective of other considerations, all costs—materials, labor, EREs, contract expenses, appropriately allocated overhead, etc.—of computer software and other intangible resources, whether internally generated or otherwise acquired, which are used to collateralize any loan, bond or certificate of participation, are to be amortized over the term of the loan, bond or certificate of participation.
- e. Irrespective of other considerations, the costs of computer software and other intangible resources, whether internally generated or otherwise acquired, that are leased property under the terms of a capital lease, are to be amortized over the life of the capital lease.
- f. Agencies need to be aware that there may exist other State policies affecting software, such as those promulgated by the GITA, with which they must comply.
- g. Agencies need to be aware that there may exist Federal laws, regulations or guidelines affecting software with which they must comply. For example, all SWCAPs must comply with OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, which deals with what costs may be recovered by the State from the Federal Government and how such costs can be computed. The GAO should be contacted if it appears that discrepancies exist between the capitalization policies outlined herein and the terms of any Federal grant or the conditions established by a cognizant federal agency.
- h. Agencies need to be aware that there may exist specific circumstances that would dictate the application of a shorter useful life than one established by a table contained in this Section of SAAM.

Example: An agency is required to purchase a software system specifically to be used in the administration of ARRA monies. The investment in this system is recoverable from the cognizant federal agency under the terms of the ARRA. The acquiring agency must expend more than minimal incremental effort to bring the system up to its expected level of service capacity, thus categorizing the software as



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internally generated. The software system, which has a total cost of \$6 million, is to be accounted for in a governmental fund. The system is brought into service on September 1, 2009. The period during which expenses may be claimed under ARRA expires on September 30, 2010.

According to the relevant table, this software project would normally have a useful life of 60 months. However, there are only 13 months between the date the system is brought into service and the date for which expenses can no longer be recovered. The agency should use 13 months as the useful life of the software system so that it can appropriately recovery its costs from the cognizant agency.

An agency's GAO liaison is to be contacted when such deviations from the norm will be required.

- i. In the case of a multi-user license, each user's access to the system should be treated as an individual intangible resource.
- j. Agencies should take appropriate steps to prevent the theft or destruction of diskettes, CDs or tapes containing software licensed to or acquired by the State.
- k. Agencies must track and accumulate the costs associated with the application development phase of internally generated software (or its equivalent phase for other internally generated intangible assets), when there is more than a remote possibility that the total costs of the project under consideration will meet or exceed the relevant capitalization threshold. These costs include the cost of any purchased base or foundation software to be modified, appropriate overhead, supplies and miscellaneous direct costs, contractor costs, as well as personal service costs and related EREs, to the extent such costs should be appropriately charged to the project under consideration. Interest costs associated with long-term obligations—such as those associated with COPs or imputed for capital leases—are not, however, to be reckoned as development costs and should not be capitalized.

For most agencies using AFIS and HRIS as their primary accounting and payroll systems, following the procedures outlined immediately below will properly track intangible development costs. Those agencies using other accounting or payroll systems or those to which these procedures may, for any reason, not apply should contact the GAO to discuss appropriate accounting and payroll procedures.

- 1) For every development effort that may exceed the relevant capitalization threshold, an AFIS project and its related phase or phases are to be established. Projects and phases are established using AFIS Screens SO27 (Project Control Profile) and SD42 (Project Number Profile).
- 2) To capture from HRIS the Personal Service and ERE costs of the project established in AFIS, either an Activity or an Accounting Unit must be established in AFIS, using, respectively, Screen H02 (Activity Control) or Screen H01 (Accounting Unit Control). When entering time, all HRIS expense account and activity elements should be used in order to link time entries in HRIS to program and accounting entries in AFIS. The relationship between the cost allocation elements in HRIS and those in AFIS are shown in the following crosswalk table.



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HRIS	AFIS
General Ledger (GL) Company	Appropriated Fund
Accounting Unit	Agency + Index <i>or</i> Agency + Index + Grant + Phase
Account	Comptroller Object (COBJ)
Sub-Account	Appropriation Year (AY)
Activity	Agency + Program Cost Account (PCA) <i>or</i> Agency + Program Cost Account (PCA) + Project + Phase

3) When entering time records into HRIS, the appropriate, complete coding structure must be entered to correctly capture project costs.

l. Agencies may request the State Comptroller in writing to grant permission to adopt lower capitalization thresholds than those prescribed in the Intangible Resource Capitalization table, if operations or the accuracy of financial reporting purposes are thus better served. The use of higher capitalization thresholds is prohibited.

m. Agencies may request the State Comptroller in writing to grant permission to adopt longer useful lives than those prescribed in the Intangible Resource Capitalization table, if operations or the accuracy of financial reporting purposes are thus better served. The use of shorter useful lives, except as may be expressly directed elsewhere herein, is prohibited.

8. Modular Furniture Systems

a. Modular furniture systems (i.e., cubicles and their components)—including desktops, shelves, partitions, storage drawer pedestals, stanchions, etc.—are considered independently functioning tangible resources and, therefore, are not collectively evaluated for capitalization.

b. If an individual component of a modular furniture system costs \$5,000 or more, it should be treated as an individual capital asset.

9. Works of Art and Historical Treasures

a. Unless a written exception is granted by the GAO, works of art and historical treasures in the possession of State agencies are to be treated as components of qualifying collections. A qualifying collection is subject to all the following provisions:

1) The collection is to be held for public exhibition, education, or research in furtherance of public service, rather than for financial gain; and

2) The collection is to be protected, cared for and preserved; and

3) The net proceeds from the sales of collection items are to be used to acquire other items for collections.

a) The term “net proceeds” is defined as the gross selling price less all direct expenses of the sale.



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- b) The collections to which the sold items and the acquired items belong need not be the same.
- b. Works of art and historical treasures that are not part of a qualifying collection are to be capitalized. Capitalization requires that the value of a work of art or historical treasure be determined; this may be accomplished by ascertaining its historical cost or by establishing its fair market value.
- c. Individual items that are exhaustible should be depreciated over their estimated useful lives.
- d. Inexhaustible individual items need not be depreciated.

**D. Determination of Cost**

1. Most of the State's capital assets should be initially recorded at historical cost; assets acquired by donation or escheat are recorded at fair market value at the date of acquisition. Cost is generally defined as "Consideration given or consideration received, whichever is more clearly determinable." Cost includes all normal and necessary expenses incurred to make the asset ready for its intended use. These ancillary costs include, but are not limited to:
  - a. Title search fees, recording fees and other closing costs.
  - b. Grading, filling and clearing of land.
  - c. Assumption of liens.
  - d. Attorneys' and architects' fees.
  - e. Building permit fees.
  - f. Freight charges.
  - g. Taxes and the assumption of delinquent taxes.
  - h. Installation, assembly and testing charges.
  - i. In the case of business-type activities, construction loan interest and the costs of interim financing.

NOTE: Interest costs associated with long-term obligations (such as contracts or lease-purchase agreements) are not ancillary costs and should be accounted for separately, not capitalized as part of the asset.
2. Capital assets acquired by outright purchase should be reported at historical cost. Except for interest expense, the cost of a capital asset generally includes incidental costs required to ready the asset for use.
3. The cost of capital assets used in governmental-type activities should not include capitalized interest. The cost of capital assets used in business-type activities should include capitalized interest.



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4. Capital assets acquired through donation, escheat or discovery (that is to say that the asset was simply found) should be reported at fair market value at the date of acquisition.
5. The cost of a capital asset acquired by means of a capital lease is the present value of future lease payments. The present value is computed as of the inception of the lease.
6. The cost of a capital asset acquired in whole or in part by trading in another asset is determined as described in Subsection IV.R herein – Trade-Ins and Warranty Replacements of Capital Assets or Stewardship Resources.
7. The treatment of capital assets transferred between agencies is determined as described in Subsection IV.Q herein – Transfer of Assets between Agencies.

E. Computation of Depreciation or Amortization

1. Depreciation (and amortization, in the case of certain assets) is the allocation of the cost of the capital asset over its economic useful life. Except for an infrastructure asset for which the modified approach has been implemented, an asset will be depreciated in FAS if the following three conditions are met:
  - a. The asset's C/I indicator in FAS has been set to "C," and
  - b. The in-service date on Screen 73 falls before the end of the month for which depreciation is to be calculated, and
  - c. The asset's cost less its accumulated depreciation is greater than its salvage value.
2. Comptroller objects 7911 through 7995 are used to record the depreciation or amortization expense.
3. The amount of depreciation that will be computed in any given month will be the asset's depreciable value (cost less salvage value) divided by the number of months of its useful life (the straight-line method). The number of months used in computing an asset's depreciation will, by default, be the useful life of the asset's subclass code, as shown on Screen D91. If the asset is not identified with a subclass code or if, for some reason, the useful life of the asset should be other than that associated with an asset's subclass, then the number of months assigned on Screen 73 will be used to compute the asset's depreciation. The following formulas and examples should help to demonstrate this.
4. Calculation of Monthly Depreciation Expense:

The amount of depreciation expense to record each month is calculated by applying the following formula:

$$\frac{\text{Cost of Asset - Salvage Value (if known)}}{\text{Number of Months of Useful Life}} = \text{Monthly Depreciation Expense}$$



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Example: A light-duty, general-purpose truck with no known salvage value is purchased on July 1, 2010, for \$30,000. What is the amount of monthly depreciation expense to be recorded?

$$\frac{\$30,000}{60 \text{ months}} = \$500 \text{ per month}$$

5. FAS automatically calculates and posts depreciation. There is no need for agencies to manually enter the depreciation expense each month.

The monthly journal entry generated to record the depreciation expense for the example above would be:

*Comptroller Object Number 7941 Depreciation Expense - Vehicles 500.00*  
*General Ledger Account Number 0865 Accumulated Depreciation - Vehicles 500.00*

6. Depreciation may be calculated and used for Federal Grant recovery purposes. Agencies receiving Federal assistance should refer to the Federal Grant provisions for the proper recovery period and method or contact the General Accounting Office for guidance. Agencies that occupy buildings financed by COPs should contact the GAO for the proper procedures for billing depreciation expense to federally funded programs. Agencies occupying buildings purchased by COPs receive a letter to that effect from the GAO each fiscal year end.

#### F. Calculation of Salvage Values

1. In the absence of an alternative, established, consistently applied method for determining salvage value, the salvage value to be used for assets held by proprietary funds should be ten percent (10%) of the asset's original cost.
2. In the absence of an alternative, established, consistently applied method for determining salvage value, the salvage value to be used for assets held in governmental funds should be zero (0).

#### G. Useful Lives and COBJs

The effective date of these useful lives is July 1, 2009, and they should be prospectively applied. If a capital asset acquired before the effective date was booked using a useful life that differs from the above, changes or adjustments are not required.

<b>Tangible Resources</b>			
<b>Asset Type</b>	<b>Useful Life</b>	<b>COBJ Purchased Asset</b>	<b>COBJ Leased Asset</b>
Land Improvements	480 months	8111	8116
Constructed Buildings	480 months	8121	8126
Manufactured Buildings	300 months	8121	8126
Infrastructure Assets	420 months	8141-8145	N/A
Improvements Other Than Buildings	180 months	8191	8196
Aircraft	180 months	8411	8416
Heavy Trucks	84 months	8411	8416
Light General Purpose Trucks	60 months	8411	8416



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<b>Tangible Resources</b>			
<b>Asset Type</b>	<b>Useful Life</b>	<b>COBJ Purchased Asset</b>	<b>COBJ Leased Asset</b>
Automobiles	60 months	8411	8416
Office Furniture	60 months	8421	8426
Capitalized Modular Furniture	60 months	8421	8426
Works of Art and Historical Treasures	600 months	8423	N/A
Computer Hardware – Mainframe	60 months	8431	8436
Computer Hardware – Midrange	60 months	8441	8446
Computer Hardware – PC	36 months	8451	8456
Telecommunications Equipment	60 months	8461	8466
Manufacturing Equipment	96 months	8471	8471
Office Equipment	60 months	8471	8476
Books	120 months	8491	8496
Breeding Stock, Draft and Other Animals	36 months	8491	8496
Leasehold Improvements	*	8495	N/A
<i>Software and Websites</i>	**	**	**
<i>Other Intangible Capital Assets</i>	**	**	**

\* Life determined by the governing agreement.

\*\* See the discussion of intangible resources for the appropriate useful lives and COBJs.

To determine the useful life of a type of asset not represented in the table or to use a useful life different from one set forth in the table, please contact the appropriate GAO liaison.

#### H. Stewardship

Capital assets and stewardship resources represent a significant investment by the State. Care must be taken in safeguarding and accounting for all capital assets and stewardship resources. The following are specific minimum requirements for the establishment and maintenance of a capital asset and stewardship accounting or inventory system.

1. A list of all tangible and intangible capital assets and stewardship resources, including, but not limited to land, buildings, infrastructure, improvements other than land, furniture, vehicles, software and equipment must be maintained and include:
  - a. Property Identification Numbers (property tag number, serial number, parcel number, license number, or other number specifically identifying the item).
  - b. Description (model number, size, color, version, component type, program title, etc.).
  - c. Location (address, building, floor, room, parcel number, cabinet, etc.).
  - d. Method of Acquisition (purchase, donation, escheat, internal generation, etc.).
  - e. Source of Funding (the fund or funds that financed the asset).
  - f. Acquisition Date (month and year acquired or, in the case of internally generated intangibles, the date placed into service).





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11. Cellular telephones, smart phones, pagers, personal digital assistants, and similar portable digital and voice communication equipment should be tagged.
12. Audio-visual equipment such as video cassette players, camcorders, DVD players, televisions and overhead projectors should be tagged.
13. A complete physical inventory of all capital assets and stewardship resources must be taken every year and reconciled to the agency and the AFIS fixed asset listings.
14. All cost documentation, such as vendor invoices, claims, requisitions, purchase orders, packing slips and receiving reports that support the information on the fixed asset listing must be retained in a method consistent with those outlined in Section 7 - Document Retention. This can be accomplished by the use of a separate fixed asset file or by any other consistently applied method that furnishes an audit trail that can readily be followed.
15. At the end of the fiscal year, all State agencies must reconcile the total cost of capital asset acquisitions made during the year (total additions to the agency fixed asset listing maintained on FAS) to the total capital expenditures recorded on AFIS for the year. This can be accomplished, for example, by reconciling the Capital Outlay expenditures shown on the year-end DAFR 7410 to the agency's additions using GAO Form 49, provided in the Closing Package. The required reconciliation must be submitted to the GAO by the due date, using the forms, and following the instructions set forth in the appropriate year's Closing Package.
16. Individual items within a group of assets may not need to be capitalized (see Subsection L – Groups of Assets). However, such items may individually or collectively represent a significant investment of State resources. Agencies are to employ measures to safeguard items within a group of assets commensurate with the value of the assets and the risk of loss.

I. Physical Inventory

Each agency must annually perform a physical inventory of its capital assets to ensure that adequate care is being used in the control and accountability of State resources. The physical inventory must be carefully planned and supervised by the property control officer for reliable results. Due to varying circumstances, the process adopted to coordinate the physical inventory will be dependent on the agency's own assessment of its organizational needs. Presented below are the procedures that must be incorporated into the overall scope of each physical inventory.

1. Unless written approval is granted by the GAO, the physical inventory should be taken annually not later than June 30 and not sooner than April 30. If the inventory is taken before June 30, a reconciliation of additions and deletions from the date of the inventory through June 30 must be made.
2. If an accurate count is to be obtained, the movement of capital assets and stewardship resources during the inventory-taking period should be restricted. No transfers of movable equipment should be permitted. All new acquisitions should be retained and accounted for in a receiving area until transfer of the equipment to its designated user department is authorized by the property control officer.
3. Each agency must obtain a current fixed asset listing from FAS prior to the start of the inventory.



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4. The property control officer may subdivide the fixed asset listing into smaller, more manageable groups. The property control officer should create a control log to record the distribution and receipt of the fixed asset listings.
5. The property control officer should assign teams of two personnel the task of comparing the agency's capital assets and stewardship resources to the fixed asset listing. The task of comparing capital assets and stewardship resources to the fixed asset listing should not be assigned to personnel who have custodial responsibility for those capital assets or stewardship resources.
6. All capital assets or stewardship resources located by physical inspection should be indicated by initialing next to the asset or resource item on the fixed asset listing. Any capital assets or stewardship resources located but not found on the fixed asset listing should be added to the fixed asset listing. Capital assets or stewardship resources identified on the fixed asset listing but not physically located should be documented in writing on the fixed asset listing next to the asset or resource.
7. As soon as a fixed asset listing has been completed, it should be forwarded to the agency or section head for review. The agency or section head will sign and date the listing after he/she is confident with the findings and submit it to the property control officer.
8. The property control officer should check returned fixed asset listings against the control log to verify that all listings have been received.
9. A responsible employee should review all fixed asset listings for accuracy and completeness.
10. The property control officer should then perform a random sample test of fixed assets within the listings to determine the overall accuracy of the physical inventory. After testing has been completed, the property control officer will sign and date the asset listing.
11. After the inventory is completed and reviewed, an employee not involved in preparing or reviewing the fixed asset listings and not having custody of the capital assets or stewardship resources should reconcile the physical inventory listings to the agency fixed asset listing.
12. All additions, deletions or changes determined by the agency as a result of the physical inventory must be posted to FAS.
13. The property control officer should retain all documentation supporting the physical inventory.

#### J. Document Retention

1. Documents relating to the acquisition and disposal of capital assets and stewardship resources are to be retained throughout the life of the capital asset and for the following periods after disposal:
  - a. For purchases made with State funds, as prescribed by the Arizona State Library, Archives and Public Records in accordance with A.R.S. § 41-1351, the longest of whichever of the following is applicable:
    - 1) Three (3) fiscal years after the end of the fiscal year in which the asset was disposed of.



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- 2) Six (6) fiscal years after the fiscal year title was transferred under the terms of a capital lease.
  - 3) Five (5) fiscal years after the related invoices, warrants, etc., were issued.
- b. With respect to purchases made with Federal Grant funds, the document retention requirements for capital assets are contained in OMB Circular A-102 (10/7/94, amended 8/29/97) and the A-102 Common Rule. All financial records, supporting documentation, statistical records and all other records pertinent to a grant shall be retained for a period of three (3) years from the date of submission of the final expenditure report or, for grants that are renewed annually, from the date of the submission of the annual financial status report.
2. Documents required to be retained include all records supporting the cost, acquisition date, description of the capital asset and disposal including vendor invoices, claims, requisitions, purchase orders, packing slips, receiving reports, SP101 Property Disposal Request and Authorization and SP102 Certificate of Disposal.
  3. If one State agency transfers a capital asset to another State agency, the agency that originally purchased the capital asset should retain the original documents according to the document retention procedures stated above and forward copies of these documents to the agency receiving the capital asset.

#### K. Capital Leases

Leases are classified as either capital leases or operating leases. If the cost of an asset acquired under the terms of a capital lease is \$5,000 or more, both the asset and the indebtedness to be recognized with respect to the lease must be recorded on the balance sheet.

1. A lease is a capital lease if any one of the following four criteria is met:
  - a. Title to or ownership of the asset is transferred to the State at the end of the lease.
  - b. The lease contains a bargain purchase option.
  - c. The lease term is equal to 75% or more of the estimated useful life of the leased property.
  - d. The present value of the minimum lease payments at the inception of the lease, excluding executory costs, equals at least 90% of the fair market value of the leased property.

Note: Criteria 3 and 4 (identified above as c. and d.) are not used for classification if the beginning of the lease term falls within the last 25% of the total useful life of the capital asset, including earlier years of use.

2. Leases that do not satisfy any one of the four criteria set forth above are operating leases.
  - a. With an operating lease, agencies do not obtain title to or ownership of—but merely the temporary possession and use of—the asset to which the lease pertains. No asset should be recorded on the general ledger or in FAS.
  - b. An asset possessed by a State agency under the terms of an operating lease should be identified and tracked to ensure it is properly safeguarded. In some circumstances, this might be accomplished by entering the leased asset into FAS by setting the Acquisition



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- Method to '2' (Lease), the C/I Indicator to 'I' (Inventory) and the Amount to '1.00' (a nominal cost).
3. The cost of an asset acquired under the terms of a capital lease equals the sum of the ancillary costs added to the present value of the minimum lease payments (except for executory costs included in the lease payments) plus any prepayments or down payments that apply. When recognized—as is true when the asset is acquired by a proprietary fund—the initial indebtedness incurred under a capital lease is equal to the cost of the leased asset.
  4. Any agency entering into a capital lease must send a copy of the lease agreement—complete with payment and amortization schedules—to the GAO at the time the first payment is made.
  5. Each agency is required to record all of its capital lease agreements for capital assets that cost \$5,000 or more on FAS. The agency is responsible to ensure that any lease data in FAS is accurate and that the lease related account balances on the general ledger are properly recorded. Extensive instructions for recording and reconciling capital leases—including the calculation of the interest and principal components of lease payments—are contained in SAAM Section II-D-4 – Capital Leases. Properly accounting for capital leases is difficult; the GAO will provide whatever assistance is necessary to help agencies compute and book the appropriate transactions.
    - a. The following steps briefly describe the process of recording an asset acquired under the terms of a capital lease in FAS.
      - 1) At the time the first lease payment is made, the leased asset's cost should be recorded in FAS.
      - 2) A leased asset's cost is the present value of future lease payments. An asset's cost can often be discerned by referring to the amortization schedule that accompanies the lease agreement.
      - 3) The asset is to be shown as having been acquired by Purchase Method 5 – Lease.
    - b. In order to properly reflect lease balances and interest costs, agencies should make the appropriate adjustments to reflect the principal and interest components of all capital lease payments made during the reporting period.
      - 1) These adjustments should be made no less frequently than annually as part of the fiscal year end closing procedures.
      - 2) Agencies may divide each periodic payment into its principal and interest components at the time the payment is made.
  6. State agencies are currently **prohibited** from using installment purchase agreements to finance acquisitions. Pre-existing installment agreements are to be treated in the same manner as are capital leases.

L. Groups of Assets or Resources

1. Groups of assets or resources that may be purchased together or that are identical in nature, such as groups of desks, groups of chairs, etc., should be treated as individual resources or assets.



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2. A software acquisition consisting of a number of licenses for or units of potentially independent or stand-alone applications—such as word processors or electronic spreadsheets—is to be considered a group of resources. Each unit or each user license is to be treated as an individual intangible resource and capitalized or expensed accordingly. However, an integrated or centralized system to which multiple users have access—such as AFIS or HRIS—is considered a single item rather than a group of resources or assets.
3. Items that are part of a group and individually cost \$5,000 or more should be capitalized.
4. Groups of library books may, at the discretion of agency management, be treated in the aggregate and capitalized as such.
5. Groups of resources or assets do not include collections of works of art or collections of historical treasures. See Subsection IV.C.9 – Works of Art and Historical Treasures.
6. A unit assembled from component parts (e.g., a computer) is not a group of assets.
7. Groups of assets do not include modular furniture systems or their components. See Subsection IV.C.8 – Modular Furniture Systems.
8. Even when individual items within a group of assets need not be capitalized, they may individually or collectively represent a significant investment of State resources. Agencies are to employ measures to safeguard items within a group of assets commensurate with the value of the assets and the risk of loss.

M. Gifts, Donations, Confiscated or Court-Awarded Capital Assets

1. A capital asset received by the State as a result of a donation, confiscation, court-award, escheat or other non-purchase means should be recorded on FAS at the time of its acquisition. The agency must determine and document the estimated fair market value of the capital asset for internal accounting purposes.
  - a. If the fair market value is \$5,000 or more, the capital asset must be assigned a property identification number and be recorded on FAS. See SAAM Section II-G-2, AFIS Fixed Asset System, for procedures on how to enter the capital asset to the system as a gift. It is important to remember that the comptroller object used should match the type of capital asset received.
  - b. If the fair market value is less than \$5,000, the agency can either record and maintain the asset on an internal listing or record it on FAS.
2. The ancillary costs of bringing a donated, confiscated or court-awarded capital asset into service should be treated as betterments.

N. Betterments

Betterments may increase the useful life, value or efficiency of the tangible or intangible assets to which they are added. Betterments are the result of expenditures made with respect to a given asset outside of normal maintenance activities or required repairs.



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1. If a betterment increases the useful life of the underlying tangible or intangible asset, or increases the useful life in addition to increasing the value, functionality or efficiency of the underlying asset, then the useful life should be adjusted in FAS and the newly estimated remaining useful life should be used to compute the depreciation of both the underlying asset and the betterment.

Example: A \$120,000 high-speed storage device is added to a two-year-old mainframe computer that cost \$3,000,000. The storage device will increase the speed and value of the computer and will extend its useful life by a year. At the time the storage device is added, the computer's net book value was \$1,800,000 ( $\$3,000,000 - (\$3,000,000 / 60 \times 24)$ ). Monthly depreciation expense for the remainder of the computer's useful life is \$52,500 ( $(\$1,800,000 + \$120,000) / (60 - 24 + 12)$ ).

2. If a betterment increases the value or functionality or efficiency of the underlying tangible or intangible asset, but does not increase its estimated remaining useful life, then the betterment should be depreciated over the remaining useful life of the underlying asset.

Example: An agency purchased four high-speed fiber channels at a total cost of \$65,000 for its three-year-old \$2,000,000 mainframe computer. While these channels will significantly enhance the computer's throughput, they will not extend its useful life.

When the channels were added, the computer's net book value was \$800,000 ( $\$2,000,000 - (\$2,000,000 / 60 \times 36)$ ). Monthly depreciation expense for the first three years of the computer's life had been \$33,333.33 ( $\$2,000,000 / 60$ ). Monthly depreciation expense for the remainder of the computers life will be \$36,041.67 ( $(\$800,000 + 65,000) / 24$ ).

3. A betterment should be recorded using the COBJ of the previously recorded asset to which it is added. A betterment should also use the property number of the asset to which it is added. The use of a suffix will properly identify the new acquisition as a betterment of the asset originally identified by the property number. Finally, a "Y" should be entered into the Betterment field of the AFIS S505 screen.

#### O. Construction and Development in Progress

Construction in progress refers to resources that will, upon completion, be converted into tangible assets. Construction in progress can be used to accumulate costs for buildings, equipment and other incipient tangible assets.

Development in progress refers to resources that will, upon completion, be converted into intangible assets. Development in progress can be used to accumulate costs for software, patents and other incipient intangible assets.

Depreciation should not be computed for construction in progress; amortization should not be computed for development in progress. In all such cases, the asset's useful life and, hence, depreciation or amortization begins on the first day of the month in which the asset is placed into service at which point the accumulated costs should be transferred from construction or development in progress account to the appropriate asset account.



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#### P. Disposals

Except as otherwise provided by law, the SPMO is responsible for the disposal of all excess and surplus property, including capital assets and stewardship resources, as designated under Title 2, Chapter 15, Article 3 of the Arizona Administrative Code. Refer to the SPRM for the procedures dealing with the disposal of capital assets and stewardship resources. After approval or acknowledgement regarding the dispose of a capital asset or stewardship resource has been received from SPMO and the disposal of the capital asset or stewardship resource has been accomplished, the agency should record the capital asset or stewardship resource as disposed of on any internal listing and on FAS within five (5) days of the date of disposal. See SAAM Section II-G-2, AFIS Fixed Asset System, for procedures to be followed in disposing of a capital asset or stewardship resource.

As prescribed by the SPMO, agencies are to use the Form SP101 to report disposals. Agencies should use separate Forms SP101 to report the disposal of capital assets from those Forms SP101 reporting the disposal of stewardship resources. In the case of capital assets, the GAO will approve the disposal; in the case of stewardship resources, the GAO will merely acknowledge the disposal.

#### Q. Transfer of Assets between Agencies

Agencies may occasionally transfer capital assets or stewardship resources between themselves, such as when a new agency is formed from an existing agency. All transfers of surplus personal property between State agencies must be approved by the Surplus Property Administrator or his designated representative. Refer to the SPRM for the detailed procedures to be followed by all State agencies. The procedures below will enable both the agency losing and the agency gaining the capital assets or stewardship resources to properly update their fixed asset listings.

##### 1. Procedures for Transferring Capital Assets or Stewardship Resources between Agencies

###### a. Agency losing capital assets or stewardship resources.

- 1) After receiving an approved SP101 – Property Disposal Request and Authorization from the SPMO, remove the capital assets or stewardship resources from FAS. See SAAM Section II-G-2, AFIS Fixed Asset System, for procedures to follow for Disposal of Asset. Disposal Method 8 - Transferred, would be used to show the capital assets or stewardship resources that were transferred.
- 2) Make copies of the original documentation retained for each capital asset or stewardship resource being transferred.
- 3) Transfer capital assets and stewardship resources and copies of the relevant documentation to the property control officer at the receiving agency.
- 4) Retain original documentation in accordance with the policies outlined in Subsection IV.J – Document Retention.
- 5) Provide the gaining agency the following information and documentation about the transferred asset or stewardship resource:
  - a) whether the item has been booked as a capital asset or stewardship resource



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- b) the original cost
- c) the accumulated depreciation or amortization, if applicable
- d) the net book value
- e) the date the asset is disposed of
- f) the asset's original useful life, in months
- g) the asset's remaining useful life, in months, at the time of transfer
- h) one copy of the approved Form SP101

The original gross cost and the accumulated depreciation for a capital asset to be transferred can be determined by printing a DAFR 8370 report immediately before removing the asset from FAS. A capital asset's net book value is its original gross cost less its accumulated depreciation or amortization; a stewardship resource's net book value equals its original cost.

b. Agency gaining capital assets or stewardship resources.

- 1) After obtaining an approved Form SP101 - Property Disposal Request and Authorization from the losing agency, receive capital assets or stewardship resources and copies of original documentation from agency transferring assets.
- 2) Verify that all capital assets or stewardship resources that were received are on the Form SP101 with proper documentation for those meeting the capitalization policy requirements.
- 3) Assign property identification numbers to the capital assets and stewardship resources received.
- 4) Add the capital assets or stewardship resources to FAS. The procedures to follow are similar to those used for a gift. See SAAM Section II-G-2, AFIS Fixed Asset System, for procedures to follow for the transfer of an asset. Use Acquisition Method 4 – Gift/Donation; do not use Acquisition Method 6 – Transfer. (The use of Acquisition Method 4 and its related TCs will, when appropriate, result in the contribution of capital being accurately reported on the State's financial statements.)
  - a) The gaining agency should record the cost of the transferred asset or resource as its net book value (cost minus accumulated depreciation).
  - b) The useful life of the transferred asset should be its remaining life, in months (number of months of the asset's original useful life less the number of months of depreciation claimed by the losing agency).
  - c) For the gaining agency, the asset's acquisition date is the same as the disposal date used by the losing agency.

R. Trade-Ins and Warranty Replacements of Capital Assets or Stewardship Resources

1. Before capital assets or stewardship resources are disposed of by trade-in to a vendor towards credit on a purchase, both the SPMO and the SPO must approve this method of disposal. Refer to the SPRM for procedures for the trade-in of capital assets. After approval has been obtained, the capital asset or stewardship resource traded-in must be removed from any internal listing and from FAS. Use Disposal Method 2 - Traded to show the asset or resource was traded. The new asset or resource should be recorded on FAS. See SAAM Section II-G-



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- 2, AFIS Fixed Asset System, for procedures to follow in recording the acquisition and disposal of a capital asset.
2. The cost of a capital asset acquired by trade-in is equal to the cash paid for the new asset, plus the original cost of the asset surrendered as a trade-in, less the accumulated depreciation related to the surrendered asset. The useful life of the capital asset acquired by trade-in is the same as it would have been had no trade-in been involved.
  3. In the event an asset is acquired as a replacement for some other asset under a warranty or guarantee arrangement, the new asset is, generally, to be assigned the cost and accumulated depreciation of the asset it replaces; any additional ancillary costs, however, must be added to the new asset's cost and a new monthly depreciation amount must be calculated reflecting the updated cost. The useful life of the new asset is equal to the remaining useful life of the asset it replaces.
  4. Governmental funds and proprietary funds have different ways of measuring the attainment of their financial goals. One of the byproducts of this is that they handle certain accounting transactions—among them trade-ins of capital assets—differently. Because of the complexity involved, agencies should contact the GAO for assistance in preparing the appropriate accounting transactions to reflect a transfer.

S. Lost, Stolen or Destroyed Capital Assets or Stewardship Resources

1. The theft or malicious destruction of any capital asset or stewardship resource shall be immediately reported to the appropriate law enforcement agency.
2. Items that have been lost, stolen or destroyed must, in accordance with Arizona Administrative Code R2-15-503, be reported to the State Comptroller, at the GAO, within ten (10) days of discovery. The reporting agency will prepare a Form SP101 – Property Disposal Request - and forward it to the SPMO with a copy of the required incident report detailing circumstances and results of investigation. The loss, theft or destruction of capital assets is to be reported on a Form SP101 separate from that reporting the loss, theft or destruction of stewardship resources.

The SPMO will record the Form SP101 and forward it with the attached incident report immediately to the GAO. The GAO will review the documentation and will send its determination to the SPMO, which, in turn, will return the determination to the reporting agency.

- a. In the case of capital assets, the GAO will review the documentation and will send its determination—approval or denial—to the SPMO, which, in turn, will return the determination to the reporting agency.

In the event that a preliminary determination would result in a denial of the request, the GAO will communicate directly with the reporting agency in an effort to resolve those matters preventing an approval of the property disposal request.

The SPMO will forward copies of Forms SP101 to the agency, which then, if the request has been approved by the GAO, may delete the identified items from its inventory. The agency should record the capital asset as disposed of on any internal listing and on FAS within five (5) working days of receiving the approved Forms SP101. See SAAM Section II-G-2, AFIS Fixed Asset System, for procedures to be followed for the disposal of an asset.



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- b. In the case of stewardship resources, the GAO will acknowledge its receipt of the notification on the SP101 and return the SP101 to the SPMO to be, in turn, sent back to the reporting agency.
- c. The GAO and the SPMO reserve the right to further investigate reports of lost, stolen or destroyed capital assets or stewardship resources.

Refer to the SPRM for additional information concerning the proper disposal of capital assets.

T. Cannibalization of Capital Assets and Stewardship Resources

Agencies must obtain approval from the SPMO prior to cannibalizing any capital assets or stewardship resources, such as computer equipment. Refer to the SPRM for the procedures regarding the cannibalization of surplus property.

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