SUBJECT

Capital Asset Records

PURPOSE

To provide capital asset policies and procedures for both Comprehensive Annual Financial Report (CAFR) and non-CAFR reporting

AUTHORITATIVE REFERENCE

K.S.A. 75-3729 K.S.A. 75-3516 K.S.A. 76-116e
Governmental Accounting Standards Board (GASB) Statement No. 34, 42 and 51

GENERAL INFORMATION

K.S.A. 75-3729 provides, in part, that "…The Director of the Division of Accounts and Reports shall design, devise, and direct the use of inventory records by all state agencies to show all fixed and moveable property of the state. The record shall be based on a physical inventory and shall be charged with all subsequent purchases, manufacture of property, or other methods of acquisition and shall be reduced by all property traded in, condemned or otherwise disposed of…. The state agencies may be required to take a physical inventory of such properties annually and at such times as the Director may direct…."

- The term capital assets include tangible assets such as property, plant and equipment and also intangible assets such as easements, water rights and software.
- Agencies are required to keep a record of all assets above the established capitalization thresholds for inclusion with the Comprehensive Annual Financial Report (CAFR).
- Agencies and the Director of Accounts and Reports are required to keep a record of all real property owned by the State of Kansas.
- Agencies shall keep records on assets below the threshold to safeguard against losses.

Fund Reporting

For Generally Accepted Accounting Principles (GAAP) reporting, certain fund categories need to be segregated between governmental and business-type activities. Business-type funds are used to report activities for which a fee is charged to external users of goods and services. Examples of business-type funds are the services provided to state agencies by the Department of Administration, Office of Facilities and Procurement Management. Questions regarding fund types should be directed to the Department of Administration Financial Integrity Team.

Forms and Deadlines

All agencies except the Regent universities and the Department of Transportation are required to submit the DA-82 Capital Asset Supplemental Information Form to the Division of Accounts and Reports by August 31st of each year. This form requires agencies to certify a physical inventory of assets has been taken, reports commodities if greater than $200,000 and discloses any asset abandonment or asset impairments.

Agency Policies

Each state agency is responsible for establishing a **written** policy for safeguarding financial and physical assets and for being alert to possible exposures, errors and irregularities. The agency policy should cover, at the minimum, the responsibility of the property management officer, property criteria, ownership, usage, handling of stolen assets and disposal of property. Management must be aware of internal control weaknesses that can lead to or permit misuse, misappropriation, or destruction of assets. In addition, each state employee has stewardship responsibilities for state agency assets assigned to him/her or otherwise in their control.

The state agency owns all property purchased with State of Kansas funds and all property received as gifts. Although title to property purchased with funds from a grant or contract may not be vested in the state agency, the state agency should exercise the responsibilities of ownership for such property. Regardless of which state agency organizational unit ordered the item, the fund cited, or the particular budget expensed, the principle of state ownership prevails.

State of Kansas assets shall only be used in the conduct of official state business. Property may not be rented or loaned to any person or group for personal use.

Property Management Officer

Each state agency should appoint an individual to serve as the lead person regarding all asset management issues within the state agency. This person is responsible for distributing all statewide and agency-specific asset management policies throughout the state agency and for conducting the agency's annual physical inventory. Whenever possible, to achieve separation of duties, each agency should assign a separate person to audit the completed capital asset list for additions, deletions, and adjustments, including location changes, to determine that all items are properly accounted for.

On-site visits by Department of Administration, Delegated Audit Section will be scheduled for the purpose of performing random sample observation of capital asset records, including real property. Agencies should maintain records in such a manner as to facilitate the physical verification of capital asset items.

Property Numbers

Permanent property numbers should be assigned and affixed to all capital items when the item is received. Care should be taken to insure that the property number attached to each item corresponds to the number assigned to it on the capital asset listing. Decals can be ordered both pre-numbered and unnumbered.

Entering Assets

Agencies should enter capital assets into the centralized capital asset management system in SMART when the asset is received and/or the asset is functional to use in order to accurately reflect the correct transactions for CAFR reporting. It is important to use the correct Profile ID to facilitate CAFR reporting and other system functions (a complete list of Profile IDs is available at http://www.smartweb.ks.gov/training/asset-management/am-job-aids). All capital assets must be entered with a fund code. Assets should be recorded at historical cost rather than current cost or market value.

The statewide capitalization thresholds for assets are as follows:

Description	Capitalization Threshold
Equipment and Furnishings	$5,000
Vehicles	$5,000
Land*	$100,000
Buildings and Improvements*	$100,000
Intangible – Software **	$250,000
Intangible - Other	$250,000
Land Improvements	$100,000
Leasehold Improvements	$100,000

* See the Reporting Requirements for Real Property section for properties not meeting the threshold
**See the Intangible Assets section for voucher account coding information.

Assets with a cost meeting the established threshold and a useful life exceeding one year are reported as capital assets in the CAFR. It is the agency's responsibility to insure all capital assets are properly recorded by month-end.

Reporting Requirements for Real Property—Above and Below the Capitalization Threshold

Pursuant to K.S.A. 75-3516, each state agency should have the deeds to real estate held or acquired by the agency for and in the name of State of Kansas, together with abstracts of title and title insurance policies and all other original instruments relating to the agency's real estate transactions.

In addition, this statute requires the director of Accounts and Reports to maintain a list of real property owned by the state regardless of the cost or value. Real property means land, buildings, permanent fixtures to buildings, and all other improvements to land. The records must include the acreage, location by city and county, a brief legal description and the use and purpose of each lot, tract or parcel of land held by a state agency. Agencies should use the centralized capital asset management system in SMART to record real property assets, designating those meeting the Capitalization Threshold as outlined under Entering Assets on the previous page. The list of real property will be obtained from the centralized capital management asset system. The Regents universities are to submit their real property data electronically each year so it can be combined with the centralized capital asset management system property data as required by K.S.A. 75-3516.

The Kansas Department of Transportation is exempted by statute from this requirement, but must submit a property list to the Secretary of the Senate and the Chief Clerk of the House of Representatives by January 30th of each year.

Gifts or Donated Assets

Gifts should be recorded at the fair market value of the asset at the time the asset was received. If the fair market value is not known, agencies should use an estimate based on professional judgment. A transaction code of Donated should be used in the centralized capital asset management system.

It is recognized that state agencies may not be able to accurately identify the appropriate fund for all capital outlay items. Whenever possible, the asset should be assigned to the fund which would have been used had the item been purchased by the agency. If this is not possible, the agency should review its fund structure and make a good faith effort to identify an appropriate fund and use a "best judgment" approach in assigning a fund to these items.

Depreciation

For CAFR purposes, depreciation will be calculated nightly using a batch schedule in the centralized capital asset management system.

The state will use straight line, half year convention depreciation for the CAFR. All capital assets will be assumed to have no salvage value at the end of their life. If an agency has historical knowledge, and can use a reasonably accurate estimate other than no salvage value, that salvage value should be used in the asset management system.

The state uses the following standards for useful life:

Equipment and Furnishings	8 years
Vehicles	5 years
Buildings and Improvements	40 years
Intangible - Software	8 years
Intangible - Other	0-50 years
Depreciable Land Improvements	40 years
Leasehold Improvements	40 years

Although the state has established these useful lives for assets, if an agency knows from historical experience that an asset will last longer or shorter than the life listed above, the agency may adjust the asset life in the centralized capital asset management system.

Disposal of Assets

State agency property must be disposed of in accordance with State Surplus Property policies and procedures, and under the direction of the agency Property Management Officer. Agencies may obtain a copy of the State Surplus Property Program Policy and Procedure Manual by contacting State Surplus Property (785) 296-2334.

Agencies should remove assets from their records when the State Surplus Property takes possession of the asset. All revenues received from the State Surplus Property for selling an asset will be recorded as miscellaneous revenue in the CAFR. Revenues received from the agency directly selling an asset should be recorded as a sale of asset with a gain or loss when appropriate.

Transfer of Assets

For agencies using the centralized capital asset management system, transfers between state agencies (InterUnit Transfers) will be performed by the SMART Production Team using Form AM001—InterUnit Transfer Form. Transferred assets should retain their original cost and accumulated depreciation.

The agency will perform IntraUnit Transfers, or transfers within the same agency, to change chartfield values in the centralized capital asset management system in SMART.

Stolen Assets

An employee discovering the theft of property must report the theft to his/her supervisor. This is to be done as soon as possible, but no later than three days from the date of discovery. The supervisor should then notify the property management officer immediately. It is the responsibility of the property management officer to report the theft to the appropriate law enforcement agency. For agencies using the centralized capital asset management system, a disposal code of “Disposal Due to Theft” should be used when retiring the asset.

Small Dollar Amount Assets

The state agency has a responsibility to safeguard all assets including possible high pilferage items such as calculators, cameras, recorders, power tools, office machines, notebook computers, software, weapons, etc. The property management officer, or designee, is responsible for ensuring these and similar assets are not simply "lost" over time, and that they are disposed of in accordance with State Surplus Property rules and procedures.

Real Property Assets and Related Improvements

All costs directly identifiable with a specific asset should be capitalized. Examples of these include title searches, closing costs, land preparation costs, transportation charges etc. Trade-in values and any discounts should be applied to the cost of the asset. General and administrative costs should never be capitalized.

Land

Land is considered to have an indefinite life and is not depreciated. All land acquired by purchase is recorded at cost including the amount paid for the land itself and all related acquisition costs. Land acquired by gift or bequest is recorded at the fair market value at the date of acquisition. When land is acquired with buildings erected thereon, total cost is allocated between the two in reasonable proportion at the date of acquisition.

When an agency must raze a building, the reason and timing of the razing should be considered. If land is purchased or gifted with a building that must be removed to use the land, then add the razing cost to the land. This would be considered “permanent in nature". If the building is razed later in order to put a new one on the site, then include the cost as part of the new building ("site preparation costs"). If the building is razed to simply dispose of it, then the razing costs are not capitalized and instead expensed.

Land held for investment purposes should be reported as an investment rather than a capital asset.

Buildings
Buildings include permanent structures, and fixtures, machinery, and appurtenances that cannot be readily moved without disrupting the basic building structure or services to the building.

Improvements
Professional judgment should be used by the agency to determine if an improvement is a normal maintenance repair or an improvement. Generally, an addition or improvement is only capitalized when it provides additional value (i.e. lengthening the asset's useful life) or increases an asset's ability to provide service (i.e. greater effectiveness or efficiency). Normal maintenance and repairs are not capitalized, regardless of the cost.

Land improvements that produce permanent benefits, for example, fill and grading costs that ready land for the erection of structures and certain landscaping are not depreciable. Improvements that are considered part of a structure or that deteriorate with use or the passage of time, such as parking lots and fencing should be depreciated.

In the centralized capital asset management system, land and building improvement will be considered separate assets from the land or building record being improved. The two will be related via a Parent-Child relationship.

Asset Collections

Frequently agencies have historical treasures, art, or book collections. Although agencies are required to maintain accurate control of these items, the collections will not be reported for GAAP purposes.

In addition, pursuant to K.S.A. 76-116e, no other law of the state relating to obsolete, condemned, or surplus property shall apply to any trade or sale made from designated collections. The state has adopted a policy that these collections will be held for the purpose of exhibition to the public to further education and research. It is the state's intent to preserve and protect such items to ensure their availability to future generations. If any items are sold from any collection, the proceeds from such disposition shall be set aside for future acquisitions for the collections.

Capital and Operating Leases

Capital and operating leases are accounted for differently. A capital lease is treated as both an asset and liability, while an operating lease is treated as an operating expense only and does not impact the balance sheet. Capital leases will not be tracked in SMART. Capital lease information will be collected by the Department of Administration Financial Integrity Team to determine what should be included in the CAFR.

It is an agency decision on whether or not to track operating leases in SMART, as operating lease entry is optional. Operating leases entered in SMART will only be used for an agency's internal tracking. The Department of Administration will not use this information in the statewide financial reports.

Leasehold Improvements

Leasehold improvements are construction or improvements made to an existing structure by the lessee who has the right to use the leasehold improvements over the term of the lease. These improvements will revert to the lessor at the expiration of the lease. Moveable equipment or furniture that is not attached to the leased property is not considered a leasehold improvement

Construction in Progress

Assets that have an estimated cost that meets or exceeds the statewide capitalization threshold but are not complete should be reported as construction in progress. Agencies should consider the cost of the entire project, rather than each payment or vendor separately. When the asset is complete and usable, the costs should be moved from construction in progress to the appropriate asset category.

Infrastructure

Infrastructure is a long-lived capital asset that normally is stationary and used for significantly more years than most capital assets. Examples of infrastructure are roads, bridges, tunnels, drainage systems, dams, etc. The cost of land associated with infrastructure should be recorded as land rather than as part of the cost of the infrastructure. Kansas Department of Transportation will use the modified approach for infrastructure. The modified approach expenses costs as they are incurred and requires condition assessments every year. All other agencies should depreciate infrastructure similar to their other capital assets.

Interest

For the CAFR reporting, interest should only be capitalized for proprietary and fiduciary funds. Interest should not be capitalized for governmental funds. Most state funds are considered governmental funds. Contact the Department of Administration Financial Integrity Team for additional information on CAFR fund type. For proprietary and fiduciary funds the following table provides guidance for interest.

Source of Financing for Acquisition Costs
For Proprietary and Fiduciary Funds Only

Item	Tax-Exempt Borrowing*	Grant*	Other Resources
Authoritive guidance	FASB 62	FASB 62	FASB 34
Principal	Capitalize net amount (Difference between interest expenses on debt and interest revenue on temporarily reinvested proceeds)	No interest to capitalize	Capitalize interest if any debt is outstanding in the fund (even if unrelated to project)
Start of capitalization	Issuance of debt	Not applicable	Start of pre-construction activities
End of capitalization	Asset substantially ready to be placed into service	Not applicable	Asset substantially ready to be placed into service

* Externally restricted to specified qualifying asset.

Intangible Assets

Intangible assets include computer software, easements, water rights, timber rights, patents and trademarks. GASB 51 defines intangible assets as having all of the following:

1. Lack of physical substance (e.g. software, right of way)
2. Nonfinancial nature (i.e. not cash, investment, receivables, etc.)
3. Initial useful life of greater than one year

For all assets except software, the Federal government's capital asset threshold is the same amount as Kansas' capital asset threshold. The Federal government threshold for software is $5,000 while Kansas' software threshold is $250,000. To facilitate tracking of software, on the payment voucher agencies should use expenditure account 541890 for purchases less than $5,000. In the state's centralized capital asset management system only software with a cost of $250,000 or greater should be considered a capital asset. Appropriate coding to be used for software purchases are as follows:

Account Code	Account Title	Transaction	Amount
541810	Software	Payment	$5,000 or more
541890	Sotware, Non capital	Payment	Less than $5,000
Profile ID	**Account Title**	**Transaction**	**Amount**
541810	Software	Asset Management Module	$250,000 or more
541890	Sotware, Non capital	Asset Management Module	Less than $250,000

One of the items that need specific attention is the capitalization of internally developed intangible assets (developed in-house by agency personnel or third-party contractor on behalf of the agency)**.**

Internally developed intangible assets should be capitalized if the following has occurred:

1. Agency knows the specific objective of project and nature of service capacity it should have when completed.
2. Agency has demonstrated technical feasibility of successful service capacity when completed.
3. Agency has demonstrated intention, ability and presence of effort to complete.

For internally developed intangible assets, expenditures incurred subsequent to meeting the above criteria should be capitalized. For internally generated software, only capitalize the *application development stage*. GASB defines three stages of software development as:

1. *Preliminary project stage* – includes conceptual formulation, evaluation of alternatives, determined existence of needed technology, and final selection of software made. Do not capitalize. Expense as occurs.
2. *Application development stage* – includes software configuration and software interfaces, coding, installation to hardware and testing, including parallel processing phase. Expenditures in the application stage should be capitalized only if 1) the expenditures were incurred subsequent to the completion of the preliminary stage and 2) management implicitly or explicitly authorizes and commits to funding the software project. All costs should be recorded as construction in progress until the system is usable. Labor costs should be

capitalized, however, general administration costs and overhead costs should not be capitalized (AICPA SOP98-1).

3. *Post-implementation/operation stage* – includes application training, data conversion (beyond that needed to make the system operational) and software maintenance. Do not capitalize. Expense as occurs.

Data conversion should be considered an activity of the application development stage only to the extent it is determined to be necessary to make the computer software operational for use. Otherwise, data conversion should be considered an activity of the post-implementation/operation stage. Costs associated with internally generated computer software should be applied based on the nature of the activity, not the timing of its occurrence.

Software updates should be capitalized only if it meets the threshold and one of the following applies:

1. Software is able to perform tasks that it was previously incapable of performing.
2. Update increases efficiency of computer software.
3. Update extends the useful life.

Asset Abandonment and Impairment

Asset impairment is a significant, unexpected decline in the service utility of a capital asset. Asset abandonment and impairment will only be reported in the CAFR if the amount is greater than $500,000. Common indicators of impairment include:

1. Physical damage
2. Change in laws, regulations or other environmental factors
3. Technological development or evidence of obsolescence of an asset
4. Change in the manner or duration of use of an asset
5. Construction stoppage
6. Stoppage of development (for internally generated intangible assets)

Assets that have naturally lost service capacity with age and use are foreseeable changes that do not constitute impairment. All agencies except the Regent universities and the Department of Transportation must verify they do not have asset abandonment or impairment on their form DA-82 annually. If an agency believes they need to report asset abandonment or impairment, they should provide the property description, original use and purpose, location, condition, original cost, any insurance recovery and market value as an attachment to form DA-82. Additional information regarding asset abandonment and impairment can be found in GASB 42 or by contacting the Financial Integrity Team.

Commodities

Commodities are defined as supplies and materials, including consumable supplies and materials and parts purchased for equipment repair and maintenance performed by state personnel. Commodities purchased for future uses that are on hand at June 30 should be inventoried by the agencies every year. For GAAP purposes, agencies will report the commodity balance only if greater than $200,000 using Form DA-82.

CONTACT SOURCES

Questions regarding capital asset reporting should be directed to:

Department of Administration, Office of the State Comptroller
Audit and Assurance, Financial Integrity Team

Department of Administration, Office of Systems Management
State Accounting and Reporting Systems Support
SMART Production Team, SMART Asset Management Analyst

http://www.smartweb.ks.gov/training/asset-management/am-training-guides
Asset Management: The Basics Training Guide
Adding an Asset Using Express Add Training Guide

Questions regarding Disposition of Property should be directed to:
Kansas Surplus Property
(785) 296-2334