H. GENERAL CAPITAL ASSETS CONVERSION PACKAGE June 2021

I. PURPOSE AND OBJECTIVES

The ACFR presents the state's investment in capital assets at June 30, net of accumulated depreciation. In addition, state law requires that an inventory be maintained of capital assets meeting certain criteria. Capital assets are classified in the following prescribed categories:

1. Machinery and Equipment (including intangible assets)
2. Buildings and Other Improvements
3. Land
4. Construction in Progress (including intangible assets)
5. Infrastructure

Capital assets do not include similar assets if the assets are held primarily for resale. Capital assets may be acquired by outright purchase, construction, internal development (software), lease purchase agreement, installment purchase contract, eminent domain, foreclosure, transfer from another fund or agency, or gift. Capital assets should be separated and recorded under the proper classifications as listed above. Infrastructure is reported on Conversion Package Y and should not be included in this conversion package.

II. AGENCY ACTION REQUIRED

A. Carefully read the key terms in Part III.

B. On the General Capital Assets Summary form, report balances at the beginning and end of the fiscal year, as well as additions, deletions, transfers, and depreciation for the twelve months ending June 30.

C. Round all dollar amounts to the nearest $1,000 dollar increment.

D. All working papers are subject to audit by the State Auditor & Inspector (SA&I). The agency is required to keep a copy of the completed summary form and all associated working papers for three years after the completion of the SA&I audit.

E. The person who completes and signs the summary form should keep a copy. OMES will contact this person if there are any questions.

F. If needed, call your agency's financial reporting analyst for guidance.

G. Return the completed summary form to your OMES financial reporting analyst by e-mail **no later than the due date shown on the form**. **If you can return it earlier, please do so.**

H. If the summary form does not apply to your agency, check the box in the upper left portion of the summary, complete item (2) and return it to OMES.

III. KEY TERMS

A. Reportable Capital Assets for the purpose of this conversion package includes all capital assets described below in B., C., D., E., and F., which have:

* a cost of $25,000 or more, and
* useful lives of 5 years or more on the date of acquisition.

B. Intangible Assets are items that lack physical substance, are non-financial in nature and have an initial useful life that extends beyond 5 reporting periods. Examples of intangible assets include easements, trademarks and computer software. Certain intangible assets can have an indefinite life and are not subject to depreciation if there are no legal, contractual, regulatory, technological, or other factors that limit its useful life. Generally, intangible assets should be recorded within the Machinery and Equipment category if they meet the definition of a reportable capital asset. Intangible assets must have a useful life of 5 years to be reportable but could have up to an indefinite useful life depending on the asset. Typically, the depreciable life of an intangible asset will be between 5 and 20 years.

NOTES:

1. GROUPING OF ASSETS:
   The cost of separate assets acquired as part of a group of assets to be used together, such as individual components of a computer network (workstations, servers, printers, cards, cables, etc.), should be totaled to determine if capitalization is required. However, this grouping is limited to individual components that cannot be used without being connected to other components.

   That is, individual components that can be used without being connected to the other components are considered separate assets under the state's capitalization policy. An example is individual personal computers (PC's). These are considered separate capital assets and must individually meet the capitalization requirements even though they may be connected to a network. The reasoning behind this is that PC's can be disconnected and moved to other locations and still be usable as separate units.

2. SUBSEQUENT ADDITIONS TO GROUPINGS:
   Subsequent additions to groupings of assets may cause these groupings to meet the capitalization requirements even though they did not in previous years. That is, a computer network (excluding PC's that are separate capital assets as described in 1. above) that cost $20,000 in a previous year would not have been capitalized. When another $6,000 of components (excluding PC's that are separate capital assets as described in 1. above) is added to the network, the total cost of the network now meets the $25,000 capitalization requirement. The entire cost ($26,000) is shown as an addition to capital assets in the year the $6,000 is added <u>if the newly combined asset has a useful life of 5 years or more.</u>

   With this in mind, agencies must maintain a complete list of all capital assets purchased by the agency. However, only those assets or groups of assets meeting the capitalization policy requirements are to be reported on the GAAP conversion package.

C. <u>Machinery and Equipment</u> includes "reportable capital assets" required to be inventoried under the provisions of Title 62, § 34.12, Subsection 6 and Title 74 O.S., Sections 110.1 and 110.2. These sections require maintenance of a current inventory of telecommunication and electronic information technology applications costing at least $500 and tangible items costing more than $2,500 and "... may be used repeatedly without material impairment of its physical condition and which has a calculable period of service..."

   Machinery and equipment should be reported at the purchase price plus any other charges incurred to place the asset in its intended location and condition for use (e.g., transportation charges, set up fees, etc.). Donated assets should be reported at the estimated fair value the agency would have to pay to acquire the asset at the date of acquisition. Certain intangible assets such as software, patents, trademarks, commodity rights (i.e. water and timber) and easements should be reported at the calculated development or purchase price.

   1. *Externally Purchased Software* - Software purchased from an external vendor at a cost of $25,000 or more should be capitalized and depreciated over its useful life using the straight-line method of depreciation. Purchased software that requires a significant amount of effort by the agency to achieve the expected level of service capacity should follow the capitalization instructions for Internally Generated Software. Generally, data conversion and training are costs that should not be capitalized for externally purchased software.

   2. *Internally Generated Software* - Has several distinct identifiers that must all be met for determining if an internally generated intangible asset should be capitalized.

1. Determination of a specific project objective and service capacity that the software will provide upon completion of the project.
2. Demonstration of the technological feasibility for completing the project.
3. Demonstration of the intention, ability, and effort to complete the development of the software, even if the project covers multiple years.

Only outlays incurred after meeting the above criteria should be capitalized. Outlays incurred during the determination and demonstration phase should be expensed as incurred. After determining that a project is subject to capitalization, there are three stages of project activity:

1. *Preliminary Project Stage.* Activities in this stage include conception formation of alternatives, determination of the existence of needed technology and the final selection of alternatives for the development of the software. Costs in this stage should not be capitalized.
2. *Application Development Stage.* Activities in this stage include the design of the chosen path, including software interfaces, coding, installation of hardware, and testing, including the parallel processing phase. **All costs in this stage should be capitalized**. This includes all salaries, benefits, and other personnel related costs to the point where the software is substantially complete and operational. Estimates of time, labor and benefit costs are acceptable for determining a capitalized value. Data conversion is only a part of this stage if it is necessary as a condition of use for the software project. Otherwise it should be considered an activity of the post-implementation operation stage.
3. *Post-Implementation/Operation Stage*. Activities in this stage include application training and software maintenance. Costs in this stage are not capitalized.

The stages of a project apply to all internally generated software projects started in fiscal year 2010 and beyond. If the project covers multiple years, all costs eligible for capitalization should be recorded in the Construction in Progress column. The total project cost should only be moved to Machinery and Equipment the year it is placed in service.

D. Buildings are permanent structures used to house persons and property owned by a governmental unit. If buildings are purchased or constructed, they should be recorded at the purchase or contract price of all permanent building structures and fixtures attached to and forming a permanent part of such buildings. If buildings are acquired by gift, the basis reflects their appraised value at the time of acquisition. When buildings are purchased, the basis should include the purchase or contract price as well as costs of acquisition such as attorney fees, appraisers, financial advisors, etc., and any other expenditure necessary to put a building into its intended state of operation less an allocation for the value of the land. Note: Oklahoma Capital Improvement Authority (OCIA) does not include in their package, buildings built for a particular agency. Those agencies should include the buildings on their Conversion Package H.

When buildings are constructed, the basis should include all of the costs relative to construction. If you own land with existing buildings which are being used, and the existing buildings are demolished for new construction, the demolition costs are considered part of the cost of the building. During the construction period, interest should not be capitalized as part of the building cost.

Other improvements include the acquisition value of permanent improvements that extend the useful life or add value to land and buildings. Cost of the improvement should include purchase price, contract price or job order cost, professional fees of architects, site preparation costs and any other expenditure necessary to place the improvements into intended state of operation. It is recommended that improvements be accounted for separately (i.e., a separate line item on the depreciation worksheet with its own assigned useful life).

E. Land includes all land purchased or otherwise acquired by the government. Purchased land should be recorded at cost. All costs for legal services incidental to the acquisition and landscaping including sprinklers should be included in the cost of the land. No other improvements should be included in the cost of land. Donated land should be recorded at the appraised market value of the land at the time of its donation. If land and building are acquired as a single parcel, the value of the land should be determined separately from the building and only that amount recorded in the land account. Land is considered a non-depreciable capital asset.

F. <u>Construction in Progress</u> includes amounts expended on an uncompleted building, other capital construction project or internally developed software. Interest cost incurred during construction **will not** be capitalized as part of the asset. When the project is complete, the cumulative costs are transferred to another capital asset account such as Buildings and Other Improvements or Machinery and Equipment. Depreciation is not calculated on any capital item when it is carried in the Construction in Progress category.

G. <u>Infrastructure</u> is capital assets that are immovable and of value only to the governmental unit. Common examples of infrastructure include roads, sidewalks, bridges, and streetlights. Infrastructure is reported on Conversion Package Y and should not be included in this conversion package.

H. <u>Leased Assets Now Owned</u> are "reportable capital assets" accounted for as capital leases in the prior fiscal year; however, the assets are now owned by the governmental unit through either a purchase option or expiration of the lease at which time ownership of the assets reverted to the lessee. These assets should be reported at the <u>original</u> fair market value of the asset at the inception of the lease. These assets would be listed in the Lease Conversion Package on the lease status sheet (Form L-3) with column 6 marked "No" <u>and</u> column 8 marked "Yes".

I. <u>Additions</u> are "reportable capital assets" that are acquired during the current fiscal year including purchases of new and used assets as well as donated assets.

J. <u>Deletions</u> are "reportable capital assets" sold or in any way removed from service during the current fiscal reporting period. Assets sent to surplus property should be included with deletions.

K. <u>Transfers</u> are the movement of a "reportable capital assets" by virtue of change in custody between agencies. Transfers include both transfers out and transfers in from other agencies. Capital assets that are transferred should not be considered deletions or additions for purposes of this conversion package.

L. <u>Depreciation</u> is the annual deduction allowed to recover certain costs of "reportable capital assets" over a capital time period. Straight-Line depreciation with ½ year convention in year of acquisition (by either purchase, donation or transfer from another agency) and ½ year convention in year of disposal (by sale, transfer to surplus or transfer to another agency) should be used over the total economic life of the asset. Land and Construction in Progress are not depreciated.

M. <u>Accumulated Depreciation</u> is the cumulative amount of depreciation on a category of assets such as machinery and equipment and buildings and other improvements.

N. <u>Constructive Ownership</u> occurs when a state agency may not actually hold legal title to an asset (building) but has rights to use that asset for an extended period of time (up to the full useful life of the asset), at a nominal (rental) cost to the agency (in some instances only $1.00 per year). Occasionally the agency will have paid for construction costs or improvements and is typically responsible for the maintenance and insurance coverage of the asset. The legal title to the asset remains with the entity that owns the land, usually a city or county.

When constructive ownership occurs, the agency should report the asset as a capital asset at the cost invested in the asset. This cost should be depreciated over its estimated useful life. If there is a fixed lease term, it should be used as the useful life for depreciation purposes.

IV. SPECIFIC INSTRUCTIONS

A. <u>Preparation of the Data</u> - Prior to completing the summary form, it is necessary to compile an inventory of all assets in compliance with state statute. From this information, it will then be necessary to prepare a list by capital asset category of those capital assets having a cost of $25,000 or more <u>and</u> useful lives of 5 years or more (the state's capitalization criteria for financial reporting purposes). The list must include for each asset the description, cost, date of acquisition and estimated useful life. If any internally generated software projects have been started, are ongoing, or are completed, information should be compiled to calculate the total value of the Application Development Stage for capitalization.

Starting with the prior fiscal year's reportable capital assets listing, provide accumulated depreciation as of the end of the prior fiscal year, note any additions and/or deletions of assets, compute the current year's annual depreciation expense, and add or delete any transfers made during the fiscal year just ended. The updated total of this list is the current year ending total for reportable capital assets.

Capital assets that are under capital lease at June 30 should not be included as reportable capital assets on this summary, as they will be reported in Conversion Package L.

If actual historical cost from invoices or other purchase documents is not available, estimates of cost may be used to value capital assets. One method involves estimating the average cost of a like asset installed at the time of purchase of the asset in question. A second method involves starting with the present cost of the asset and applying the appropriate price index for that class of assets to calculate estimated historical cost. Any estimating methods used should be sufficiently documented for the State Auditor and Inspector.

B. Completing the General Capital Assets Summary Form

1. Enter the agency ACFR code, name, and funds/accounts to be included on the summary.

2. Provide the name, title, phone number and date for each person who completes and approves this summary form. The finance officer or executive director should approve and sign the form before sending it to OMES. When submitting the form via email it should come from the address of the approving officer. This will act as an implicit electronic signature verifying the form has been reviewed and approved for validity, accuracy, and completeness.

3. The ending balances reported on last year's conversion package should be this year's beginning balances. Any adjustments that need to be made to last years ending balances should be reported on line 4. Amounts should be rounded to the nearest $1,000 (i.e., $484,586.32 = $485,000).

4. If there are any adjustments to the beginning balances listed on line 3, enter them here. Note the reason for the adjustment in the "Comments" section or attach additional sheets if necessary. Enter in the appropriate columns, the accumulated depreciation for the beginning of the year. If you are completing the sample worksheet provided (see section IV, part C), this amount can be obtained from Column 8.

5. This entry is for capital assets that were under capital lease in the prior year that are now owned and cost $25,000 or more and have a useful life of 5 years or more. Enter the original fair market value of the asset at the inception of the lease and the accumulated depreciation for the asset as of the beginning of the year. These assets are listed on the lease status sheet (L-3) with column 6 marked "No" and column 8 marked "Yes". Original cost and accumulated depreciation amounts can be obtained from Conversion Package L, Form L-4.

6. Enter in the original cost column, the total dollar amount of additions to capital assets costing $25,000 or more and having a useful life of 5 years or more.

7. Enter in the appropriate columns, the total original cost of deletions of capital assets (only items costing $25,000 or more and having a useful life of 5 years or more should have been previously included) and the total accumulated depreciation through the date of disposal. This information will be used to determine if a capital gain or loss was incurred by the state.

8. Enter in the appropriate columns, the net original cost amounts and accumulated depreciation amounts of transfers of capital assets for the fiscal year. Provide a schedule, by capital assets category, of transfers in and transfers out showing the affected agencies.

9. Enter in the appropriate columns, the current year depreciation. If you are completing the sample worksheet provided (see section IV, part C), this amount can be obtained from Column 9.

10. Enter totals as follows:
    Original Cost Columns - Totals lines 3 + or - 4 + 5 + 6 - 7 + or - 8
    Accumulated Depr. Columns - Totals lines 3 + or - 4 + 5 - 7 + or - 8 + 9

Net Book Value Columns - Totals lines 3 + or - 4 + 5 + 6 - 7 + or - 8 - 9

11. For asset deletions, provide, by category, the amount of sale proceeds (if any) received and the receipt code where the proceeds were recorded.

12. Provide comments or explanations as needed for any unusual items or circumstances.

C. General Capital Asset Depreciation Worksheet Example

Included is a sample worksheet for calculating accumulated depreciation as of the beginning of the current fiscal year and depreciation expense for the fiscal year.

Complete all columns for each reportable capital asset as follows:

1. List each asset in the appropriate category (see section I for prescribed categories).

2. Enter the fiscal year the asset was placed in service.

3. If asset was disposed of, enter the date of disposition.

4. Enter the historical cost.

5. Enter the total economic life in years. If the economic life of the asset is unknown, Schedule A is provided for guidance only by general category of asset.

6. List the prescribed depreciation method: Straight-Line depreciation with half year convention (i.e., ½ year depreciation in year of purchase and ½ year depreciation in year of disposal).

7. Accumulated depreciation at the beginning of the current fiscal year. This is calculated as follows:

A) Current Fiscal Year *less* Fiscal Year Placed in Service *minus* .5 = Previously Depreciated Years
B) Historical Cost = Total to be Depreciated
C) Result from Step B *divided by* Estimated Useful Life (yrs) = Annual Depreciation
D) Result from Step A *multiplied by* Result from Step C = Accumulated Depreciation at beginning of fiscal year.

This can be summarized as: $\frac{HC}{EUL} \; X \; (CFY - YPS - .5)$

Where:
HC = Historical Cost
EUL = Estimated Useful Life
CFY = Current Fiscal Year
YPS = Year Placed in Service

Example: A computer system was purchased in FY 1997 for $50,000. Using straight-line depreciation and an estimated useful life of 5 yrs, accumulated depreciation for FY 2000 is calculated as follows:

A) 2000 - 1997 - .5 = 2.5
B) 50,000
C) $50,000/5 = $10,000
D) 2.5 * $10,000 = $25,000 Accumulated Depreciation at beginning of fiscal year.

or $\frac{(\$50{,}000)}{5} \; X \; (2000 - 1997 - .5) = \$25{,}000$

8. For assets placed in service in prior years, current year depreciation is the amount calculated in step 7C. (In the above example, current year depreciation for this asset is $10,000). For assets place in service in the current fiscal year, current year depreciation would be the amount calculated in step 7C divided by two (1/2-year convention).

9. Total accumulated depreciation is column 7 plus column 8. (In the above example, this would be $35,000).

Working Papers

The agency should keep any documents that support data on the summary form. For example, agencies should thoroughly document:

* The source(s) of data for each amount.
* Procedures used to gather the data.
* Methods of estimation used.
* All depreciation schedules.

Schedule A

Computing depreciation requires an estimated total economic life of the capital asset in years. Professional judgment should be used to determine lives. Common life ranges, based upon industry sources are:

Example	Definition	Economic Useful Life Ranges
Office furniture, fixtures and equipment	Furniture and fixtures which are not a structural component of a building. Includes such assets as desks, files, safes, and communication equipment.	6 - 12
Information systems	Computers and their peripheral equipment used in administering normal business transactions and the maintenance of business records, their retrieval and analysis. Peripheral equipment consists of magnetic tape feeds, high speed printers, data entry terminals, tape drives, disc drives, video display terminals and optical scanners.	3 - 7
Data handling equipment except computers	Typewriters, calculators, adding and accounting machines, copiers and duplicating equipment.	5 - 7
Airplanes and helicopters		5 - 7
Automobiles		3 - 5
Buses		7 - 11
Light general purpose trucks	Trucks for use over the road (actual unloaded weight less than 13,000 pounds).	3 - 5
Heavy general purpose trucks	Actual unloaded weight 13,000 pounds or more.	5 - 7
Tractor units for use over the road		3 - 5
Vessels, barges, tugs, and similar water transport equipment		15 - 22
Land improvements	Improvements directly to or added to land, provided such improvements are depreciable. Examples of such assets include sidewalks, roads, canals and bridges.	20
Buildings and Structures	Government office buildings, concrete, masonry, steelframed, nontemporary.	40 - 60
	Government office buildings, temporary, portable, relocatable.	10 - 25
	Jails, correctional facilities.	35 - 55
	Medical - hospitals, medical offices, dental clinics, outpatient centers.	35 - 50
	Museums and libraries.	35 - 60
	Barns - freestall and general purpose.	15 - 40
	Implement/Equipment buildings and sheds.	15 - 30
	Miscellaneous sheds and outbuildings.	10 - 15
	Shower and restroom facilities.	15 - 35
	Storage warehouses	20 - 50
Infrastructure	Roads, bridges, drainage systems, water and sewer systems, lighting systems and fiber-optic cable systems	20 - 50