



30.20 Valuing, Capitalizing, Depreciating and Reconciling Capital Assets

Section	Title	Effective Date	Page Number
30.20.10	How to value capital assets	July 1, 2022	224
30.20.20	When to capitalize assets	Oct 1, 2024	228
30.20.22	Assets not capitalized	July 1, 2001	230
30.20.30	Definition of a lease	July 1, 2022	231
30.20.35	Accounting for right-to-use lease agreements	July 1, 2021	232
30.20.40	Accounting for lease-to-own agreements	July 1, 2021	234
30.20.45	Subscription-based information technology arrangements	July 1, 2022	234
30.20.47	Definitions of public-private and public-public partnerships and availability payment arrangements	July 1, 2022	236
30.20.48	Accounting for public-private and public-public partnerships and availability payment arrangements	July 1, 2022	238
30.20.50	Capital assets acquired through Certificates of Participation (COP)	July 1, 2009	239
30.20.60	Accounting for infrastructure	June 1, 2012	239
30.20.70	Depreciation and amortization policy	July 1, 2022	240
30.20.80	Non-depreciable transportation-related infrastructure assets reported using the modified approach	June 1, 2002	241
30.20.90	Impairment of capital assets and related insurance recoveries	July 1, 2005	242
30.20.95	Reconciliation of capital assets	July 1, 2023	242

30.20.10 How to value capital assets

July 1, 2022

[Capital assets](#) should be valued at cost including all ancillary charges necessary to place the asset in its intended location and condition for use.



State Administrative and Accounting Manual

Determine the value of capital assets in the following manner:

30.20.10.a Purchased Assets.

Use historical costs including all nonrefundable purchase taxes (e.g., sales taxes), and all appropriate [ancillary costs](#) less any trade discounts or rebates. If the historical cost is not practicably determinable, use the estimated cost.

If land is purchased, the capitalized value is to include the purchase price plus costs such as legal fees, filing, and excavation costs incurred to put the land in condition for its intended use. The cost of the land also includes indefinite land use rights, such as easements, mineral, timber, and water rights, acquired with the purchase of the underlying land. Land use rights acquired separately from a land purchase and those with definite useful lives are classified as intangible assets.

Building costs include both acquisition and capital improvement costs. Capital improvements include structures (e.g., office buildings, storage quarters, and other facilities) and all other property permanently attached to, or an integral part of, the structure (e.g., loading docks, heating and air-conditioning equipment, and refrigeration equipment). Agencies have the option of capitalizing buildings by components when the useful lives of the components vary.

Furniture, fixtures, or other equipment not an integral part of a building are not considered capital improvements and should be classified as equipment. The cost for this asset type reflects the actual or estimated cost of the asset.

Software, licenses of commercially available software, patents, and other purchased intangible assets that do not meet the definition of an investment are valued at historical cost, including all appropriate ancillary costs.

30.20.10.b Self-constructed assets, including internally developed computer software.

Capitalize all direct costs and agency project management costs associated with a construction/development project. Agency project management costs may be capitalized in one of two ways:

1. Use actual project management costs when they are practicably discernible and directly associated with the project; or
2. Apply a percentage of total budgeted project costs. The application rate may or may not be designed to recover total agency project management costs. Exclude indirect costs unless they are increased by the construction. Refer to the [OFM Capital Budget instructions](#) for discussion of maximum percentage limitations.

Once identifiable, as defined in [Subsection 30.20.20](#), costs incurred for the development of internally generated intangible assets and implementation of [subscription-based information technology arrangements \(SBITAs\)](#) are capitalized only upon the occurrence of all of the following criteria; costs incurred prior to meeting these criteria are not capitalized:

1. Determination of the specific objective of the project and the nature of the service capacity that is expected to be provided by the intangible asset upon the completion of the project.



State Administrative and Accounting Manual

2. Demonstration of the technical or technological feasibility for completing the project so that the intangible asset will provide its expected service capacity. For example, technical feasibility can be demonstrated by the selection of a commercially available software package or by the selection of a development path to meet service capacity requirements.
3. Demonstration of the current intention, ability, and presence of effort to enter into a SBITA contract or to complete or continue development of the intangible asset, in the case of a multiyear internally-developed software project.

Specifically with respect to developing and installing [internally developed computer software](#) and implementing SBITAs, there are three stages involved:

1. **Preliminary project stage**, which includes conceptual formulation and evaluation of alternatives, determination of the existence of needed technology, and the final selection of alternatives for the development of software or SBITA. Costs associated with this stage are not capitalized.
2. **Application development stage or initial implementation stage**, which includes design, configuration and interfaces, coding, installation of hardware, installation and licensing of commercially available software, and testing, including parallel processing. This includes data conversion only to the extent it is necessary to make the software operational. Costs associated with this phase are capitalized when both of the following occur:
 - Activities of the preliminary project stage are completed.
 - Management implicitly or explicitly authorizes and commits to funding the software project, at least for the current year in the case of a multiyear project.

For internally developed software, capitalization of costs should cease when the computer software is substantially complete and operational.

For a SBITA implementation, capitalization of costs should cease when the subscription asset is placed into service. If a SBITA has more than one module, the asset is considered placed into service when initial implementation is completed for the first independently functional module or for the first set of interdependent modules. Remaining modules should be considered subsequent implementation outlays and should be capitalized if they would be considered a betterment or improvement per [Subsection 30.20.20.c](#).

3. **Post-implementation/operation stage**, which includes maintenance, troubleshooting, and other data conversion costs. Costs associated with this stage are not capitalized.

Training costs, regardless of the stage they occur in, cannot be capitalized and should be recorded as a current period expenditure/expense.

Computer software should be considered “internally developed” if developed in-house or by a third party contractor on behalf of the government. Commercially available software that is purchased or licensed and modified using more than minimal incremental effort before being put into operation is considered internally generated.

For accounting for the construction of capital assets, refer to [Subsection 85.60.90](#).



State Administrative and Accounting Manual

30.20.10.c

Ancillary costs. Normally, ancillary costs should be included in the cost of a capital asset. [Ancillary costs](#) are normal or necessary costs required to place the asset in its intended location and condition for use. However, minor ancillary costs, not measurable at the time a capital asset is recorded in an authorized property inventory system, are not required to be capitalized but may be capitalized if the information becomes readily available. Ancillary costs include such items as:

For land:

- Legal and title fees
- Professional fees of engineers, attorneys, appraisers, financial advisors, etc.
- Surveying fees
- [Appraisal](#) and negotiation fees
- Damage payments
- Site preparation costs
- Costs related to demolition of unwanted structures

For infrastructure:

- Professional fees of engineers, attorneys, appraisers, financial advisors, etc
- Survey fees
- [Appraisal](#) and negotiation fees
- Damage payments
- Site preparation costs
- Costs related to demolition of unwanted structures

For buildings and improvements other than buildings:

- Professional fees of architects, engineers, attorneys, appraisers, financial advisors, etc.
- Damage payments
- Costs of fixtures permanently attached to a building or structure
- Insurance premiums and related costs incurred during construction
- Any other costs necessary to place a building or structure into its intended location and condition for use

For furnishings, equipment, intangibles, collections, and other capital assets:

- Transportation charges
- Sales tax
- Installation costs



State Administrative and Accounting Manual

- Warranties
- Any other normal or necessary costs required to place the asset in its intended location and condition for use

30.20.10.d Donated capital assets, works of art and historical treasures.

Donated capital assets, works of art and historical treasures are valued at their estimated acquisition value on the date of donation, plus all appropriate ancillary costs.

30.20.10.e Capital assets for income purposes.

Capital assets acquired or created primarily for the purpose of obtaining income or profit should be valued pursuant to the investment policy in [Section 85.52](#).

30.20.20 When to capitalize assets

Oct 1, 2024

The state's capitalization policy is as follows:

- All land, including land use rights with indefinite lives acquired with the purchase of the underlying land, and ancillary costs.
- The state highway system operated by the Department of Transportation.
- Infrastructure, other than the state highway system, with a cost of \$100,000 or greater.
- Buildings, building improvements, improvements other than buildings, and leasehold improvements with a cost of \$100,000 or greater.
- Intangible assets other than lease assets and subscription-based information technology arrangements, such as internally developed software, patents, and trademarks, with a cost of \$1,000,000 or more that are "identifiable" by meeting either of the following conditions:
 - The asset is capable of being separated or divided and sold, transferred, licensed, rented, or exchanged; or
 - The asset arises from contractual or other legal rights, regardless of whether those rights are transferable or separable.
- Lease assets with total payments over the lease term of \$500,000 or greater.
- Subscription-based information technology arrangements with total payments over the subscription term plus capitalizable implementation costs of \$1,000,000 or greater.
- All other capital assets with a unit cost (including [ancillary costs](#)) of \$10,000 or greater, or collections with a total cost of \$10,000 or greater, unless otherwise noted.
- All capital assets acquired with Certificates of Participation (COP).



State Administrative and Accounting Manual

For capital assets acquired by and used in the operations of **governmental fund type accounts**, record the value of the assets in the General Capital Assets Subsidiary Account (Account 997). Refer to [Subsection 85.60.30.a](#).

For capital assets acquired by and used in **proprietary and fiduciary fund type accounts**, record the value of the assets in the account itself. Refer to [Subsection 85.60.30.b](#).

Although [small and attractive assets](#) do not meet the state's capitalization policy above, they are considered capital assets for purposes of marking and identifying capital assets (refer to [Section 30.30](#)), inventory records requirements (refer to [Section 30.40](#)), and physical inventory counts (refer to [Section 30.45](#)).

Close out the construction in progress and capitalize the costs into the appropriate asset classification when a project is substantially complete, accepted, and placed into service. Refer to [Subsection 85.65.64](#).

30.20.20.a New acquisitions.

Capitalize new acquisitions that meet the state's capitalization policy as stated above. Additions, improvements, repairs, or replacements to existing capital assets are not considered new acquisitions and are discussed below.

30.20.20.b Additions.

Capitalize expansions of or extensions to an existing capital asset when the cost of the addition meets the state's capitalization policy above.

30.20.20.c Extraordinary repairs, [betterments](#), or [improvements](#).

Capitalize outlays that increase future benefits from an existing capital asset beyond its previously assessed standard of performance if the outlays meet the state's capitalization policy as stated above.

Increased future benefits typically include:

- An extension in the estimated useful life of the asset.
- An increase in the capacity or efficiency of an existing capital asset.
- A substantial improvement in the quality of output or a reduction in previously assessed operating costs.

Leasehold improvements that meet the state's capitalization policy are recorded to General Ledger Code 2350 "Leasehold Improvements."

30.20.20.d Replacements.

For building and improvements other than buildings, capitalize the cost of outlays that replace a part of another capital asset when the cost of the replacement is \$100,000 or more and at least 10 percent of replacement value of the asset.



State Administrative and Accounting Manual

Example: A \$120,000 replacement of a heating system in a building having a replacement value of \$1.5 million would not be capitalized. In this case \$120,000 is not at least 10 percent of the building's replacement value. Had the building's replacement value been less than \$1.2 million, the \$120,000 heating system replacement would have been capitalized.

Exceptions to this policy are:

- Replacement roof coverings are not capitalized (whether or not the replacement is with superior materials) unless the replacement extends the useful life of the building.
- Replacement floor coverings and window coverings are not capitalized.
- Costs to remodel (convert) a building to a different use are not capitalized, where the remodeling does not extend the useful life of the structure itself, unless the conversion increases the capacity or efficiency of the existing asset.

Remove the capitalized value and the associated accumulated depreciation of the replaced capital asset or original building component from the accounting records if the amounts are determinable and capitalize the cost of the replacement. Refer to [Subsection 85.60.50](#).

30.20.20.e Bulk purchase.

For proprietary fund type accounts, bulk purchases of like capital assets with unit costs of less than \$10,000 may be capitalized as a group where the allocation of costs for the bulk assets over time is matched to the corresponding revenue generated by the bulk assets. For other fund type accounts, bulk purchases are capitalized when the purchase is made using the Office of the State Treasurer's (OST) Certificate of Participation (COP) program. Refer to [Subsection 30.20.50](#).

30.20.20.f Collection.

Capitalize art collections, library reserve collections, and museum and historical collections when the conditions described in [Subsection 30.20.22](#) are not met. Agencies meeting these conditions have the option of capitalizing their collections. Library resources are capitalized and may be carried on the agency's property records as a single item.

30.20.22 Assets not capitalized

July 1, 2001

30.20.22.a

[Art collections](#), [library reserve collections](#), and [museum and historical collections](#) that are considered inexhaustible, in that their value does not diminish over time, are not required to be capitalized if all of the following conditions are met:

- The collection is held for public exhibition, education, or research in furtherance of public service, rather than financial gain.
- The collection is protected, kept unencumbered, cared for, and preserved.



State Administrative and Accounting Manual

- The collection is subject to an agency policy that requires the proceeds from sales of collection items to be used to acquire other items for the collections.

Agencies must be able to provide descriptions of the collections and the reasons the collections are not capitalized.

30.20.22.b

While these collections are not required to be capitalized, they are to be cataloged per [Subsection 30.40.10](#).

30.20.30 Definition of a lease

July 1, 2022

30.20.30.a

Right-to-use Lease Agreements. A lease is a contract that conveys control of the right to use another entity's capital asset for a specific period of time in an exchange or exchange-like transaction.

A contract conveys control of the right to use the asset if the lessee has both of the following:

- The right to obtain the present service capacity from use of the asset.
- The right to determine the nature and manner of use of the asset.

Extraordinary repairs, [betterments](#), or [improvements](#) to a leased asset are considered leasehold improvements. Refer to [Subsection 30.20.20.c](#).

30.20.30.b

Lease-to-own Agreements. A contract that transfers ownership of the underlying asset to the lessee by the end of the contract and does not contain termination options, should be reported as a financed purchase of the underlying asset by the lessee and a sale of the asset by the lessor. Refer to [Subsection 30.20.40](#).

30.20.30.c

Short-term Leases. Any lease with a maximum possible lease term of 12 months or less cannot be capitalized. Record these lease payments as a current period expenditure/expense when the state is the lessee or revenue when the state is the lessor.

Rolling month-to-month leases and leases that continue into a holdover period until a new lease contract is signed should be treated as short-term leases.

30.20.30.d

Lease Term. The lease term is the period during which a lessee has a noncancelable right to use an underlying asset, including any periods covered by:

- The option to extend the lease if it is reasonably certain that option will be exercised.



State Administrative and Accounting Manual

- The option to terminate the lease if it is reasonably certain that option will not be exercised.

Periods for which both the lessee and the lessor have an option to terminate the lease without permission from the other party (or if both parties have to agree to extend) are cancelable periods and are excluded from the lease term, regardless of whether it is reasonably certain that option will be exercised. For example, if the lease contains a clause that allows both the lessee or the lessor to cancel with 60 days notice, then the maximum term is 60 days and the lease should be accounted for as a short-term lease.

Fiscal funding or cancellation clauses should be ignored. These clauses allow lessees to cancel a lease, typically on an annual basis, if the government does not appropriate funds for the lease payments.

30.20.35 Accounting for right-to-use lease agreements

July 1, 2021

30.20.35.a

Leased assets that meet the state's capitalization policy (refer to [Subsection 30.20.20](#)) that are leased from (state is lessee) or to (state is lessor) individuals or organizations external to the state must be capitalized (refer to [Subsections 30.20.35.b](#) for lessee accounting and [30.20.35.c](#) for lessor accounting).

Leases between state agencies and leases that do not meet the capitalization threshold should be recognized as a current period expenditure/expense by the lessee and/or revenue by the lessor.

30.20.35.b

Lessees should account for a lease as an acquisition of a lease asset and the incurrence of a liability.

At the commencement of the lease term, the lease liability should be recorded at the present value of payments expected to be made during the lease term, including the following:

- Fixed payments
- Variable payments that depend on an index or a rate (such as the Consumer Price Index or a market rate), measured using the index or rate as of the commencement of the lease term
- Variable payments that are fixed in substance
- Amounts that are reasonably certain to be paid under [residual value guarantees](#)
- The exercise price of a purchase option if reasonably certain that the option will be exercised
- Payments for termination penalties if it is reasonably certain that option will be exercised
- Any lease incentives receivable from the lessor
- Any other payments that are reasonably certain of being required

The future lease payments should be discounted using the interest rate the lessor charges the lessee. If the rate is not readily determinable, the lessee's incremental borrowing rate should be used, that is the interest rate the state would be charged to finance a similar asset.

Variable payments based on future performance of the lessee or usage of the underlying asset, such as charges based on hours equipment was used, should not be included in the measurement of the lease



State Administrative and Accounting Manual

liability. Rather, those variable payments should be recognized as an expenditure/expense in the period in which the obligation for those payments is incurred.

The intangible right-to-use lease asset should be recorded at the sum of the lease liability, any ancillary charges, and lease payments made to the lessor at or before the commencement of the lease term, less any lease incentives received from the lessor at or before the commencement of the lease term.

Refer to [Subsections 85.60.65](#) and [85.72.25](#) for more details on how to account for leases.

30.20.35.c

Lessors should recognize a lease receivable and a deferred inflow of resources at the commencement of the lease term. The lessor should continue to recognize the capital asset.

At the commencement of the lease term, the lease receivable should be recorded at the present value of payments expected to be received during the lease term, including the following:

- Fixed payments
- Variable payments that depend on an index or a rate (such as the Consumer Price Index or a market rate), measured using the index or rate as of the commencement of the lease term
- Variable payments that are fixed in substance
- Residual value guarantee payments that are fixed in substance
- Less any lease incentives payable to the lessee

The future lease payments should be discounted using the interest rate the lessor charges the lessee, which may be the interest rate implicit in the lease. If the rate is not readily determinable, the lessee's incremental borrowing rate should be used, that is the interest rate the state would be charged to finance a similar asset.

Variable payments based on future performance of the lessee or usage of the underlying asset should not be included in the measurement of the lease receivable. Rather, those variable payments should be recognized as revenue in the period to which those payments relate.

The deferred inflow of resources is equal to the sum of the lease receivable, lease payments received from the lessee at or before the commencement of the lease term that relate to future periods (for example, the final month's rent), less any lease incentives paid to, or on behalf of, the lessee at or before the commencement of the lease term.

The lease receivable and deferred inflow of resources should be reduced by any provision for estimated uncollectible amounts.

Refer to [Subsections 85.54.41](#) and [85.65.37](#) for more details on how to account for leases.

30.20.35.d

Contracts with Multiple Assets or Components and Multiple Contracts. In general, the capitalization threshold should be applied to each lease contract (rather than each asset within the contract). Lease contracts entered into under a master vendor agreement are separate contracts. However, if multiple



State Administrative and Accounting Manual

contracts are entered into at or near the same time with the same party and are negotiated as a package with a single objective, then the contracts should be combined and considered a single contract.

If a contract contains both a lease component (such as the right to use a building) and a nonlease component (such as maintenance services for the building), the lease and nonlease components should be treated as separate contracts. The lease component is subject to all SAAM requirements for leases. Whereas, the nonlease component should be recognized as a current period expenditure/expense by the lessee and/or revenue by the lessor.

If a lease involves multiple underlying assets with different lease terms, each asset or group of assets with a different lease term should be treated as a separate contract. If a lease involves multiple underlying assets that are in different major classes (i.e., building and land), each asset class should be treated as a separate lease contract.

If a contract does not include prices for individual components or assets, an estimate should be used to allocate the contract price to those components. However, if a reasonable estimate cannot be determined, then the contract should be treated as a single lease contract.

30.20.40 Accounting for lease-to-own agreements

July 1, 2021

30.20.40.a

A contract that transfers ownership of the underlying asset to the state by the end of the contract and does not contain termination options should be recorded as a financed purchase.

When the state's capitalization policy (refer to [Subsection 30.20.20](#)) is met, account for a lease that transfers ownership as an acquisition of a capital asset and the incurrence of a liability. If a lease involves the acquisition of more than one asset, each asset is capitalizable if its fair value meets the state's capitalization threshold. Refer to Subsections [85.60.70](#) and [85.72.30](#).

30.20.40.b

Record a lease-to-own agreement between state agencies as follows:

- The lessor agency is to treat the lease as a sales type lease (record a sale on account and remove the asset from inventory).
- The lessee agency is to treat the lease as a lease-to-own agreement (record the acquisition of a capital asset and the incurrence of a liability).

30.20.40.c

Lease-to-own agreements are to be used only to acquire capital assets. Refer to [Subsection 30.20.20](#).

30.20.45 Subscription-based information technology arrangements

July 1, 2022



State Administrative and Accounting Manual

30.20.45.a

Subscription-based information technology arrangements (SBITAs) are contracts that convey control of the right to use another party's (SBITA vendor's) IT software, alone or in combination with tangible capital assets, as specified in the contract for a period of time in an exchange or exchange-like transaction.

30.20.45.b

Short-term SBITAs. Any SBITA with a maximum possible subscription term of 12 months or less cannot be capitalized. Record these payments as a current period expenditure/expense.

30.20.45.c

Subscription Term. The subscription term is the period during which the agency has a noncancelable right to use an underlying IT asset, including any periods covered by:

- The option to extend the lease if it is reasonably certain that option will be exercised.
- The option to terminate the lease if it is reasonably certain that option will not be exercised.

Periods for which both the agency and the vendor have an option to terminate the contract without permission from the other party (or if both parties have to agree to extend) are cancelable periods and are excluded from the subscription term, regardless of whether it is reasonably certain that option will be exercised. For example, if the contract contains a clause that allows both the agency and the vendor to cancel with 60 days notice, then the maximum subscription term is 60 days and the contract should be accounted for as a short-term SBITA.

Fiscal funding or cancellation clauses should be ignored. These clauses allow agencies to cancel a contract, typically on an annual basis, if the government does not appropriate funds for the payments.

30.20.45.d

Accounting for SBITAs. SBITAs that meet the state's capitalization policy (refer to [Subsection 30.20.20](#)) must be recorded as an acquisition of a capital asset and the incurrence of a liability.

At the commencement of the subscription term, the subscription liability should be recorded at the present value of the subscription payments expected to be made during the subscription term, including the following:

- Fixed payments
- Variable payments that depend on an index or a rate (such as the Consumer Price Index or a market interest rate), measured using the index or rate as of the commencement of the subscription term
- Variable payments that are fixed in substance
- Payments for termination penalties if it is reasonably certain that option will be exercised
- Any subscription contract incentives receivable from the vendor



- Any other payments that are reasonably certain of being required

The future subscription payments should be discounted using the interest rate the vendor charges the agency. If the rate is not readily determinable, the state's incremental borrowing rate should be used, that is the interest rate the state would be charged to finance a similar asset.

Variable payments based on future performance of the agency or usage of the underlying IT assets, such as charges based on number of users, should not be included in the measurement of the subscription liability. Rather, those variable payments should be recognized as an expenditure/expense in the period in which the obligation for those payments is incurred.

The intangible subscription asset should be recorded as the sum of the subscription liability, any payments made to the vendor at or before the commencement of the lease term, and any capitalizable initial implementation costs (refer to [Subsection 30.20.10.b](#)), less any lease incentives received from the vendor at or before the commencement of the subscription term.

SBITAs that do not meet the capitalization threshold should be recognized as a current period expenditure/expense by the lessee and/or revenue by the lessor.

Refer to Subsections [85.60.65](#) and [85.72.25](#) for more details on how to account for SBITAs.

30.20.45.e

Contracts with Multiple Assets or Components and Multiple Contracts. In general, the capitalization threshold should be applied to each contract (rather than each asset within the contract). SBITAs that are entered into under a master vendor agreement are separate contracts. However, if multiple contracts are entered into at or near the same time with the same vendor, negotiated as a package with a single objective, and the amount to be paid in one contract depends on the price or performance of the other contract, then the contracts should be combined and considered a single contract.

If a contract contains both a subscription component (such as the right to use IT assets) and a nonsubscription component (such as maintenance services), then the subscription and nonsubscription components should be treated as separate contracts. The subscription component is subject to all SAAM requirements for SBITAs; whereas, the nonsubscription component should be recognized as a current period expenditure/expense.

If a contract involves multiple underlying assets with different lease terms, each asset or group of assets with a different lease term should be treated as a separate contract.

If a contract does not include prices for individual components or assets, an estimate should be used to allocate the contract price to those components. However, if a reasonable estimate cannot be determined, then the contract should be treated as a single lease contract.

30.20.47 Definitions of public-private and public-public partnerships and availability payment arrangements

July 1, 2022



30.20.47.a

Public-private and public-public partnerships. Public-private and public-public partnerships (referred to as PPPs) are arrangements in which a government (the transferor) contracts with an operator (a governmental or nongovernmental entity) to provide public services by conveying control of the right to operate or use a nonfinancial asset for a period of time in an exchange or exchange-like transaction. Some PPPs are **service concession arrangements (SCAs)**. An SCA is a PPP arrangement between a transferor and an operator in which **all** the following criteria are met:

- a. The government (transferor) conveys to the operator the right and related obligation to provide public services through the use and operation of an underlying PPP asset in exchange for significant consideration, such as an upfront payment, installment payments, a new facility, or improvements to an existing facility.
- b. The operator collects and is compensated by fees from third parties.
- c. The transferor determines or has the ability to modify or approve which services the operator is required to provide, to whom the operator is required to provide the services, and the prices or rates that can be charged for the services.
- d. The transferor is entitled to significant residual interest in the service utility of the underlying PPP asset at the end of the arrangement.

Availability payment arrangements. Availability payment arrangements (APAs) are arrangements in which a government compensates an operator for activities that may include designing, constructing, financing, maintaining, or operating an underlying nonfinancial asset for a period of time in an exchange or exchange-like transaction. The payments by the government are based entirely on the asset's availability for use rather than on tolls, fees, or similar revenues or other measures of demand.

In an APA, a government procures a capital asset or service rather than receiving compensation to allow another entity to provide public services. In contrast to a PPP, the other party to an APA is receiving compensation from the government based entirely on availability to perform and not the actual performance of a public service.

30.20.47.b

PPP Term. The PPP term is the period during which an operator has a noncancelable right to use an underlying PPP asset, including any periods covered by:

- The option to extend the PPP if it is reasonably certain that option will be exercised.
- The option to terminate the PPP if it is reasonably certain that option will not be exercised.

Periods for which both the operator and the transferor have an option to terminate the PPP without permission from the other party (or if both parties have to agree to extend) are cancelable periods and are excluded from the PPP term. Provisions that allow for termination of a PPP due to either payment of all sums due or default on payments are not considered termination options.



30.20.48 Accounting for public-private and public-public partnerships and availability payment arrangements

July 1, 2022

30.20.48.a

PPPs that are a lease. If a PPP meets the definition of a right-to-use lease (refer to [Subsection 30.20.30](#)), and **if all** the following criteria are met, account for the PPP as a right-to-use lease (refer to [Subsection 30.20.35](#)):

- a. existing assets of the transferor are the only underlying PPP assets
- b. improvements to those existing assets are not required to be made by the operator as part of the PPP arrangement
- c. the PPP does not meet the definition of a service concession arrangement (SCA)

Refer to [Subsection 85.60.65](#) and [Subsection 85.72.25](#) for more details on how to account for right-to-use leases.

30.20.48.b

PPPs that are not a lease and not an SCA. The **transferor** accounts for a PPP that does not meet the definition of a right-to-use lease (refer to [Subsection 30.20.30](#)) and is not a service concession arrangement (SCA) (refer to [Subsection 30.20.47](#)), as follows:

1. If an underlying PPP asset is an existing asset of the transferor, at the commencement of the PPP term,
 - a. Continue to recognize the underlying PPP asset at its carrying value.
 - b. Record a receivable for installment payments, if any, to be received in relation to the PPP and a deferred inflow of resources.
 - c. In addition, if improvements to the asset that meet the state's capitalization policy (refer to [Subsection 30.20.20](#)) are required to be made by the operator, when the improvements are placed into service, record an asset for the improvements at acquisition value and a deferred inflow of resources.
 - d. Apply all other accounting and financial reporting requirements relevant to the underlying PPP asset, including depreciation and impairment. However, if the PPP arrangement requires the operator to return the underlying PPP asset in its original condition, the transferor should not depreciate the asset during the PPP term.
2. If the underlying PPP asset is a new asset purchased or constructed by the operator, when the asset is placed into service, record:
 - a. A receivable for the underlying PPP asset based on the operator's estimated carrying value of the underlying PPP asset as of the expected date of the transfer in ownership from the operator and a deferred inflow of resources.



State Administrative and Accounting Manual

- b. A receivable for installment payments, if any, to be received in relation to the PPP and a deferred inflow of resources.

Refer to [Subsection 85.54.43](#) and [Subsection 85.60.67](#) for more details on how to account for PPPs.

30.20.48.c

PPPs that are not a lease but are an SCA. If a PPP meets the definition of an SCA and the underlying PPP asset is a new asset purchased or constructed by the operator, when the asset is placed into service, the **transferor** records an asset at acquisition value for the purchased or constructed underlying PPP asset and a deferred inflow of resources. In addition, at the commencement of the PPP term, the transferor records a receivable for installment payments, if any, to be received in relation to the PPP and a deferred inflow of resources.

Refer to [Subsection 85.54.43](#) and [Subsection 85.60.67](#) for more details on how to account for PPPs.

30.20.48.d

APAs. An APA or components of an APA that are related to the design, construction, or financing of a nonfinancial asset in which ownership of the asset transfers to the state by the end of the contract, should be recorded as a financed purchase of a capital asset.

An APA or components of an APA that are related to providing services for the operation or maintenance of a nonfinancial asset should be expensed in the period to which the payments relate.

An APA that contains both (a) a component related to the design, construction, or financing of a nonfinancial asset and (b) a component related to providing services for the operation or maintenance of a nonfinancial asset should generally be accounted for as separate contracts.

Refer to [Subsection 85.72.35](#) for more details on how to account for APAs.

30.20.50 Capital assets acquired through Certificates of Participation (COP)

July 1, 2009

Capital assets acquired through OST's Certificate of Participation (COP) program are to be capitalized. Refer to [Subsections 30.20.20.e, 85.60.80, and 85.72.40](#).

30.20.60 Accounting for infrastructure

June 1, 2012

30.20.60.a

In accordance with the Governmental Accounting Standards Board Statement Number 34, acquisitions of capital assets defined as [infrastructure](#), which meet the state's capitalization policy, are to be capitalized.



30.20.60.b

The state highway system operated by the Department of Transportation is classified by the state as Transportation Infrastructure-Modified Approach. Refer to [Subsection 30.20.80](#).

30.20.60.c

All transportation-related infrastructure not included in [Subsection 30.20.60.b](#) and all non-transportation infrastructure assets are required to be depreciated. Refer to [Subsection 30.20.70](#).

30.20.70 Depreciation and amortization policy

July 1, 2022

30.20.70.a

Calculate and record depreciation or amortization for all depreciable capital assets refer to [Subsection 85.60.40](#).

Non-depreciable capital assets include:

- Land
- The state highway system operated by the Department of Transportation, which is classified as Transportation Infrastructure-Modified Approach (refer to [Subsection 30.20.80](#))
- Art collections, library reserve collections, and museum and historical collections that are inexhaustible (refer to [Subsection 30.20.22](#))
- Construction in progress
- Intangible assets with indefinite useful lives

30.20.70.b

Depreciation normally begins when an asset is purchased or completed and accepted. However, if it is not placed into service immediately, depreciation should begin when the asset begins to lose value. Either option should be applied consistently and should be reasonable in the circumstance. Depreciation may be calculated using either the straight-line or composite method.

- To calculate depreciation using the **straight-line method**:

$$\text{Annual Depreciation} = \frac{\text{Cost} - \text{Salvage Value}}{\text{Asset Useful Life}}$$

Salvage value is an estimate of the amount that will be realized at the end of the useful life of a depreciable asset.

- Calculate the **composite method** based on weighted average estimated lives or an estimate of the useful life of the grouping of assets; such as library resources. The assessment could be based on condition assessments or experience with the useful lives of the groupings of assets. A consistent



State Administrative and Accounting Manual

composite depreciation rate should generally be used throughout the life of the grouping of assets, but the rate should be recalculated if the composition of the assets or estimate of the useful lives changes significantly.

For example, if the average useful life of library resources, or portion thereof, was estimated to be 25 years, an annual depreciation rate of 4 percent would be used. The annual depreciation expense would be calculated by multiplying the annual depreciation rate by the cost of the collection.

30.20.70.c

Amortization on right-to-use lease and subscription assets begins on the lease start date. Amortization must be calculated using the straight-line method, by dividing the value of the asset by the lesser of the lease/subscription term or the asset's useful life. If it is reasonably certain that a purchase option will be exercised, the asset's useful life must be used.

30.20.70.d

Useful life for capital assets – Agencies are required to use the useful life shown in Schedule A, Capital Asset Class Code List and Useful Life Schedule ([Subsection 30.50.10.a](#)) for capital assets acquired in new condition. For energy efficiency equipment and products, refer to the Addendum to Schedule A ([Subsection 30.50.10.b](#)).

However, a shorter or longer estimated life may be used depending on factual circumstances, replacement policies, or industry practices. Proposed deviation in useful life from Schedule A requires prior written approval from the OFM Accounting Division.

When establishing an asset's useful life:

- Agencies are responsible for establishing and utilizing an appropriate useful life for assets acquired in less than new condition.
- The useful life for leasehold improvements is the estimated service life of the leasehold improvements, or the remaining term of the lease, whichever is shorter.
- The useful life for intangible assets acquired by contract generally should not exceed the period of the contract.

For depreciation purposes, the useful life of assets should be reviewed to ensure it has remained the same. Impairment of assets or changes in contractual provisions may impact the useful life and remaining depreciation.

30.20.80 Non-depreciable transportation-related infrastructure assets reported using the modified approach

June 1, 2002



State Administrative and Accounting Manual

The state capitalizes the state highway system as a class of infrastructure assets and reports these assets using the "modified approach" to depreciation. Under the modified approach, these infrastructure assets are not depreciated as long as two requirements are met:

- The assets are managed in an asset management system, which includes keeping an up-to-date inventory of assets, performing condition assessments of the assets and summarizing the results, and estimating the annual amount to maintain and preserve the assets.
- The state documents that the assets are being preserved approximately at or above the condition level established and disclosed previously by the state.

30.20.90 Impairment of capital assets and related insurance recoveries

July 1, 2005

30.20.90.a

A capital asset is considered to be impaired if the asset experiences a significant and unexpected decline in its service utility. The service utility of a capital asset is the expected usable capacity at acquisition. A capital asset may be impaired due to events or changes in circumstances, such as physical damage, obsolescence or changes in technology, enactment or approval of laws or regulations or other changes in environmental factors, a change in manner or duration of use, or a construction stoppage.

A capital asset that becomes impaired is to be revalued to reflect its decline in service utility. Refer to [Subsection 85.60.45](#).

30.20.90.b

Insurance recoveries related to impaired assets are reported net of the related loss when the recovery is realized or realizable in the same fiscal year as the loss. Otherwise, restoration or replacement costs of an impaired capital asset are reported as a separate transaction from the related insurance recovery. Agencies should contact their assigned OFM Statewide Accountant when they have a material impairment.

30.20.95 Reconciliation of capital assets

July 1, 2023

Agencies are to reconcile the balance in GL Code Series 2XXX "Capital Assets" to the balance of the detail listing of capital assets in the agency's authorized capital asset management system and the leases and subscription-based IT arrangements (SBITAs) in DebtBook, as applicable. Agencies using the state's Capital Asset Management System (CAMS) have available capital asset reports for both cost and depreciation showing beginning balances, additions, deletions, and ending balances. Agencies not using CAMS are to develop similar capital asset reports. Refer to [Subsection 85.60.60](#).

ER reports to use: Financial Reports/Accounting/Capital Asset Management.