

PSAB Supplement 12
Capital Assets

**MANUAL OF PROCEDURES
PSAB SUPPLEMENT 12
CAPITAL ASSETS**

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MANUAL OF PROCEDURES
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STATUTORY PROVISIONS

"The governing authority of each agency shall, at the end of each fiscal year, conduct a physical inventory of movable chattels and equipment costing more than five thousand dollars (\$5,000) and under the control of the governing authority. This inventory shall include all movable chattels and equipment procured under Section 15-3B-16, NMSA, 1978, also known as the "Property Control Act". Section 12-6-10, NMSA, 1978.

"Upon completion, the inventory shall be certified by the governing authority as to correctness.... At the time of the annual audit the state auditor shall satisfy himself as to the correctness of the inventory by applying generally accepted auditing procedures." Section 12-6-10, NMSA, 1978.

"Each agency shall maintain one copy of its fixed asset inventory in its files." Section 12-6-10, NMSA, 1978. No inventory is required to be filed with any state office.

"No agency shall be required to list any items costing five thousand dollars (\$5,000) or less." Section 12-6-10, NMSA, 1978.

The capital asset listing of land, buildings and building improvements, equipment and vehicles and construction in progress over \$5,000 is required by statute. However, **this amount limitation does not prohibit the preparation of an additional listing of equipment items costing less than five thousand dollars.** (A supplemental fixed asset listing for items less than \$5,000 is suggested). The listing maintains necessary control for "theft sensitive" items such as: chairs, calculators, desks, bookshelves, tables, recorders which may cost less than five thousand dollars. The supplemental fixed asset listing is advisable and often beneficial to safeguard assets against unauthorized use, and to prevent theft.

AUTHORITY

The General Services Department (GSD) through its Financial Control Division and its Property Control Division has the statutory responsibility to establish standards including a uniform classification system of inventory items, and to promulgate regulations concerning the system of inventory accounting for chattels and equipment required to be inventoried, and the governing authority of each agency shall install that system. (Section 6-5-2, NMSA 1978)

The General Services Department of the NM State Purchasing Division (GSD) Rule 88-101, "Standard Fixed Asset Control and Accounting Regulations" establishes procedures for the control and accounting of all fixed assets of state agencies in New Mexico including public school districts and charter schools.

Section 6-5-2, NMSA 1978 Financial control division; central system of state accounts; accounting systems; processing documents; model accounting practices; internal accounting controls.

1. *The division shall prescribe procedures, policies and processing documents for use by state agencies in connection with fiscal matters and may require reports from state agencies as may be necessary to carry out its duties and functions.*
2. *The division shall issue a manual of model accounting practices containing the procedures and policies prescribed pursuant to Subsection A of this section and shall annually review and, if necessary, revise and reissue the manual. State agencies shall comply with the model accounting practices established by the division, and the administrative head of each state agency shall ensure that the model accounting practices are followed.*
3. *State agencies shall implement internal accounting controls designed to prevent accounting errors and violations of state and federal law and rules related to financial matters. In addition, state agencies shall implement controls to prevent the submission of processing documents to the division that contain errors or that are for a purpose not authorized by law.*

POLICY

(Adapted from FIN6.5 Asset Management MAP, GSD)

1. Districts and charter schools shall record additions to capital assets at the time acquired, and betterments of existing capital assets at the time the betterment is completed in the accounting records.
2. Districts and charter schools should establish procedures and accounting processes to record additions, dispositions, transfers, and deletions of capital assets.
3. The recording of infrastructure (roads, utilities, etc.) is optional.
4. All capital assets of the district or charter school shall be reported in the district wide financial statements. Disclosure of additions and deletions must be included in the notes to the financial statements
5. A listing for all capital assets must be maintained which includes the original fund acquiring the asset. Any activity for the year must balance with expenditures of the acquiring fund.

6. Capital assets shall be recorded at the time of acquisition at cost as determined by the amount paid for purchased assets or at the cost of construction for constructed assets, or at the estimated fair market value for donated capital assets.
7. Capital assets should be reported using the following asset classes:
 - a. Land
 - b. Buildings
 - c. Improvements other than buildings
 - d. Vehicles
 - e. Equipment
 - f. Construction in progress
8. The amount to be recorded as "Construction in Progress" (CIP) in the district's/charter school's year-end Financial Statements should be determined each year. When construction is completed "Construction in Progress" should be reduced and the appropriate capital asset classification should be increased.

CAPITAL ASSET CONTROLS (2.20.1.15, NMAC)

Each district or charter school shall establish controls over its capital assets in order to safeguard them and establish accountability for their custody and use. Such controls will apply to:

- **Authorization to Acquire Fixed Assets:** Procedures for requesting their purchase and approval to purchase by management charged with determining that the purchase is consistent with the business objectives of the district and is economically reasonable.
- **Receiving purchases:** The individual receiving goods should be able to attest to the delivery, date of delivery, and condition of the goods received, but have no access to the accounting records.
- **Tagging the assets:** Newly received capital assets shall be tagged at the time they are received. Tags should be generated upon approval of the purchase and included with the receiving copy of the purchase order. Each tag shall identify the district owning the asset followed by a unique sequential fixed asset number so that each item may be positively identified. Blocks of numbers should be established for each unit to improve controls and avoid duplication of numbers.

- **Assigned Location**: Districts shall record the assigned location of the capital assets. If the asset is reassigned, the new location should be updated in the capital asset record.
- **Fund and Organizational Unit**: Capital assets must be associated with the fund that purchased them for the purpose of accurately reporting financial performance. If the asset is reassigned, the accounting records should be updated.
- **Individuals responsible for tracking use and location**: Districts shall assign specific individuals to be responsible and accountable for tracking fixed assets within their unit. Individuals are properly trained regarding paperwork required to transfer assets and written procedures including forms are in place.

CAPITAL ASSETS

WHY AND HOW ARE CAPITAL ASSETS REPORTED?

GASB 34 (Governmental Accounting Standards Board pronouncement 34) was implemented for governmental entities with fiscal year ending dates after June 15, 2001, requiring the reporting and depreciation of capital assets. The rationale is that capital assets have useful lives that extend beyond a single reporting period. A more accurate reflection of economic change from period to period is achieved by recording improved economic position when an asset is acquired and the subsequent deterioration as the asset is “used up” (depreciated).

Capital assets are acquired through purchase, capital lease, donation or construction. These acquisitions are accounted for as follows:

- The purchase of a capital asset is charged as any other purchase for which title passes on receipt of payment. In school districts and charter schools, capital assets are typically charged to the fund acquiring the asset, the 4000 function, and a capital outlay expenditure account in the 57000 range of object codes. (See PSAB Supplement 3, Uniform Chart of Accounts).
- Simultaneously, a record of these purchases is entered into a Capital Asset Schedule or listing to be used in preparing the Statement of Net Assets in the District’s financial statements. The net assets include funds invested in capital assets, net of related debt and accumulated depreciation.
- Donated assets must be recorded at their fair market value.

THE ACCOUNTING SYSTEM

HOW DOES A DISTRICT OR CHARTER SCHOOL TRACK CAPITAL ASSETS?

Designing and establishing the capital asset accounting system of a school district requires systematic planning in basic areas such as:

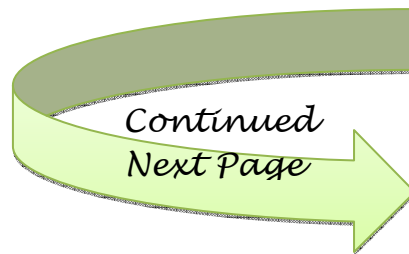
- Establishing the objectives of the capital asset system and making policy decisions that affect the establishment and maintenance of the system.
- Designing system to generate lists of capital assets in sequences useful for managing them.
- Designing the plan for taking the initial inventory, verifying and testing the data, and establishing a value for each recorded asset.
- Determining when and how to implement controls over additions and deletions to the inventory.
- Fixing accountability for the custody of individual items and determining who is responsible for the care and maintenance of the inventory at various school sites.

THE CAPITAL ASSET RECORD

An adequate capital asset accounting system ensures the school district will meet statutory requirements, produce records and reports, and properly guard assets. A policy on the dollar value at which capital assets will be included in the system is referred to as the “capitalization” policy. Consideration needs to be given to the uses of the system for insurance recoveries or other determinations of what is a permanent asset and what is a consumable. The capital asset record contains the information necessary to identify each item or lot in the inventory and may include but is not limited to: (See Capital Asset Record and Depreciation Example in the Appendix to this supplement).

- Record number identifying item by class and item number.
- Tag number affixed to asset.
- Description of the property identifying the category of the asset (land, building, transportation vehicles, or equipment, construction in progress), including legal descriptions of real property and improvements.
- A serial number or other identification number or information.
- Manufacturer name (not the vendor’s name, unless vendor is manufacturer).
- The source of property (purchased, constructed, or donated) including the fund and object code of the original expenditure entry.
- The acquisition, completion, or donation date.

- Reference to a source document (voucher/invoice, construction contract, trust agreement, etc.).
- The acquisition or construction cost of assets or the estimated fair market value of donated assets and/or assets held by the district before the capital asset system was established.
- Documentation of who holds title to the property.
- Source of the resources used for the acquisition (local, state, federal fund code).
- The location and condition of the property. The location should include specifically a building and room number, and the custodian of that property.
- Special insurance, maintenance, and repair instructions.
- Dates of physical inspections and physical inventories. Physical inventories are required for assets purchased with federal resources at least once every two years.
- Disposition information on assets removed from inventory (date of disposal and sales price, lost, stolen, or surplus).
- Estimated life. See chart on the following page.



ESTIMATED USEFUL LIVES

ASSET CLASS	EXAMPLES	YEARS
Land		N/A
Land Improvements	Paving, flagpoles, retaining walls, sidewalks, fencing, outdoor lighting	20
School Buildings		50
Portable Classrooms		25
HVAC Systems	Heating, ventilation, and air conditioning systems	20
Roofing		20
Interior Construction		25
Carpet Replacement		7
Electrical / Plumbing		30
Sprinkler / Fire System	Fire-suppression systems	25
Outdoor Equipment	Playground, radio towers, fuel tanks, pumps	20
Machinery and Tools	Shop and maintenance equipment, tools	15
Kitchen Equipment	Appliances	15
Custodial Equipment	Floor scrubbers, vacuums, other	15
Science and Engineering	Lab equipment, scientific apparatus	10
Furniture and Accessories	Classroom and office furniture	20
Business Machines	Fax, duplicating, and printing equipment	10
Copiers		5
Communications Equipment	Mobile, portable radios, non-computerized	10
Computer Hardware	PC's, printers, network hardware	5
Computer Software	Instructional, other short term	5 to 10
Computer Software	Administrative or long term	10 to 20
Audiovisual Equipment	Projectors, cameras (still and digital)	10
Athletic Equipment	Gymnastics, football, weight machines, wrestling mats	10
Musical Instruments	Pianos, string, brass, percussion	10
Library Books	Collections	5 to 7
Licensed Vehicles	Buses, other on road vehicles	8
Contractors' Equipment	Major off road vehicles, front-end loaders, large tractors, mobile air compressor	10
Grounds Equipment	Mowers, tractors, attachments	15

MAINTAINING THE CAPITAL ASSET SYSTEM & INTERNAL CONTROLS

Accounting

The school district should adopt appropriate policies and procedures that will ensure that assets that should be capitalized are properly recorded and records are adjusted when assets are disposed of or revalued.

It is important that the asset management system (AMS) is restricted to utilization by authorized personnel that have been adequately trained regarding capital assets. All entries must be reviewed and approved by a supervisor to prevent inaccurate data. A periodic review and reconciliation must be performed between the asset management system and the district's or charter school's general ledger and sub ledgers.

Standard data collection processes and periodic physical inventories ensure correct information is recorded in a reasonable time frame and provide a basis for reconciliation of accounting and inventory records.

Other than the acquisition and disposal of assets, other events that may require entries to the accounting system are location transfers, additional construction or demolition, and other improvements or changes in the physical appearance of the asset that should be reflected in its valuation. Changes as a result of theft, fire, water damage or other events should be noted. These adjustments should be recorded in the individual capital asset record. The internal control system should ensure that transactions are noted and recorded. If adjustments are numerous, a capital assets journal may need to be maintained to accumulate the database necessary for adjusting the general ledger and individual asset records.

The capitalization policy of the district defines the dollar limits at which assets will be entered into the capital asset records. The policy should also consider treatment of capitalized leases; cost accumulation on self-constructed assets; and control of small attractive assets that are not capitalized. District personnel should be trained on the appropriate application of the capitalization policy to each acquired or disposed of tangible asset. Assets purchased with federal funds costing \$5,000 or more must be capitalized.

Internal control and information flow regarding asset additions or deletions should ensure that the individual responsible for maintaining the capital asset records is included in the process. Documents that may be required are receiving reports, invoices, lease agreements, progress billings on construction contracts, itemized work sheets of costs on self-constructed assets, board resolutions of declared surplus items, property insurance claims, etc.

Small attractive or theft sensitive assets such as computers and hand held electronic devices that are not capitalized according to federal minimums, but to which the district desires to apply a security control, will need similar internal controls and recording of information. When assets are transferred from locations or sites, or when they change internal ownership by fund type, the district should ensure these changes are communicated to the department responsible for the capital asset records.

RECONCILIATION OF CAPITAL ASSET RECORDS

Maintenance of the capital asset records requires that several reconciliations and reports will be performed and/or generated periodically according to district policy, but at least annually.

- Reconcile physical inventory to individual capital asset records.
- Reconcile individual capital asset records to general ledger accounts.
- Reconcile capital outlay expenditures to total additions in capital assets.

- Analyze expenditure object details for additions to lists of assets that are not capitalized.
- Reconcile significant capital grants from PSFA (Public Schools Facility Authority) to the investment in capital asset accounts.
- Analyze proceeds from insurance claims and sales or auction lists, claim reports, etc., to total capital asset disposals.
- Reconcile capital assets transferred to other locations, custody, or fund/account groups with assets transferred from other locations, etc.

Physical Inventory

At the end of each fiscal year, each district shall conduct a physical inventory of its fixed assets consisting of those with a historical cost of one thousand dollars (\$1,000) or more. (2.20.1.16, NMAC)

A physical inventory of capital assets verifies the existence and the condition of the asset. The inventory is useful in determining the value of the asset, both for market value and insurance claim processing.

Board policy and procedure should determine when inventory is to be taken, who conducts the inventory, and what training, skills, and knowledge the conductors of the inventory should have.

To conduct the inventory, the district should have a work plan based on district control over the inventory process with responsibility assigned for supervision of the process and training of the staff. The work plan may include pre-listings of existing asset records sorted by building, floor, room, or other location identifiers, or sorted by asset type.

A systematic checklist approach should be employed to ensure that locations are not missed or duplicated in the inventory process. Procedures should instruct the staff about processes to employ when locating assets that appear to meet the capitalization policy but do not appear on the prelists. Procedures should also include clear instructions on how to record observations about the condition of assets.

Internal control guidelines should be employed in determining who will conduct the inventory to ensure that whoever has day-to-day custody of the asset is not the individual conducting the inventory. If the practical situation calls for the custodian of the asset to take the inventory, then the inventory results should be spot-checked for accuracy by the inventory supervisor.

Completed inventory records should be reconciled to the individual capital asset records. If the inventory process is conducted on a routine periodic basis, then the prelists would have been reasonably accurate and up-to-date, resulting in the reconciliation concerning itself with:

- (1) identifying those assets that were not added to or deleted from the capital asset records at the time of their acquisition or disposal, and
- (2) investigating and making a final determination of assets not located. Other reconciliations mentioned in the prior section on accounting for capital assets might also need to be conducted as a result of the physical inventory.

The results of the physical inventory shall be recorded in a written inventory report, certified as to correctness and signed by the governing authority of the district or charter school. (2.20.1.16, NMAC)

Depreciation of Capital Assets

Depreciation of capital assets is required under GASB 34 for all fund types for districts who issue GAAP financial statements.

Depreciation is required for districts reporting on GAAP basis. It is suggested that districts depreciate their capital assets using the straight-line method using the useful lives prescribed by GASB 34. (See estimated useful lives)

General guidelines regarding the recording of depreciation on capital assets are:

- Depreciation of capital assets is required for the preparation of the Statement of Net Assets required in the District's district wide financial statements.
- Scrap value can be ignored in establishing the amount to depreciate, unless it is expected to exceed 10 percent of the original cost of the asset.
- Depreciation must be based on a reasonable estimate of the length of time that the district expects to use the asset in its operations.
- An asset that is declared surplus or is held for possible future use is an investment and should not be depreciated.
- The amount of depreciation charged must be constant for each time period, called the straight-line depreciation method, or for each unit of service such as quantity of output, hours or miles of operation, etc.
- Depreciation must be based on the entire cost of the asset including any donated or contributed amounts.
- Assets may have components that will have an estimated useful life considerably shorter than the asset taken as a whole. Component depreciation for such assets may be much more accurate and simpler to maintain.

- When it is necessary to revise the estimates of useful life of an asset, such changes should be applied prospectively. The rate should be recalculated based on the remaining useful life at the time of the revision, and the new rate should be applied in the present and future accounting periods with no changes made to prior periods.
- All useful life, in service dates and depreciation conventions must be approved prior to calculating depreciation. The asset management system should compute depreciation automatically and compute totals to be entered into the district's financial statements.

Generally Accepted Governmental Accounting Standards (GAGAS) require that depreciation be reported in the district wide financial statements. See PSAB Supplement 5, Financial Statements. A summary of capital assets and changes for the district is included in the "notes to the financial statements" as in the example below.

ABC School District Notes to Financial Statements	Balance 6/30/2009	Additions and Transfers In	Deletions and Transfers Out	Adjustment	Balance 6/30/2010
Capital Assets not being depreciated:					
Land	\$ 2,224,524	\$ -	\$ -	\$ 2,000	\$ 2,226,524
Construction In Progress	\$ 19,368,629	\$ 3,321,859			
Total Capital Assets not being Depreciated	\$ 21,593,153	\$ 3,321,859	\$ -	\$ 2,000	\$ 2,226,524
Capital Assets being depreciated:					
Land Improvements	\$ 13,803,781	\$ 1,079,118			\$ 14,882,899
Buildings and building improvements	\$ 60,364,342	\$ 6,805,137			\$ 67,169,479
Furniture, fixtures and equipment	\$ 9,367,847	\$ -	\$ 615,082		\$ 9,982,929
Total Capital Assets being depreciated	\$ 83,535,970	\$ 7,884,255	\$ 615,082	\$ -	\$ 92,035,306
Total Capital Assets	\$ 105,129,123	\$ 11,206,113	\$ 615,082	\$ 2,000	\$ 94,261,830
Less Accumulated Depreciation:					
Land Improvements	\$ 5,617,780	\$ 626,479	\$ 12,766		\$ 6,231,493
Buildings and building Improvement	\$ 24,590,936	\$ 2,442,464	\$ 39,437		\$ 26,993,963
Furniture, Fixtures and Equipment	\$ 7,211,111	\$ 361,055	\$ 587,108		\$ 6,985,058
Total accumulated Depreciation	\$ 37,419,827	\$ 3,429,998	\$ 639,311	\$ -	\$ 40,210,514
Total Capital assets net of Depreciation	\$ 67,709,296	\$ 7,776,115	\$ (24,229)	\$ 2,000	\$ 54,051,316

VALUATION OF PROPERTY AND EQUIPMENT

Generally accepted accounting principles require the use of "historical cost" to measure an entity's investment in property and equipment.

Historical cost simply means actual cost at the time of acquisition. It includes the invoice cost of the item plus any applicable sales tax, freight, consultant fees, architects,

construction contractors, installation charges or any other costs related to acquiring the assets or preparing the asset for use. Such cost represents the value to be derived over the useful life of the asset through depreciation.

When items are disposed of in any manner, their cost is removed from the capital asset account. Any accumulated depreciation is also removed from the depreciation allowance account.

Valuation of existing inventory of property and equipment can be made on the basis of:

ACTUAL HISTORICAL COST of each item (if records are available to support such costs)

- The actual cost should include the invoice cost paid by the District or Charter School plus tax, freight charges, or costs of other forms of transportation for delivery to the district, whether added to the invoice or paid separately to a carrier. To these costs the district should add any labor and other costs of installation. Labor and other costs of installation by the vendor will usually be included in the original invoice price or may be billed separately by the vendor.

ESTIMATED HISTORICAL COST (based on date of acquisition)

- Appraised acquisition cost. When districts first establish a capital asset inventory an outside agency may be needed to set up the inventory and/or update it. Appraisal companies have the ability to compute the estimated historical cost on the basis of the estimated date of acquisition of the particular items. Costs developed in this manner are acceptable in either establishing a new inventory or adding to the inventory items that may have been missed in the establishment of the initial inventory. Use of an appraisal service also has the additional advantage of developing current market values for insurance purposes, either on a replacement cost basis or a depreciated (replacement cost) basis, although current market values or replacement costs are not used for accounting purposes. Once the inventory listing is established, it is necessary to update it for current year purchases and disposals of capital assets.
- Reasonable estimate of acquisition cost. If the original acquisition cost cannot be traced through the district's records, a reasonable estimate of original acquisition cost may be used. Methods of determining such reasonable estimates of cost are many and varied. It is important for auditing purposes that the methods employed be carefully documented, stating the method used, rationale for the decision and school board approval as stated in the board minutes. While it is not necessary to use the same method for each item, the methods should be designed to produce a consistent result. Care

should be exercised in the establishment of each item's cost. Among the methods that may be employed are the following:

- Compare the item with a similar one of more recent acquisition for which a price exists. Adjust that price through a formula that would eliminate the effect of inflation/deflation for the number of years the older item has been owned.
- Research bid files for bids on similar items and apply any necessary inflation adjustments.
- Seek assistance from vendors who manufacture or sell items similar to the items you are attempting to price.
- Check with other districts that may have purchased similar items.

In accepting donated items, the district's governing board should approve the valuations based on their fair market values as of the dates of acceptance and properly record these items on the capital asset listing.

CONSTRUCTION IN PROGRESS

As a project of the school district is constructed, the cumulative expenditures are captured on the Capital Assets Schedule tagged to indicate "Construction in Progress" (CIP). All costs related to the project to date are captured on the schedule. Depreciation will not start until all costs for the project are entered and the project is accepted and placed in use. The resources used in the acquisition or construction of the project are considered expenditures of the Capital Project Funds and are recorded as they occur. See PSAB Supplement 16, Bonds, Capital Projects, and Debt Service.

When the project is completed and ready for operations, the balance in the construction-in-progress account is transferred to the appropriate descriptive account title, within the schedule, such as land and improvements and/or building and improvements.

LEASE PURCHASE AGREEMENTS

The purpose of the Public School Lease Purchase Act (Section 22-26A.2, NMSA, 1978) is to implement the provision of Article 9, Section 11 of the constitution of New Mexico which states that a financing agreement entered into by a school district or charter school for the leasing of a building or other real property with an option to purchase for a price that is reduced according to the payments made by the school district is not a debt if:

- There is no legal obligation for the district or charter school to continue the lease from year to year, and
- The agreement provides that the lease shall be terminated if sufficient money is not available to meet the current lease payments.

In certain instances agencies may enter into lease agreements that are properly classified as capital leases. In a capital lease, the result is that the agency either acquires or has the

right to acquire the property at the end of the lease. In addition, for accounting purposes the property is considered to be purchased if one or more conditions exist: (www.investorwords.com)

- the present value of the lease payments is 90% or more of the purchase price,
- the lease extends for at least 75% of the asset's useful life,
- the lease contains a bargain purchase clause, or
- the title passes to the lessee at the end of the lease.

See also PSAB Supplement 13, Purchasing.

PURCHASES THROUGH FEDERAL GRANTS

The capital asset system shall also include the required information for items purchased with federal program monies. (See PSAB Supplement 4, Federal and State Programs.) The required information for the fixed assets acquired with federal monies may be found in OMB publication Circular 87, subsection 15 as stated in part below:

The following rules of allowability shall apply to equipment and other capital expenditures:

(1) Capital expenditures for general purpose equipment, buildings, and land are unallowable as direct charges, except where approved in advance by the awarding agency.

(2) Capital expenditures for special purpose equipment are allowable as direct costs, provided that items with a unit cost of \$5000 or more have the prior approval of the awarding agency.

(3) Capital expenditures for improvements to land, buildings, or equipment which materially increase in value or useful life are unallowable as a direct cost except with the prior approval of the awarding agency.

(4) When approved as a direct charge pursuant to Attachment B, section 15.b (1), (2), and (3) above, capital expenditures will be charged in the period in which the expenditure is incurred, or as otherwise determined appropriate and negotiated with the awarding agency. In addition, Federal awarding agencies are authorized at their option to waive or delegate the prior approval requirement.

(5) Equipment and other capital expenditures are unallowable as indirect costs. However, see section 11, Depreciation and use allowance, for rules on the allowability of use allowances or depreciation on buildings, capital improvements, and equipment. Also, see section 37, Rental costs, concerning the allowability of rental costs for land, buildings, and equipment.

(6) The unamortized portion of any equipment written off as a result of a change in capitalization levels may be recovered by continuing to claim the otherwise allowable use allowances or depreciation on the equipment, or by amortizing the amount to be written off over a period of years negotiated with the cognizant agency.

(7) When replacing equipment purchased in whole or in part with Federal funds, the governmental unit may use the equipment to be replaced as a trade-in or sell the property and use the proceeds to offset the cost of the replacement property.

SUPPLY ASSETS

Since it is important that separate inventory accountability be maintained for the two lists, it is suggested that two Expenditure Object Codes for Capital Assets be maintained for all funds:

- 57331 Capital Assets (\$5,000 and over)
- 57332 Capital (Supply) Assets (under \$5,000)

No equipment item should be placed into use until it is properly tagged by the responsible person and recorded on the capital asset schedule. Care should be taken that tags are not easily removed and that the proper tag is placed on each item as it is received.

SUPPLIES VS. EQUIPMENT

One of the purposes of this supplement is to provide guidance for distinguishing between supplies and equipment. Guidance consists of criteria for classifying an item as a supply, criteria for classifying an item as equipment, and a delineation of built-in equipment.

CRITERIA FOR SUPPLY ITEMS: Any article or material which meets any one or more of the following conditions:

- 1) It is consumed in normal operations.
- 2) It loses its original shape or appearance with use.
- 3) It is expendable. If the article is damaged or some of its parts are lost or worn out, it is usually more feasible to replace it with an entirely new unit rather than repair it.
- 4) It is an inexpensive item having the characteristics of equipment whose small unit cost makes it inadvisable to capitalize the item.
- 5) It loses its identity through incorporation into a different or more complex unit or substance.

CRITERIA FOR EQUIPMENT ITEMS: An item that is moveable or a fixed unit of furniture or furnishings, an instrument, a machine, an apparatus, or set of articles which meets all of the following conditions:

- 1) It retains its original shape and appearance with use.
- 2) It is non-expendable, in that if the article is damaged or some of its parts are lost or worn out, it is usually more feasible to repair it rather than replace it with an entirely new unit.

- 3) It represents an investment of money which makes it feasible and advisable to capitalize the item.
- 4) It does not lose its identity through incorporation into a different or more complex unit or substance.

BUILT-IN EQUIPMENT consists of two types: 1) equipment built into buildings and 2) equipment built into grounds. Expenditures for these two types of built-in equipment are recorded under different accounts.

1) Equipment built into buildings consists of equipment items that are integral parts of the building. That is, the equipment is permanently fastened to the building, functions as part of the building, has a useful life approximately equal to that of the building, and causes appreciable damage to the building if removed. Expenditures for initial, additional or replacement equipment built into buildings are recorded under Capital Outlay Expenditure Object Code 54500, Construction. Expenditures for repairs of such equipment are recorded under expenditure Object Code group 54300 or Code 56118 (See PSAB Supplement 3, Uniform Chart of Accounts, UCOA). Examples of built-in equipment are: bulletin boards, counters, basketball backboards, shelving, stage curtains, and service systems such as air conditioning, heating, lighting, intercommunications and water systems.

2) Equipment built into grounds consists of equipment items that are permanently attached to the grounds and functions as part of the grounds. Expenditures for initial, additional, or replacement equipment built into the grounds are recorded under Capital Outlay Expenditure Code 57112, Land Improvements. Expenditures for repairs of such equipment are recorded under Expenditure Object Code group 54300. Examples of built-in equipment are: flagpoles, gates, goal posts, lawn sprinkling systems, and underground storage tanks which are not a part of a service system.

STATUTORY AUTHORITY REGARDING PROPERTY/EQUIPMENT DISPOSITION

Section 13-6-2, NMSA, 1978, provides that "Any state agency, local public body, school district or state educational institution is empowered to sell or otherwise dispose of real or personal property belonging to the state agency, local public body, school district or state educational institution. Except as provided in Section 13-6-2.1, NMSA, 1978, requiring State Department of Finance and Administration approval for certain transactions, sale or disposition of real or personal property having a current resale value of more than five thousand dollars (\$5,000) may be made by any state agency, local public body, school district or state educational institution if the sale or disposition has been approved by the state budget division of the department of finance and administration (DFA) for state agencies, the local government division of the department of finance and administration for

local public bodies, the Public Education Department for school districts and the commission on higher education for state educational institutions."

Section 13-6-2.1, NMSA, 1978 provides that "Any sale, trade or lease for a period of more than five years in duration of real property belonging to any state agency, local public body, school district or state educational institution or any sale, trade or lease of such real property for a consideration of more than twenty-five thousand dollars (\$25,000) shall not be valid unless it is approved prior to its effective date by the state board of finance."

"The provisions of this section shall not be applicable as to those institutions specifically enumerated in Article 12, Section 11 of the constitution of New Mexico, the state land office or the state highway commission."

Prior approval of the Public Education Department (PED) is not required if:

- the property is to be disposed of pursuant to Section 13-6-1, NMSA, 1978, Compilation (Disposition of Obsolete, Worn-out and Unusable Personal Property),
or
- the property is to be used as a trade-in or exchange pursuant to the provisions of the Procurement Code (Sections 13-1-1 through 13-1-199, NMSA, 1978).

PED may condition the approval of the sale or other disposition of real or personal property upon the property being offered for sale to a state agency, local public body, school district or state educational institution.

POLICY

DISPOSITION OF REAL PROPERTY (LAND AND BUILDINGS)

All dispositions of real property having a current resale value of more than five thousand (\$5,000) must be approved by PED and the school board or governing authority approval prior to such disposition. Dispositions of more than twenty-five thousand dollars (\$25,000) shall not be valid unless it is approved prior to its effective date by both the school board or governing authority and the Department of Finance and Administration (DFA). Districts should not forward any requests to DFA. PED will forward the requests with a recommendation.

The sale of property for one dollar (\$1.00) or other consideration to not-for-profit organizations violates Article IX, Section 14 of the Constitution of the State of New Mexico, as known as the Anti Donation Law. However, the property, including water rights, may be leased for a nominal consideration if the school district derives a benefit from allowing the not-for-profit organizations to use the property. The lease must also contain a reversion clause, and the lessee must obtain adequate insurance coverage on the leased property.

Requirement for disposing of Real Property by Sale or Lease

A school district wishing to sell, exchange or lease real property, for a period of more than five years, including sale of buildings constructed by building trades classes, must submit a request for PED approval that includes:

- the reason(s) for disposing the property;
- the proposed method of disposition (i.e., public auction or solicitation of proposals or bids);
- documentation indicating that the proposed disposition of property has been approved by the local school board;
- a complete description and specification of the condition of buildings and a legal description of land;
- an appraisal or other documentation indicating the value of the real property and the consideration being received. If the property is leased, a market comparison of rentals for comparable property in the area must be included with the request. In instances where the school district is disposing of real property to a non-state entity, the value received must be comparable to the fair market value, or fair market rental value of the disposed property;
- a copy of the proposed quitclaim deed and/or lease;
- a copy of the proposed legal advertisement; and,
- PED Form 947 (See Exhibit F).

Requirements for Disposing of Real Property by Demolition

If the request is to demolish a building, the request must include sufficient evidence that valuable property (i.e., an historical landmark) is not destroyed, in addition to the requirements above.

Disposition of Personal Property (Equipment)

All dispositions of personal property having a current resale value of more than five thousand dollars (\$5,000) must be approved by PED prior to such dispositions.

❖ Requirements:

- If a school district wishes to sell, exchange or lease items of personal property, the school district must submit a request to PED for approval that includes:
 - reasons for disposing the property;

- a description of the property including an inventory identification number or serial number;
- documentation indicating that the proposed disposition of property has been approved by the local school board;
- information indicating the current resale value of the property to be disposed of and, in the event of the exchange of personal property, the current resale value of the property to be received. If more than one item of personal property is being disposed of, the value must be determined by individual item. In instances when the school district is disposing of personal property to a non-state entity, the value to be received is to be comparable to the fair market value of the property to be disposed. Consideration received by the district in the transaction must be expressly identified;
- the proposed method of disposition whether public action, solicitation of proposals or bids;
- a copy of the proposed legal advertisement;
- a copy of PED Form 947 (Exhibit F);
- written permission from the Federal Property Assistance Bureau to dispose of vehicles obtained from that agency is required if less than eighteen months from date of purchase; or tractors and other heavy equipment, if less than two years from date of purchase; and,
- written permission to dispose of school buses (other than activity buses) is also required from the PED Transportation Director. A copy of the approval must be attached to the request.

Disposition of Obsolete, Worn-Out and Unusable Personal Property

- ❖ Section 13-6-1, NMSA, 1978 The governing authority of each state agency, local public body, school district and state educational institution may dispose of any item of personal property belonging to that authority and delete the item from its public inventory upon a specific finding by the authority that the item of property is:
 - of a current resale value of five thousand dollars (\$5,000) or less; and,
 - worn-out, unusable or obsolete to the extent that the item is no longer economical or safe for continued use the body;
- ❖ The governing authority shall, as a prerequisite to the disposition of any items of personal property, give notification at least thirty (30) days prior to its action making

such deletion by sending a copy of its official finding and the proposed disposition of the property to the State Auditor, duly sworn and subscribed under oath by each member of the authority approving the action.

- ❖ A copy of the official finding and proposed disposition of the property sought to be disposed of shall be made a permanent part of the official minutes of the governing authority.
- ❖ The governing authority shall dispose of the item by negotiated sale to other state agencies, local public bodies, school districts, state educational institutions or municipalities or through the central purchasing office by means of competitive sealed bid or public auction or through the federal property assistance bureau of the general services department.

SPECIAL RULES FOR COMPUTERS

In the event a computer is included in the planned disposition, the agency shall "sanitize" or effectively make "inaccessible," all licensed software and any electronic media pertaining to the agency.

There are three basic approaches

*Purchasing and using a commercial degaussing product to erase magnetic disks
Overwriting stored data a minimum of five times
Reformatting the drives (F disk)*

The agency will certify in writing the proper erasure or destruction of the hard drive and submit the certification along with the notification of the proposed disposition of property to the state auditor at least thirty days prior to taking action. The IPA shall test for compliance with this requirement. This is a special requirement of the state auditor and it applies even if the original purchase price of the computer was less than \$5,000.

Requirements for the Deletion of Lost or Stolen Property from Inventory:

- ◆ If reasonable investigation determines that negligence is not indicated, and every effort has been made to recover lost or stolen items, the governing authority shall notify the State Auditor of the deletion of the items from its inventory.
- ◆ The written notification shall include the following information:
 - ❖ description of item lost or stolen, serial and inventory number;
 - ❖ original date of acquisition and cost;
 - ❖ estimated value of item when lost or stolen;

- ❖ date first noticed item missing, and if determined stolen, date reported to police;
- ❖ report from personnel responsible for items as to efforts made for recovery; and,
- ❖ the amount of insurance recovery if the item was insured.

DISPOSITION OF FEDERAL PROPERTY

The following requirements are laid out in the Federal Governments "EDUCATION DIVISION GENERAL ADMINISTRATIVE REGULATIONS (EDGAR):

34 CFR 80.32 - Disposition of Equipment:

When original or replacement equipment is no longer to be used in projects or programs currently or previously sponsored by the federal government, disposition of the equipment shall be made as follows:

- 1) Equipment with a current per-unit fair market value of less than \$5,000 and equipment with no further use value may be retained, sold, or otherwise disposed of, with no further obligation to the federal government. NMPED reserves the right to transfer furniture or equipment to another grantee after the grant period.
- 2) All other equipment:
 - a) Equipment may be retained or sold, and the federal government shall have a right to an amount calculated by multiplying the current fair market value or the proceeds from sale by the federal share of the equipment (see Section 74.142). If part of the federal share in the equipment came from an award under which the exemptions in Section 74.135 were applicable, the amount due shall be reduced pro rata. In any case, if the equipment is sold, \$100 or 10% of the total sales proceeds, whichever is greater, may be deducted and retained from the amount otherwise due for selling and handling expenses. NM PED must be notified in writing so that NMPED may transfer items to another grantee.
 - b) If the grantee's project or program for which or under which the equipment was acquired is still receiving grant support from the same Federal program and if the granting agency approves, the net amount due may be used for allowable costs of that project or program. Otherwise, the net amount must be remitted to the granting agency by check.

If encountering a different type of disposition, contact the Public Education Department, School Budget and Finance Analysis Bureau for assistance.

SAMPLE CAPITAL ASSET RECORD & DEPRECIATION SCHEDULE

Tag	Description	FUND	OBJECT	AccountNumber	VoucherDat	RecDate	Cost	Life	SerialNun	Fiscal	PONumbe	CheckNumber
25943	Torchmate 2 4'x4' Small Shop Machine with Machine Int	31400	57331	31400400057331000	12/20/2007	10/9/2007	\$ 6,895.00	20	TMC2	2007-08	801701	189291
12075	12" X 16" SHED	11000	6411	1100005641163400	2/9/2005	1/20/2005	\$ 3,418.93	20		2004-05	505780	161298
26909	16' X40' BARN (INCLUDES O.C. FLOOR, BUILT ON SK	31400	57331	31400400057331000	4/23/2008	4/4/2008	\$ 17,995.00	20	R-88873	2007-08	804222	192606
							Equip On Hand	\$9,367,847.11				
							Per Audit	\$9,367,847.11				
							Difference	\$ (0.00)				
New Additions for FY 2009-10												
TagNumb	Description	FUND	OBJECT	AccountNumber	VoucherDat	RecDate	Cost	Life	SerialNun	Fiscal	PONumbe	CheckNumber
30913	KING 2341SW 4-VALVE SILVER TUBA WITH CASE	11000	57331	11000100757331900	11/5/2009	10/27/2009	\$ 4,997.50	10	242994	2009-10	102924	205981
30913	SHIPPING	11000	57331	11000100757331900	11/5/2009	10/27/2009	\$ 86.50	10		2009-10	102924	205981
30912	KING 2341SW 4-VALVE SILVER TUBA WITH CASE	11000	57331	11000100757331900	11/5/2009	10/27/2009	\$ 4,997.50	10	241449	2009-10	102924	205981
30912	SHIPPING	11000	57331	11000100757331900	11/5/2009	10/27/2009	\$ 86.50	10		2009-10	102924	205981
D 95334	ULTRALIGHT WRESTLING MAT ROLL 6'X42'X1.5" NAVY	11000	57331	11000260057331000	1/21/2010	12/22/2009	\$ 8,590.00	10		2009-10	104175	207677
35208	Champ 2929 -Ride on Scrubber, 6-v 225 AMP	11000	57331	11000260057331000	3/11/2010	3/2/2010	\$ 12,148.00	15	02008510	2009-10	105347	209016
35207	Champ 2929 -Ride on Scrubber, 6-v 225 AMP	11000	57331	11000260057331000	3/11/2010	3/2/2010	\$ 12,148.00	15	02008410	2009-10	105347	209016
							11000 Total	\$ 43,054.00				
BLDG 120 WAREHOUSE FREEZER - New 2,500 SqFt		21000	57331	21000310057331000	8/27/2009	7/15/2009	\$ 218,042.00	0		2009-10	907608	204136
BLDG 120 TAX @ 7%		21000	57331	21000310057331000	8/27/2009	7/15/2009	\$ 15,262.94	0		2009-10	907608	204136
BLDG 120 Change Order for additional Concrete and Fill		21000	57331	21000310057331000	8/27/2009	7/15/2009	\$ 7,420.00	0		2009-10	907608	204136

Sit	Building	Room	VendorNam	ID	SalvageV	Category	SubCateg	tblFAAsse	6/30/2009	6/30/2010	Depr. Expense	Depr. Expense
11	AGRICULT	SHOP	APPLIED RC	78638	0	2400 Voc	2409 Welc	65161	\$ 517.13	\$ 861.88	\$ 344.75	\$ -
24	N/A	CUSTODIA	DURABILTY	55476	0	BUILDING	STORAGE	50365	\$ 769.26	\$ 940.21	\$ 170.95	\$ -
31	505 W. PI	PLAYGR	MORGAN BL	84024	0	BUILDING	GENERAL	68429	\$ 1,349.63	\$ 2,249.38	\$ 899.75	\$ -
									\$ 7,211,497.29	\$ 6,963,894.33	\$ 338,954.15	\$ (586,557.11)
									7,211,497.00			
									0.29			
									Accum Depr.	Accum Depr.	Trans In	Trans Out
Sit	Building	Room	VendorNam	ID	SalvageV	Category	SubCateg	tblFAAsse	6/30/2009	6/30/2010	Depr. Expense	Depr. Expense
72	GHS	BAND	MUSIC WOR	95432	0	1800 Bras	1828 Tube	76090	\$ -	\$ 249.88	\$ 249.88	\$ -
72	GHS	BAND	MUSIC WOR	95433	0	1800 Bras	1828 Tube	76090	\$ -	\$ 4.33	\$ 4.33	\$ -
72	GHS	BAND	MUSIC WOR	95434	0	1800 Bras	1828 Tube	76082	\$ -	\$ 249.88	\$ 249.88	\$ -
72	GHS	BAND	MUSIC WOR	95435	0	1800 Bras	1828 Tube	76082	\$ -	\$ 4.33	\$ 4.33	\$ -
11	FIELDHOL	WRESTLIN	DOLLAMUR	96369	0	1300 Furn	1302 Offic	76759	\$ -	\$ 429.50	\$ 429.50	\$ -
24	N/A	CUSTODIA	COOPERATI	105261	0	1100 Cust	1101 Floo	77609	\$ -	\$ 404.93	\$ 404.93	\$ -
21	MAIN	CUSTODIA	COOPERATI	105262	0	1100 Cust	1101 Floo	77518	\$ -	\$ 404.93	\$ 404.93	\$ -

REQUEST FOR DISPOSITION OF PROPERTY

Section 13-6-2, NMSA 1978, provides that a school district is empowered to sell or otherwise dispose of real or personal property belonging to the school district. A disposition is any sale, lease, trade, exchange, and/or gift. In essence, this means to remove the item from the primary control of the school district.

In accordance with Section 13-6, NMSA 1978, the district must obtain permission from either the Public Education Department (PED), Department of Finance and Administration (DFA), or State Auditor's Office (SAO) on any and all dispositions of property (Lease, Sell, Exchange, or other disposition) depending on the value or terms of the lease.

Approval is needed from the appropriate entity as listed below:

SAO

•If the real or personal property is valued at or less than \$5,000 and obsolete or unusable, or the district desires to demolish a building, approval is only needed from the SAO. Please contact the SAO for specific procedures. Disposition may be made by:

- Negotiated sale to any governmental unit of an Indian nation, tribe or pueblo in New Mexico, or by negotiated sale or donation to other state agencies, local public bodies, school districts, state educational institutions or municipalities,
- Sale at public auction,
- Destruction,
- Disposal of hazardous materials in compliance with environmental regulations, and
- Sale through solicitation of written bids through the state purchasing division.

DFA

•State statute provides that any sale, trade or lease of real property for a period of more than five years or

•any sale trade or lease for a consideration of more than \$25,000 shall not be valid unless it is approved prior to its effective date by the DFA. Please contact the DFA for specific procedures.

PED

•Approval is needed from PED for all personal property or demolition with a value of more than \$5,000 or

•any sale, trade or lease of real property for a period of less than five years and when consideration is between \$5,000 and \$25,000.

See form included.

SUBMIT 1 COPY TO:

Public Education Department
Jerry Apodaca Education Building
Capital Outlay Bureau
300 Don Gaspar, Room 121
Santa Fe, New Mexico 87501-2786

PED-947

Revised Nov. 2010

REQUEST FOR APPROVAL OF PROPERTY DISPOSITION
(NO OTHER TYPE OF FORM WILL BE ACCEPTED)

The board of Education of the _____ School District at its meeting of _____
on a motion made by _____ and seconded by _____
, moved to request approval of the Public Education Department, as required by
Section 13-6-2, NMSA, 1978 Compilation for:

1) TYPE OF DISPOSITION

- Sale, Trade, Exchange, or Gift of Land and/or Building(s)
- Sale of Building Trades Class Project
- Equipment or other Personal property
- Lease of Land and or Building(s)
- Term in excess of five, but less than twenty-five years. Requires State Board of Finance approval in addition to PED approval.
- Term less than five, or more than twenty-five years.

Sale of Activity Buses/Vehicles

Other, please explain briefly:

2) Reasons why the School Board is requesting permission to dispose of this property:

3) Proposed method of disposition: _____ Approval is required prior to advertising and/or calling for bids.

- Public Auction
- Solicitation of sealed bids

Negotiated

If negotiated, please explain the district's justification as to why a public or more competitive method was not used.

4) Provide a complete and detailed description of the property. If more room is necessary, additional pages may be used to clearly explain the descriptions below:

Date of original acquisition. Approximate if you do not have the exact date.

Original Cost:

Current Resale or Market Value

Description of equipment and/or Personal Property.

Year manufactured

Model

Serial Number

Mileage

Other Characteristics

Federal Purchase

Yes

No

Refer to Section 12 of the Supplements to the Manual of Procedures
Public School Accounting and Budgeting.

Legal Description of Real Property: _____

5) Estimated actual value of consideration to be received by the school district. This area should be completed for every request; regardless of the way payment is expected to be received.

Total (pick one)

Annual Lease Payment

If this is to be an exchange/trade/gift/ please indicate to who, why, and other pertinent information so that value can be established.

Superintendent's Signature

Date

Prepared By

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