



Management Directive

Commonwealth of Pennsylvania

Governor's Office

Management Directive 310.14 Amended – Capital Asset Accounting and Reporting

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By Direction of: 
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This directive establishes policy, responsibilities, and procedures pertaining to the accounting and financial reporting of Capital Assets in conformance with Generally Accepted Accounting Principles (GAAP). Adherence to this directive is crucial to the proper reporting of Capital Asset information in the Commonwealth's Basic Financial Statements. This amendment incorporates applicable portions of rescinded *Management Directive 310.36, Identifying, Recording, and Reporting Computer Software as a Capital Asset*, and adds Government Accounting Standards Board (GASB) statement requirements. New Definitions have been added, and the Policy and Responsibilities sections have been updated.

1. PURPOSE.

To establish policy, responsibilities, and procedures regarding accounting and financial reporting of the Commonwealth's Capital Assets (sometimes also referred to as fixed assets), in conformity with GAAP.

2. SCOPE.

- a. This directive applies to all departments, offices, boards, commissions, and councils under the Governor's jurisdiction (hereinafter referred to as "agencies"). Legislative, judicial, and other executive and independent entities included in the Commonwealth Financial Reporting Entity are urged to adopt policies and institute the procedures required to prepare financial reports in conformity with GAAP. Data from entities not using the SAP

enterprise resource planning system (hereinafter referred to as "SAP") will be added to SAP for all-inclusive reporting.

- b. The accounting and financial reporting policies promulgated in this directive apply to all primary government funds and proprietary funds within the Commonwealth Financial Reporting Entity.

3. OBJECTIVES.

- a. To provide Capital Asset accounting and financial reporting policies and procedures that, when properly applied, will result in the:
 - (1) Production of complete, accurate, and timely financial asset information for management reporting, control, and planning for all Capital Assets of the Commonwealth and for other Low Value Assets (LVAs).
 - (2) Control of accounting for Capital Assets for which the Commonwealth is responsible. Control includes implementing procedures to ensure that assets are used for authorized purposes, do not leave the custody of the Commonwealth except with proper authorization, are properly maintained, and are not transferred, written off, written down, or disposed of without proper authorization.
 - (3) Use of one enterprise-wide system for all Capital Assets that results in adequate documentation and proper authorization of financial transactions and the preservation of proper audit trails.
 - (4) Consistent and uniform application of financial policies and accounting principles, standards, and controls that conform, in all material respects, to the GAAP established by GASB and fairly presents the financial positions, including results of operations, of the Commonwealth Financial Reporting Entity.
- b. To ensure that historical costs for Capital Assets are supported by purchase, construction, or other related documents and are readily traceable from the original document to SAP Asset Master Records and financial reports.

4. DEFINITIONS.

- a. **Agency Capital Assets Coordinator.** An individual appointed by an agency head who possesses substantial knowledge of SAP; has considerable experience and expertise regarding proper acquisition, use, and control of agency Capital Assets; regularly communicates with the Office of the Budget, Office of Comptroller Operations, Bureau of Accounting and Financial Management (BAFM); manages Capital Asset reporting for the agency; and is the agency point of contact with BAFM and other agencies for Capital Asset accounting and reporting matters. This individual may also serve as the Agency Point of Contact for Intangible Assets.

- b. Agency Point of Contact for Intangible Assets.** An individual appointed by an agency head who possesses substantial knowledge of SAP; has considerable experience and expertise regarding proper acquisition, use, and control of Intangible Assets; communicates with BAFM regarding Intangible Assets; manages Intangible Asset reporting for the agency; and is the agency point of contact with BAFM and other agencies for Intangible Asset accounting and reporting matters. This individual may also serve as the Agency Capital Assets Coordinator.
- c. Amortization.** A process of expensing the acquisition cost, less the residual value, of an Intangible Asset, in a systematic manner, over the Useful Life of the Intangible Asset to reflect a decline in value as a result of use or the passage of time.
- d. Asset Master Record.** Data established in SAP that represents a Capital Asset or LVA and provides for appropriate financial and non-financial reporting where necessary. For example, an Asset Master Record includes data identifying the asset class, funding source, Useful Life and other data points needed for financial and non-financial reporting.
- e. Assets Under Construction (AUC).** Authorized construction projects that have incurred costs but have not been completed and may qualify for capitalization.
- f. Capital Assets.** For GAAP reporting purposes for the Commonwealth, Capital Assets must meet all the following criteria and are required to be set up in SAP with Asset Master Records.
- (1) Be tangible or intangible in nature.
 - (2) Have an estimated Useful Life of more than one (1) year.
 - (3) Be of significant value. The value test varies based on the appropriate asset class given to the asset and the funding source. These classifications, along with their respective values, are available for general and proprietary fund assets. Assets under these values may be recorded as LVA for tracking purposes only.
 - (4) Be of a nonfinancial nature. An asset with a nonfinancial nature is one that is not in a monetary form similar to cash and investment securities and represents neither a claim or right to assets in a monetary form similar to receivables, nor a prepayment for goods or services.
- g. Commonwealth Financial Reporting Entity.** Includes all funds, agencies, and other entities for which elected Commonwealth officials are responsible (primary government) and legally separate organizations (established as independent agencies) for which the Commonwealth itself is financially accountable or for which exclusion would result in misleading financial statements.

- h. Depreciation.** Each Capital Asset must be assigned a Useful Life over which its cost is expensed, for both full accrual accounting and for grant Depreciation. Under the modified accrual basis of accounting, the entire cost of an asset is reported as an expenditure at the time of acquisition. Under the full accrual basis of accounting, the asset's cost is expensed over its Useful Life. The Useful Life to be used is based on the asset class. General guidance on Depreciation is provided on the [Asset Reporting Website](#).
- i. Government Accounting Standards Board (GASB).** The independent organization that establishes authoritative standards of accounting and financial reporting for state and local governments.

 - (1) GASB 51.** GASB Statement No. 51, Accounting and Financial Reporting for Intangible Assets.
 - (2) GASB 87.** GASB Statement No. 87, Leases.
 - (3) GASB 96.** GASB Statement No. 96, Subscription-Based Information Technology Arrangements.
- j. Generally Accepted Accounting Principles (GAAP).** All statements, interpretations, and technical bulletins issued by the GASB establish and constitute GAAP applicable to all state and local governments in the United States. Such GASB pronouncements are issued after the completion of formal, public GASB due process procedures.
- k. Installment Purchase.** A contract used to finance the acquisition of assets. This term is synonymous with financed purchase (as used as an exclusion in GASB87), Lease-purchase (as used in the Code of Federal Regulations (CFR)), rent-to-own, etc.
- l. Intangible Assets.** A Capital Asset that possesses all the following characteristics:

 - (1)** Lack of physical substance.
 - (2)** Nonfinancial nature (has value but not in a monetary form such as cash, receivables, or investments).
 - (3)** Useful Life greater than one (1) year (and meets capitalization threshold).

Examples may include computer software (including websites), land easements, land use rights (mineral, timber, water, gas), patents, trademarks, copyrights, and Right-to-Use (RTU) assets, which may include the right to use another entity's tangible asset.
- m. Lease.** A contract that conveys control of the right to use another entity's nonfinancial assets (the underlying asset, known as the RTU asset or leased asset) as specified in the contract for a period of time in an exchange or exchange-like transaction.

- n. Low Value Asset (LVA).** Agency assets not meeting the criteria of Capital Assets but which the agency wants to track as assets in SAP (such as personal computers). The cost of LVA shall be determined in accordance with the guidelines for determining the cost of Capital Assets. LVA can be tracked in two categories which can be found on the BAFM [Asset Reporting Website](#).
- o. Software Capital Asset.** Commercial Off-the-Shelf (COTS) or internally generated software used in Commonwealth operations, with an initial useful life extending beyond a single fiscal year, and with qualified, capitalizable costs exceeding \$1 million.
- p. Subscription-Based Information Technology Arrangements (SBITA).** A contract that conveys control of the right to use another entity's information technology 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. Examples may include "as a Service" models, such as Software as a Service (SaaS), Infrastructure as a Service (IaaS), Platform as a Service (PaaS), and other cloud computing services.
- q. Useful Life.** An accounting estimate representing the period of time an asset is expected to remain in service. The acquisition cost of the asset will be recognized as an expense over this period through Depreciation under the full accrual basis of accounting.

5. POLICY.

- a.** This directive is issued pursuant to *Section 701(d) of The Administrative Code of 1929, 71 P.S. § 241(d)*.
- b.** *Executive Order 1984-03, Accounting and Financial Reporting*, delegates to the Secretary of the Budget the responsibility for developing and installing accounting and financial reporting systems in compliance with GAAP.
- c.** Agencies shall adhere to the financial reporting standards issued by GASB surrounding assets and all provisions within this directive.
- d.** In accordance with this directive and the BAFM [Asset Reporting Website](#), agencies shall identify and maintain up-to-date and complete records of all existing Capital Assets to include the current status (i.e., In-Service, Retired/Disposed, etc.) of each asset, and shall provide this information when requested. Transactions must be recorded in a manner that do not result in materially inaccurate, false, or misleading information. Interfund transactions must be separately identified and recorded for proper presentation in financial reports.
- e.** Tangible Capital Assets that are depreciable must be depreciated over the expected Useful Life of the asset.
- f.** Intangible Capital Assets that are amortizable must be amortized over the expected Useful Life of the asset.

- g.** Agencies shall exercise judgement in assigning a Useful Life. For example, asset class 1906XXX offers five Useful Life options to allow periodic Depreciation expense to be charged over the expected Useful Life of a given asset. Some assets, such as vehicles or computers, are typically not owned as long as off-road equipment assets. Depending on actual or expected usage, some vehicles have much shorter useful lives than others. One of the five options must be chosen based on how long the owning agency has historically owned and used similar assets or how long the owning agency expects to own and use the asset being acquired. The chosen Useful Life represents an accounting estimate that may have to change during ownership.
- h.** Capital assets should be valued at:

 - (1)** Historical cost for **assets** directly purchased or constructed.
 - (2)** Present value for RTU and Installment Purchases.
 - (3)** Estimated fair market value for donations and confiscations.

6. RESPONSIBILITIES.

- a. Deputy Secretary for Comptroller Operations,** through the Director of BAFM, shall interpret and apply Capital Asset accounting and reporting policies.
- b. Agencies involved in construction activity** shall:

 - (1)** Establish newly authorized construction projects in SAP for accumulation of life-to-date costs. Project systems are fully integrated in SAP; therefore, as soon as a project has been established, an AUC with an Asset Class Code 1911010 will be automatically established in SAP.
 - (2)** Conduct a periodic review of AUC assets to determine when one or more permanent Capital Assets, created by the project, are placed in service by the agency. Refer to the Office of the Budget [Period Closing Procedures Manual](#) for further details regarding construction project responsibilities.
- c. Director of BAFM** shall:

 - (1)** Provide staff support on matters relating to SAP.
 - (2)** Develop, implement, and administer uniform central Capital Asset policies, procedures, reporting, and systems.
 - (3)** Provide consulting assistance and training, when requested, to agencies in SAP for Capital Assets.

- (4) Develop and maintain operational and procedural directives and instructional memoranda relating to uniform Capital Asset policies, procedures, reporting, and systems.
- (5) Include Capital Asset data in Commonwealth financial statements and reports.

d. Office of Comptroller Operations shall:

- (1) Administer and apply Commonwealth Capital Asset accounting and reporting policies and standards for all Capital Asset transactions recorded in SAP.
- (2) Provide assistance to agencies on decisions regarding the use of SAP to maintain LVAs.
- (3) Provide assistance to and corroborate with agencies in the identification and recording of Intangible Assets and Installment Purchases.
- (4) Monitor agency compliance with Commonwealth Capital Assets and agency LVAs accounting and reporting policies, guidelines, and standards.
- (5) Review agency purchase orders for qualifying assets to verify the inclusion and assignment of an Asset Master Record number.
- (6) Identify potential purchase documents that may include Intangible Asset costs in SAP and provide to the agency for review.
- (7) Review agency submitted templates for accurate reporting.
- (8) Enter journal entries, as applicable, to properly record Intangible Asset costs in SAP.
- (9) Prepare appropriate financial statement disclosures for inclusion in the Commonwealth Annual Comprehensive Financial Report (ACFR).
- (10) Maintain asset personnel distribution listings and reporting site permissions.
- (11) Disseminate Commonwealth-wide Capital Asset requests for information.

e. Agency heads shall:

- (1) Appoint an Agency Capital Assets Coordinator to administer Commonwealth Capital Asset accounting and reporting policies, guidelines, and standards and to be the primary point of contact with the Office of the Budget on matters pertaining to Capital Assets for the Commonwealth.

- (2) Appoint Agency Point(s) of Contact for Intangible Assets to respond timely to BAFM requests for Intangible Asset reporting data related to GASB 51, 87, and 96 assets.
- (3) Notify BAFM timely when agency Capital Asset Coordinators, or agency Points of Contact for Intangible Assets or their backups have changed.
- (4) Establish agency procedures and controls necessary to implement and monitor prescribed Capital Asset accounting and reporting policies, guidelines, and standards.
- (5) Ensure the timely, accurate, and complete processing and recording of all necessary transactions in conformance with prescribed Commonwealth Capital Asset and agency LVA accounting and reporting policies, guidelines, and standards.
- (6) Identify and report Leases and Installment Purchases in accordance with Commonwealth policy and corroboration with BAFM.
- (7) Ensure proper maintenance of source documents and records pertaining to Capital Assets not available in SAP.
- (8) Establish adequate procedures and controls to safeguard and physically account for tangible Capital Assets.
- (9) Verify, on a quarterly basis, that Capital Asset transactions are properly reported in SAP.

f. Agency Procurement Personnel shall:

- (1) Identify agency requests for tangible Capital Asset acquisitions based on criteria presented in this directive and in agency policy.
- (2) Contact the Agency Capital Assets Coordinator to obtain an Asset Master Record number for the SAP Purchase Order to ensure the procurement is captured as a Capital Asset in SAP. This will not be applicable for Intangible Assets (GASB 51, 87, and 96 assets).
- (3) Communicate timely with Capital Asset Coordinators when items determined to be Capital Assets that cannot be hardcoded to purchase orders are received and placed in service or when a procurement is canceled, and the asset shell can be deleted.

g. Agency Capital Asset Coordinators or Agency Points of Contact for Intangible Assets shall:

- (1) Maintain the agency's Capital Asset data located in SAP. This includes any report generation, tag control, inventory reconciliation, and updating of Capital Asset records, including non-financial data that may assist the agency in identifying assets in the future. This further extends to the maintenance of unposted asset records that are no

longer needed but were previously created. This may not be applicable for Intangible Assets (GASB 51, 87, and 96 assets).

- (2)** Ensure that an Asset Master Record is properly established in SAP for each qualifying Capital Asset at the time the asset is placed in service. This may not be applicable for Intangible Assets (GASB 51, 87, and 96 assets).
- (3)** Act as central contact points for all agency personnel including purchasing and procurement staff who work with Capital Assets and those responsible for additions, retirements, and other changes to Asset Master Records.
- (4)** Contact BAFM with unresolved issues and concerns and disseminate all information from BAFM to agency Capital Asset purchasers and users, as required.
- (5)** Review all budgetary transactions, accounts, and reports used to purchase agency Capital Assets to ensure all Capital Assets have been properly reported in SAP with an Asset Master Record.
- (6)** For agencies with construction activity, ensure that the agency complies with the requirements for reporting qualified construction project assets completed either internally by agency-authorized bureaus or externally by the Department of General Services, Deputy Secretary for Capital Programs.
- (7)** Ensure that all agency employees who work with Capital Assets record keeping are properly trained in their respective responsibilities.
- (8)** Ensure all Capital Asset transactions have been properly recorded in SAP and submit the Capital Asset quarterly information, including SAP reports, required by BAFM.
- (9)** Notify BAFM timely when agency heads, Agency Capital Asset Coordinators or Agency Point of Contacts for Intangible Assets back-ups have changed.
- (10)** Ensure at least annually that all Intangible Assets have been identified, recorded, and reported in SAP.
- (11)** Review related purchase documents to ensure the accurate reporting of all Intangible Asset costs.
- (12)** Contact BAFM with questions or concerns regarding the interpretation of GASB requirements.
- (13)** Ensure that intangible asset templates are accurately completed and submitted to BAFM in a timely manner.

7. PROCEDURES.

Specific SAP procedures and general guidance documents relating to the identification and accounting of Capital Assets can be found on the BAFM [Asset Reporting Website](#).

This directive replaces, in its entirety, *Management Directive 310.14 Amended*, dated May 16, 2022, and rescinds *Management Directive 310.36*, dated December 10, 2009.