

TITLE 2 PUBLIC FINANCE
CHAPTER 20 ACCOUNTING BY GOVERNMENTAL ENTITIES
PART 1 ACCOUNTING AND CONTROL OF FIXED ASSETS OF STATE GOVERNMENT,
ACCOUNTING FOR ACQUISITIONS AND ESTABLISHING CONTROLS

2.20.1.1 ISSUING AGENCY: General Services Department, Administrative Services Division.
[2.20.1.1 NMAC - Rp, 2.20.1.1 NMAC, 12/31/2019]

2.20.1.2 SCOPE: This rule applies to all state government agencies as defined in the "Audit Act," Section 12-6-1 NMSA 1978.

A. The term "agency" is intended to be all-inclusive as used in the Audit Act, Section 12-6-2 NMSA 1978.

B. Fixed assets purchased or owned by agencies are included under the definition regardless of the method of acquisition or source of the funds used for purchased assets.

[2.20.1.2 NMAC - Rp, 2.20.1.2 NMAC, 12/31/2019]

2.20.1.3 STATUTORY AUTHORITY: Section 12-6-10 NMSA 1978 directs the general services department to promulgate regulations to state agencies for the accounting and control of fixed assets owned by government agencies.

[2.20.1.3 NMAC - Rp, 2.20.1.3 NMAC, 12/31/2019]

2.20.1.4 DURATION: Permanent.

[2.20.1.4 NMAC - Rp, 2.20.1.4 NMAC, 12/31/2019]

2.20.1.5 EFFECTIVE DATE: Effective December 31, 2019, unless a later date is cited at the end of a section or paragraph.

[2.20.1.5 NMAC - Rp, 2.20.1.5 NMAC, 12/31/2019]

2.20.1.6 OBJECTIVE:

A. The objective of Section 2.20.1 NMAC is to establish standards for the accounting for and the controlling of the fixed assets acquired and owned by state agencies as defined under article 2, and to define a uniform system for the classification of such assets.

B. To accomplish this, subsequent sections of this rule describe the procedures for the acquisition of fixed assets, the methods for assigning values to acquired assets (valuation), the methods of depreciating fixed assets whether required or optional, the establishment of internal controls on fixed assets, the procedures for conducting the annual inventory of fixed assets, and the allowable methods for the disposition of fixed assets.

[2.20.1.6 NMAC - Rp, 2.20.1.6 NMAC, 12/31/2019]

2.20.1.7 DEFINITIONS:

A. "**Agency**" means any governmental entity as defined in Section 13-6-2 NMSA 1978. This definition includes:

(1) any department, institution, board, bureau, court, commission, district or committee of the government of the state;

(2) district courts, magistrate courts, district attorneys;

(3) charitable institutions for which appropriations are made by the legislature;

(4) every political subdivision of the state, created under general or special act which receives or expends public money from whatever source derived, including but not limited to counties, county institutions, boards, bureaus or commissions, municipalities; drainage, conservancy, irrigation or other special districts;

(5) every office or officer of any of these organizations.

B. "**Betterment**" means a replacement or major renovation of an existing asset or unit of an existing asset by an improved or superior asset or unit, the effect of which is to improve the efficiency of the primary asset or lengthen the remaining service life.

C. "**Classification system**" means the methods and designations used for identifying fixed assets. This should reflect the object code that was used to acquire the asset and its intended use. Section 2.20.1.9 NMAC of this rule specifies the classifications to be used.

D. "Component" means a separately identifiable part of an asset that is more meaningfully defined as an aggregate assembly.

E. "Depreciation" means the method applied to allocating the cost of a fixed asset over the duration of its useful life.

F. "Official or governing authority" means the person of highest authority within an agency.

G. "Fixed asset" means any property or equipment that has an initial value to an agency, whether in cash or trade value, of more than five thousand dollars (five thousand dollars (\$5,000)). It is not acquired for subsequent sale or consumption but for utilization in the course of an agency's normal operations in producing and distributing goods or rendering services. The asset is expected to be used or held beyond the fiscal year in which it was acquired without being consumed by its use. Fixed assets include those assets constructed by agency personnel. This five thousand dollars (\$5,000) threshold for capitalization is a statutory (Section 12-6-10 NMSA 1978) minimum and does not preclude agencies from controlling assets of lesser value through their fixed asset systems when such control is desirable or appropriate.

H. "Fixed asset coordinator" means the individual within an agency or a section of an agency who is responsible for controlling and accounting for the fixed assets in the custody and use of the agency or section.

I. "General fixed assets" means those assets acquired by governmental funds, and not accounted for directly in the real accounts of such funds.

J. "General fixed asset account group" means those accounts used to record and track fixed assets acquired by "governmental funds." These "funds" include the general fund, the special revenue fund, and the capital project fund. Assets are recorded in these accounts, along with any betterments, impairments or depreciation. Assets are carried in this account group to recognize that they are not a component of fund balance available for appropriation.

K. "Object code" means the expenditure accounting code that indicates the category of benefits for which the money was spent.

L. "Physical inventory" means the process of verifying that fixed assets owned by the agency are present in their assigned custody and location, and evaluating their condition.

M. "Proprietary funds" means those funds used to account for the provision of services by a government entity to other government entities or to the public. The financial objective of such funds is to recover through user charges the full cost (including depreciation) of operations.

N. "Tag" means any label or marking that is permanently affixed to a fixed asset, including indelible ink or dyes, numbers physically stamped into the fixed asset, adhesive labels or barcodes, and metal tags.
[2.20.1.7 NMAC - Rp, 2.20.1.7 NMAC, 12/31/2019]

2.20.1.8 FIXED ASSET ACCOUNTING SYSTEM:

A. Agencies should implement systematic and well-documented methods for accounting for their fixed assets. A computerized system is recommended, with appropriate controls on access and authorization of transactions.

B. The information to be recorded and maintained on its fixed assets, must include at a minimum the following:

- (1) agency name or commonly used initials used to identify the agency;
- (2) fixed asset number or fixed asset number plus component number;
- (3) a description using words meaningful for identification;
- (4) location, specifically a building and room number. If the asset is movable, the name and location of the fixed asset coordinator should be used;
- (5) manufacturer name (NOT the vendor's name, unless vendor is the manufacturer);
- (6) model number or model name;
- (7) serial number, or vehicle identification number (VIN) for vehicles in agency's use & possession. If the fixed asset has no serial number, e.g., a custom-built asset, absence should be acknowledged by coding this as "none";
- (8) estimated useful life or units expected to be produced;
- (9) date acquired (month and year);
- (10) cost (according to the valuation methods described in Section 2.20.1.10 NMAC;
- (11) fund and organization that purchased the asset, or to which it was transferred.

C. The system must be capable of generating lists of fixed assets in sequences useful for managing them. It must track all transactions including acquisitions, depreciation (if needed), betterments and dispositions. It must generate all necessary accounting entries to the agency's general ledger.

2.20.1.9 CLASSIFICATION OF FIXED ASSETS:

- A. The type of service that the asset was purchased for must be used to classify fixed assets. The object code under which it was purchased is usually a reliable indicator of the service for which it was purchased.
 - B. Object codes from the category for capital outlay may be used. Purchases from other categories may also be capitalized if appropriate. For example, certain types of repairs or maintenance may increase the useful life of the asset. These costs should be added to the cost of the asset.
 - C. The recommended classifications and definitions are:
 - (1) **"Land"**: Only real property is included in this category. Costs to be included that are not specifically stated in Subsection B of Section 2.20.1.10 NMAC include fees for appraisals, title searches, attorney's fees, demolition of structures (less any salvage) as part of site preparation, and agent's commissions.
 - (2) **"Land Improvements"**: Improvements subsequent to the acquisition of land are in this category. Such assets have a limited economic life. Examples are roadways, landscaping, utility infrastructure, and fencing. This category may also be used to record leasehold improvements. Leasehold improvements should be capitalized to recognize the allocation of the cost of the improvements for the duration of their useful lives.
 - (3) **"Buildings and Structures"**: This category shall be used for all buildings and structures that are permanently fixed to land.
 - (4) **"Furniture and Fixtures"**: These are assets that are not permanently fixed to land, but are the contents of a building.
 - (5) **"Information Technology Equipment"** (including software): This category of equipment includes computers and peripherals, and all equipment related to electronic communications.
 - (6) **"Equipment and Machinery"**: Equipment that is related to industrial production, construction, land or grounds maintenance, food service, public safety should be recorded in this category.
 - (7) **"Farm Equipment"**: All equipment related to agricultural or ranch production should be recorded in this category.
 - (8) **"Livestock and Poultry"**: This category is only used for farm or ranch animals that are not purchased for immediate consumption or production of food.
 - (9) **"Library and Museum Acquisitions"**: Assets in this category only include holdings of libraries or museum collections. A publication that is available in a library but that is acquired by an agency for its private use would be appropriately categorized as furniture and fixtures. Similarly, a farm museum would use this classification for tractors and ploughs, even if they are used for their intended purpose.
 - (10) **"Motor Vehicles and Aircraft"**: This category is for all such vehicles that the agency owns. Vehicles and aircraft acquired under the terms of an operating lease should not be recorded as fixed assets.
 - D. Agencies may use these fixed asset classifications for the purpose of pooling assets for depreciation, for publication in financial statements, or other management objectives.
- [2.20.1.9 NMAC - Rp, 2.20.1.9 NMAC, 12/31/2019]

2.20.1.10 VALUATION OF ASSETS:

- A. All fixed assets should be acquired in compliance with the procurement ("Procurement Code Regulations") and applicable statutes.
- B. Fixed assets acquired through purchase shall be recorded at cost. In most cases cost is equal to monetary value exchanged, plus associated costs to prepare the asset for its intended use. These costs include freight or shipping, taxes, site preparation and installation, testing, reconditioning and other similar costs. If considerations other than cash are exchanged for the assets, the fair market value of such consideration at the time of the transaction is the proper measure of the cost of the assets so acquired.
- C. Fixed assets include those assets constructed by agency personnel. Construction costs for such assets include direct labor (salary including overtime), materials, equipment usage (depreciation, rental, supplies, etc.), and overhead that can be distributed on the basis of direct labor such as employee benefits.
- D. Fixed assets that are donated to the agency should be recorded at fair market value at the time of donation. Fair market value may require a professional appraisal of the property. If there is any doubt about the rights to the property, it should not be recorded until such rights are clearly established. Such doubts include any conditions or restrictions on the use or future disposition of the property. Should any restrictions adversely affect the value, they should be recognized in the final determination of the valuation to be recorded.
- E. Fixed assets may also be acquired through governmental reorganization (including those that result in residual equity transfers), specific legislation, mutual agreement between agencies, or a capital project.

These shall be placed in an agency's fixed asset inventory at the time the assets are transferred to the agency. The transfer will require the entity transferring the fixed asset to provide information that properly identifies the asset(s) being transferred. The information, in addition to the requirements of Section 2.20.1.9 NMAC above should include estimated service life and accumulated depreciation.

F. Agencies may acquire fixed assets through a capital project fund. Assets transferred may include land and new construction, renovated or remodeled buildings, furniture, fixtures and equipment. If the assets are transferred from another agency, e.g., the facilities management division of the New Mexico general services department, the transferring agency will provide the capitalized costs to record in the receiving agency's books.

G. 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:

- (1) the present value of the lease payments is ninety percent or more of the purchase price,
- (2) the lease extends for at least seventy-five percent of the asset's useful life,
- (3) the lease contains a bargain purchase clause, or
- (4) if title passes to the lessee at the end of the lease.

[2.20.1.10 NMAC - Rp, 2.20.1.10 NMAC, 12/31/2019]

2.20.1.11 GENERAL ACCOUNTING PROCEDURES:

A. Property, and equipment acquired by general, special revenue, and capital projects funds are brought under accounting control by the creation of a "general fixed asset account group." In accordance with generally accepted accounting principles, general fixed assets are recorded at acquisition cost. If the cost of fixed assets was not recorded when the assets were acquired and is unknown when accounting control over the assets is established, it is acceptable to record them at estimated cost. The offset to the fixed asset accounts is the set of equity accounts that indicate the sources from which the fixed assets were acquired.

B. Internal service funds account for all fixed assets similar to private sector business enterprises. That is, fixed assets are used to generate revenues to be used in their operations; therefore, they are accounted for in the internal service fund in which they reside. Fixed assets are depreciated based on their cost and expected service life. Depreciation methodologies and charges to depreciation expense should be consistent with generally accepted accounting principles.

C. Fixed assets in nonexpendable trust funds are accounted for directly in their respective financial statements.

[2.20.1.11 NMAC - Rp, 2.20.1.11 NMAC, 12/31/2019]

2.20.1.12 DEPRECIATION:

A. Depreciation is a set of methods for allocating the cost of an asset over its economic life. Assets owned by proprietary funds and nonexpendable trust funds are required to be depreciated. Assets held in the general fixed assets account group may, at the option of the fund's managers, be depreciated.

B. Depreciation normally should not be recorded until the asset is ready for use.

C. Depreciation reduces the net book value of an asset as its economic usefulness is consumed. Depreciation expense should normally be closed to fund balance at year-end.

D. The offset to the depreciation account is accumulated depreciation. This is a contra-account to assets, whose net value is historical cost less accumulated depreciation.

[2.20.1.12 NMAC - Rp, 2.20.1.12 NMAC, 12/31/2019]

2.20.1.13 BETTERMENTS AND REPLACEMENTS:

A. Betterments to assets should be capitalized. If the asset consists of identifiable and separately valued components, and a component is improved, the old component should be removed from the asset account, and the new component added to the asset account.

B. Replacements of components, which simply increase the useful life of the asset, should be substituted for the previous component, and the useful life and amount then used for depreciation. The new component should be recorded inclusive of all costs as described in of Section 2.20.1.10 NMAC. For example, an aircraft has its engines replaced at a cost of three hundred thousand (\$300,000). The old engines should be removed from the books along with accumulated depreciation and the gain or loss on disposal. The new engines are then recorded, and added to the asset with a new useful life and basis for depreciation.

C. Reinstallation and rearrangement costs of machinery, rearrangement of partitions, renovation of buildings, and similar outlays on fixed assets purchased in used condition should be capitalized as part of the cost.

Overhead items such as insurance, taxes, salaries and other incidentals directly related to the asset during a period of renovation also should be capitalized.

[2.20.1.13 NMAC - Rp, 2.20.1.13 NMAC, 12/31/2019]

2.20.1.14 EXPENDITURES FOR MAINTENANCE AND REPAIRS:

A. Repairs and maintenance on fixed assets, which are routine and necessary for continued safe and productive operation, should be charged to maintenance expense in the period in which they occur.

B. The expense should be recorded in the appropriate expenditure object code based on the nature of the expense. Repairs and maintenance do not increase the value of the asset, nor prolong its life, but the expenses should be matched to the benefits received.

[2.20.1.14 NMAC - Rp, 2.20.1.14 NMAC, 12/31/2019]

2.20.1.15 FIXED ASSET CONTROLS:

A. Each agency shall establish controls over its fixed assets for the primary purposes of safeguarding them and establishing accountability for their custody and use. Such controls will apply to:

(1) Authorization to acquire fixed assets: Controls on the acquisition of fixed assets shall include procedures for requesting their purchase, and a requirement for approval to purchase by a representative of agency management who can determine that the requested purchase is consistent with the business objectives of the agency and is economically reasonable.

(2) Receiving procedures: The delivery of goods or services should be accepted by an individual who can attest to such delivery and has no access to accounting system records.

(3) Tagging the assets and components: Newly received fixed assets shall be tagged at the time they are received. At the time that a request to purchase a fixed asset is approved, the purchase order shall be returned to the requester along with a tag or tags to identify the asset(s).

(4) Assigned location: A basic control over fixed assets is information about their physical location. Agencies shall record the original assigned location of fixed assets. When a fixed asset is reassigned, the new location and fixed asset coordinator should be updated in the fixed asset system records.

(5) Fund and organizational unit that originally purchased the asset: Fixed assets must be associated with the fund and governmental entity that purchased them for the purpose of accurately reporting financial performance. If an asset is transferred the fixed asset and accounting records should be updated.

(6) Individual(s) responsible for tracking their use and location: Agencies shall assign specific individuals within their organizational units to be responsible for tracking the fixed assets in their units.

B. All fixed assets shall be marked with tags. Each tag shall identify the agency owning the asset followed by a unique sequential fixed asset number so that each item may be positively identified. An agency may establish blocks of numbers for its sub-units to improve controls and avoid duplication of numbers.

[2.20.1.15 NMAC - Rp, 2.20.1.15 NMAC, 12/31/2019]

2.20.1.16 ANNUAL INVENTORY:

A. At the end of the fiscal year, each agency shall conduct a physical inventory of its fixed assets consisting of those with a historical cost of five thousand dollars (\$5000) or more, under the control of the governing authority.

B. This inventory shall include all property procured through the capital projects fund which are assigned to the agency designated by the director of the property control division as the user agency.

C. All passenger vehicles must be included in the inventory process. This includes all vehicles leased from the transportation services division of the general services department as required by the "auditor's rule" Paragraph (8) of Subsection A of Section 2.2.2.12 NMAC.

D. The inventory process shall produce a list of the property and the date and cost of acquisition. The annual physical inventory checks against losses not previously revealed and brings to light errors in records of accountability, but more importantly, a systematic physical inventory of fixed assets provides an opportunity for surveying their physical condition, with respect to their need for repairs, maintenance or replacement.

E. 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 agency. In the process of conducting their fieldwork, the state auditor or independent public accountant under a contract approved by the state auditor may test the correctness of the inventory by generally accepted auditing procedures (Section 12-6-10A NMSA 1978).

[2.20.1.16 NMAC - Rp, 2.20.1.16 NMAC, 12/31/2019]

2.20.1.17 IMPAIRMENT:

A. An asset is considered impaired if its estimated life has been reduced, or its ability to generate revenue has been reduced.

B. On finding that an asset has been impaired, the accounts for the fund or group to which the asset belongs should be posted with the appropriate entries to adjust its value to the new estimate.

[2.20.1.17 NMAC - Rp, 2.20.1.17 NMAC, 12/31/2019]

2.20.1.18 DISPOSITION OF FIXED ASSETS:

A. Sections 13-6-1 through 13-6-2 NMSA 1978, and the procurement code govern the disposition of fixed assets.

B. For property whose fair market value is under five thousand dollars (\$5,000) and obsolete, or unusable, disposition may be made by:

(1) 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,

(2) sale at public auction,

(3) destruction,

(4) disposal of hazardous materials in compliance with environmental regulations, and

(5) sale through solicitation of written bids through the state purchasing division.

C. For property whose fair market value is over five thousand dollars (\$5,000), disposition may be made only through written approval by the state budget division.

D. As a prerequisite to the disposition of any items of personal property, state agencies shall designate a committee of at least three officials of the governing authority to approve and oversee the disposition. They must give notification at least 30 days prior to its action of making the deletion by sending a copy of its official finding and the proposed disposition of the property to the office of the state auditor (OSA).

E. All dispositions must be recorded in the fixed asset inventory records. Appropriate entries must also be made in the financial accounts to reflect the disposition of the property. Gains or losses on disposal must be recorded in funds where such accounting is required.

F. Dispositions of property whose method is found to be theft or embezzlement should be recorded in the inventory and financial accounts. Associated documentation such as police and insurance reports should be kept as part of the audit trail of the disposition.

[2.20.1.18 NMAC - Rp, 2.20.1.18 NMAC, 12/31/2019]

HISTORY OF 2.20.1 NMAC

Pre-NMAC History: The material in this sub-part is derived from that previously filed with the State Records Center and Archives under:

GSD 86-507, Standard Fixed Asset Control And Accounting Regulation, 7/10/1986.

GSD 88-101, Standard Fixed Asset Control And Accounting 3/1/1988.

History of Repealed Material: 2.20.1 NMAC - Accounting And Control Of Fixed Assets Of State Government, Accounting For Acquisitions And Establishing Controls filed 9/16/199, Repealed 12/31/2019.

Other History: GSD 88-101, Standard Fixed Asset Control and Accounting (filed 3/1/88) renumbered, reformatted and replaced by 1 NMAC 1.2.1, Accounting and Control of Fixed Assets of State Government - Accounting for Acquisitions and Establishing Controls, effective 9/30/1999.

2.20.1 NMAC - Accounting And Control Of Fixed Assets Of State Government, Accounting For Acquisitions And Establishing Controls was replaced by 2.20.1 NMAC - Accounting And Control Of Fixed Assets Of State Government, Accounting For Acquisitions And Establishing Controls effective 12/31/2019.