

Introduction

For fiscal year ending June 30, 2002, the State of Florida will be required to implement Statement No. 34 of the Governmental Accounting Standards Board (GASB), *Basic Financial Statements - and Management's Discussion and Analysis – for State and Local Governments*. Statement No. 34 establishes new financial reporting requirements for state and local governments throughout the United States. When implemented, it will create new information and will restructure much of the information that governments have presented in their annual reports in the past. The intent of these new requirements is to make annual reports more comprehensive and easier to understand and use.

Two key implementation challenges the new reporting model presents are infrastructure reporting and depreciation accounting. Statement No. 34 requires the state to prospectively report all general infrastructure assets acquired after the implementation date of the statement. In addition, Statement No. 34 requires the state to retroactively report all major general infrastructure assets acquired in fiscal years ending after June 30, 1980. With respect to depreciation, Statement No. 34 requires all applicable general fixed assets to be depreciated over their estimated useful lives. Also, the state is required to establish a policy for capitalizing assets and for estimating the useful lives of those assets.

In response to the requirements established by Statement No. 34, the Office of the Comptroller has established this policy to provide guidance to state agencies on implementing the new reporting requirements in regards to capital assets for statewide financial statement purposes only. Established from a statewide perspective, the purpose of this policy is to achieve consistency regarding the accounting of state-owned capital assets and related depreciation for the preparation of the statewide financial statements as required by Statement No. 34. This policy is not intended to supersede or supplant guidance or direction provided by any other organization or governmental entity for other operational purposes. For example, this policy does not replace the Florida Accounting Information Resource (FLAIR) Property Manual.

Capital asset reporting thresholds as established in this policy may be higher than the existing thresholds for property control due to different objectives. The primary objectives of financial reporting generally pertain to valuation, allocation, presentation, and disclosure, whereas the primary objectives of property control generally pertain to efficiency, effectiveness, and safeguarding of assets. For example, controls designed to prevent or promptly detect a loss of a small value asset, while important operationally, are not necessarily relevant for financial reporting purposes. Because of the objective differences, this policy should not be used for property control purposes. State agencies are encouraged to refer to Chapter 10.300, *State-Owned Tangible Personal Property*, Rules of the Auditor General, and appropriate sections of Chapter 273, Florida Statutes, for guidance on property control.

Effective Date

This policy will take effect July 1, 2001.

Capital Assets and Capitalization Thresholds

A capital asset is real or personal property that has a cost equal to or greater than an established capitalization threshold and has an estimated useful life extending beyond one year. The state reports capital assets under the following categories:

- Land and Land Improvements
- Buildings and Building Improvements
- Infrastructure and Infrastructure Improvements
- Leasehold Improvements
- Property Under Capital Lease
- Construction Work in Progress
- Furniture and Equipment
- Works of Art and Historical Treasures
- Library Resources
- Other Fixed Assets

For statewide financial statement purposes only, a capitalization threshold is established for each capital asset category as follows:

Capital Asset Category	Financial Statement Capitalization Threshold
Land and Land Improvements	Capitalize all
Buildings and Building Improvements	\$100,000
Infrastructure and Infrastructure Improvements	\$100,000*
Leasehold Improvements	\$100,000
Property Under Capital Lease	Depending on the asset, use the threshold for the appropriate asset category
Construction Work in Progress	Accumulate all costs and capitalize if over \$100,000 when completed
Furniture and Equipment	\$1,000 for all furniture and equipment; \$250 for books and other reference materials not circulated to students or the general public
Works of Art and Historical Treasures	Capitalize all unless they meet the definition of a collection (see section on Works of Art and Historical Treasures of this policy) or if they have already been capitalized as of June 30, 1999
Library Resources	\$25
Other Fixed Assets	\$1,000

* Effective July 1, 2001, all infrastructure assets acquired (purchased, constructed, or donated) after this date that meet the threshold for capitalization must be recorded in FLAIR. In addition, all major general infrastructure assets acquired or received major renovations, restorations, or improvements after June 30, 1980, must be recorded in FLAIR by June 30, 2006. Agencies are strongly encouraged to complete this retroactive implementation by June 30, 2003.

In the case where an agency chooses to capitalize assets whose cost is under the threshold established for statewide financial statement purposes, though not required, we recommend that these assets be depreciated over their estimated useful lives.

Reporting Capital Assets

Capital assets should be reported at historical cost. The cost of a capital asset should include ancillary charges necessary to place the asset into its intended location and condition for use. Ancillary charges include costs that are directly attributable to asset acquisition – such as freight and transportation charges, site preparation costs, and professional fees. Donated capital assets should be reported at their estimated fair value at the time of acquisition plus ancillary charges, if any.

When the historical cost of a capital asset is not practicably determinable, the estimated historical cost of the asset should be determined by appropriate methods and recorded. Estimated historical costs should be so identified in the record and the basis of determination established in the responsible agency's public records. The basis of valuation for capital assets constructed by agency personnel should be the costs of material, direct labor, and overhead costs identifiable to the project.

An agency that owns capital assets is responsible for correctly reporting these assets at the date of acquisition. Any improvements made to a capital asset that extends the useful life of the asset beyond one year should be capitalized.

Depreciating Capital Assets

Capital assets should be depreciated over their estimated useful lives unless they are:

- inexhaustible (i.e., land and land improvements, certain works of art and historical treasures),
- infrastructure assets reported using the modified approach as discussed in Statement No. 34 (see section on Infrastructure and Infrastructure Improvements of this policy), or
- construction work in progress

It is the custodian agency's responsibility to estimate the useful life of each capital asset. Agencies using the FLAIR Property Subsystem will be responsible for assigning

to the assets the correct state standard portion (first 4 digits) of the property class codes that match the estimated useful lives of the assets.

For statewide financial statement purposes, the straight-line method will be used by the FLAIR Property Subsystem to calculate depreciation for each capital asset recorded in the property subsystem starting with the month that the asset is received by the responsible state agency. The estimated useful life for each capital asset will be based on the state standard portion of the property class code for the asset assigned by the responsible agency.

Agencies using the property subsystem are responsible for scheduling the depreciation calculation at year-end prior to closing. Agencies are also responsible for recording their assets in the correct general ledger codes.

See Appendix A for a list of state standard class codes and Appendix B for a crosswalk between the state standard class codes and corresponding general ledger codes.

In the case where an agency chooses to depreciate its capital assets using a method different from the straight-line method or using a different system, the agency will be responsible for providing the Office of the Comptroller with the correctly calculated depreciation amounts to be reported in the statewide financial statements.

Capital Asset Definitions and Categories

Land and Land Improvements

Land is the surface or crust of the earth, which can be used to support structures, and may be used to grow crops, grass, shrubs, and trees. Land improvements consist of betterments, site preparation, and site improvements that ready land for its intended use. The cost associated with land improvements is added to the cost of land and should be recorded in General Ledger (GL) Code 271XX. Land and land improvements should not be depreciated.

Examples of items to be capitalized as land and land improvements are:

- Purchase price or fair market value at time of gift
- Commissions
- Professional fees (i.e. titles searches, architect, legal, engineering, appraisal, surveying, and environmental assessments, etc.)
- Land excavation, fill, grading, and drainage
- Demolition of existing buildings and improvements (less salvage)
- Removal, relocation, or reconstruction of property of others (i.e. railroad, telephone, and power lines, etc.)

Items such as roads, bridges, fencing, landscaping, pools, and paved parking lots, etc. are not considered land improvements. These items are considered infrastructure and should be recorded in GL 274XX (see section on Infrastructure and Infrastructure Improvements of this policy).

Buildings and Building Improvements

A building is a structure that is permanently attached to the land, has a roof, is partially or completely enclosed by walls, and is not intended to be transportable or moveable. A building is generally used to house persons, property, and fixtures attached to and forming a permanent part of such a structure.

Building improvements are capital events that materially extend the useful life of a building or increase the value of a building, or both beyond one year. Building improvements should not include maintenance and repairs done in the normal course of business.

The cost of buildings over the statewide financial statement capitalization threshold should be recorded in GL 272XX and depreciated over the estimated useful lives of the buildings. The accumulated depreciation for buildings should be recorded in GL 273XX.

Examples of items to be capitalized as buildings and building improvements are:

- Original purchase price
- Expenses for remodeling, reconditioning, or altering a purchased building to make it ready to use for the purpose for which it was acquired
- Environmental compliance (i.e. asbestos abatement)
- Professional fees (i.e. legal, architect, inspections, and title searches, etc.)
- Payment of unpaid or accrued taxes on the building to date of purchase
- Cancellation or buyout of existing leases
- Completed project costs of constructed buildings
- Cost of building permits
- Permanently attached fixtures or machinery that cannot be removed without impairing the use of the building
- Additions to buildings (i.e. expansions, extensions, or enlargements)
- Conversion of attics, basements, etc. to usable office, clinic, research or classroom space
- Structures attached to the building such as covered patios, runrooms, garages, enclosed stairwells, etc.
- Installation or upgrade of heating and cooling systems, including ceiling fans and attic vents
- Original installation or upgrade of wall or ceiling covering such as carpeting, tiles, paneling, or parquet
- Structural changes such as reinforcement of floors or walls, installation or replacement of beams, rafters, joists, steel grids, or other interior framing

- Installation or upgrade of window or doorframe, upgrading of windows or doors, built-in closet, and cabinets
- Interior renovation associated with casings, baseboards, light fixtures, ceiling trim, etc.
- Exterior renovation such as installation or replacement of siding, roofing, or masonry, etc.
- Installation or upgrade of plumbing and electrical wiring
- Installation or upgrade of phone or closed circuit television systems, networks, fiber optic cable, or wiring required in the installation of equipment (that will remain in the building)

Examples of items to be considered maintenance and repairs and not capitalized as buildings are:

- Adding, removing, and/or moving of walls relating to renovation projects that are not considered major rehabilitation projects and do not increase the value of the building
- Improvement projects of minimal or no added life expectancy and/or value to the building
- Plumbing or electrical repairs
- Cleaning, pest extermination, or other periodic maintenance
- Interior decoration such as draperies, blinds, curtain rods, wallpaper, etc.
- Exterior decoration such as detachable awnings, uncovered porches, decorative fences, etc.
- Maintenance-type interior renovation such as repainting, touch-up plastering, replacement of carpet, tile, or panel sections, sink and fixture refinishing, etc.
- Maintenance-type exterior renovation such as repainting, replacement of sections of deteriorated siding, roof, or masonry, etc.

The lists of examples provided above are not intended to be all-inclusive. Agencies should make determinations on a case-by-case basis.

Infrastructure and Infrastructure Improvements

Infrastructure assets are long-lived capital assets that normally are stationary in nature and normally can be preserved for a significantly greater number of years than most capital assets. Examples of infrastructure assets include roads, bridges, tunnels, drainage systems, water and sewer systems, dams, and street lighting systems. Infrastructure assets should be capitalized and depreciated unless the modified approach per Statement No. 34 is used. To use the modified approach, the infrastructure assets have to comprise a network or subsystem of a network (eligible infrastructure assets), and the following criteria are met:

- 1) The assets are managed using a qualifying asset management system.

- 2) It is documented that the assets are being preserved at or above a condition level established by the government.

Currently, for the State of Florida, the Department of Transportation (DOT) is the only agency using the modified approach to account for the agency's eligible infrastructure assets.

Improvements made to infrastructure assets that extend the useful lives or increase the value of the assets, or both, beyond one year should also be capitalized.

The cost of depreciable infrastructure assets over the statewide financial statement capitalization threshold should be recorded in GL 274XX and depreciated over the estimated useful lives of the assets. The accumulated depreciation should be recorded in GL 275XX. The cost of infrastructure assets accounted for using the modified approach should be recorded in GL 263XX (used by DOT only).

Leasehold Improvements

A leasehold improvement is an improvement made to a leased building or infrastructure asset by an agency that has the right to use this leasehold improvement over the term of the lease. This improvement will revert to the lessor at the expiration of the lease. The lessor may be another state agency or someone outside of the state government. The lessee generally should be responsible for recording the improvement if the lessee pays for the improvement.

Leasehold improvements should not include maintenance and repairs done in the normal course of business. Further, moveable equipment or office furniture that is not attached to the leased property is not considered a leasehold improvement (See section on Buildings and Building Improvements for examples on maintenance and repairs).

The cost of a leasehold improvement should be depreciated over the shorter of (1) the remaining lease term, or (2) the estimated useful life of the improvement. Leasehold improvements do not have a residual value. Improvements made in lieu of rent should be expensed in the period incurred. If the lease contains an option to renew and the likelihood of renewal is uncertain, the leasehold improvement should be depreciated over the life of the initial lease term or estimated useful life of the improvement, whichever is shorter. The cost of leasehold improvements over the statewide financial statement capitalization threshold should be recorded in GL 267XX. The accumulated depreciation should be recorded in GL 268XX.

Property Under Capital Lease

Assets should be capitalized if the lease agreement meets any one of the following criteria:

- 1) The lease transfers ownership of the property to the lessee by the end of the lease term.
- 2) The lease contains a bargain purchase option.
- 3) The lease term is equal to 75 percent or more of the estimated economic life of the leased property.
- 4) The present value of the minimum lease payments at the inception of the lease, excluding executory costs, equals at least 90 percent of the fair value of the leased asset.

The cost of assets under capital lease over the statewide financial statement capitalization threshold should be recorded in GL 284XX and depreciated over the estimated useful lives of the assets. The accumulated depreciation should be recorded in GL 285XX.

A lease that does not meet any of the above capitalization requirements should be reported separately as an operating lease to the Office of the Comptroller for inclusion in the statewide financial statements.

Construction Work in Progress

Construction work in progress reflects the economic construction activity status of buildings and other structures, infrastructure, additions, alterations, reconstruction, and installation, which are substantially incomplete.

The cost of construction work in progress should be recorded in GL 278XX and should not be depreciated. Construction work in progress assets should be capitalized to their appropriate capital asset categories upon the earlier occurrence of execution of substantial completion contract documents, occupancy, or when the assets are placed into service. It is the agency's responsibility to track all costs related to construction work in progress so that the final value of the constructed asset is correctly captured. Agencies should not use multiyear appropriations for a project to circumvent the capitalization threshold for the project.

Furniture and Equipment

Furniture and equipment include fixed or movable tangible assets to be used for operations, the benefits of which extend beyond one year from date of receipt and

rendered into service. Example of furniture and equipment are machinery, computers, printers, radios, and vehicles, etc.

Also included in furniture and equipment are books and other reference materials that are not circulated to students or the general public (not contained in a publicly supported library). Books and other reference materials that are circulated to students or the general public are considered library resources and should be recorded in GL 282XX (see section on Library Resources of this policy).

The cost of furniture and equipment over the statewide financial statement capitalization threshold should be recorded in GL 276XX and depreciated over the estimated useful lives of the assets. The accumulated depreciation should be recorded in GL 277XX.

Works of Art and Historical Treasures

Works of art and historical treasures should be capitalized at their historical cost at acquisition or fair value at the date of donation (if donated) unless they belong to a collection that meets the following criteria:

- 1) The collection is held for public exhibition, education, or research in furtherance of public service, rather than financial gain.
- 2) The collection is protected, kept unencumbered, cared for, and preserved.
- 3) The collection is subject to an organization policy that requires the proceeds from sales of collection items to be used to acquire other items for collections.

Collections already capitalized as of June 30, 1999 will remain capitalized, and all additions to those collections will be capitalized, even if they meet the criteria listed above for exemption from capitalization.

For collections not capitalized, a description of the collection and the reasons these assets are not capitalized should be documented and reported to the Office of the Comptroller for inclusion in the statewide financial statements.

The cost of capitalized works of art and historical treasures should be depreciated over the estimated useful lives unless the works of art and historical treasures are inexhaustible. An inexhaustible capital asset is one whose economic benefit or service potential is used up so slowly that its estimated useful life is extraordinarily long.

The cost of depreciable works of art and historical treasures should be recorded in GL 264XX, and the accumulated depreciation should be recorded in GL 265XX. The cost of non-depreciable works of art and historical treasures should be recorded in GL 266XX.

Library Resources

Library resources are information sources that are circulated to students or the general public such as books, journals, periodicals, audio/visual media, computer-based information, manuscripts, maps, documents, and similar items which provide information essential to the learning process or which enhance the quality of academic, professional, or research libraries.

The cost of library resources over the statewide financial statement capitalization threshold should be recorded in GL 282XX and depreciated over the estimated useful lives of the library resources. The accumulated depreciation should be recorded in GL 283XX.

Other Fixed Assets

Other fixed assets are those long-term assets that are not otherwise classified in another capital asset category. The cost of other fixed assets over the statewide financial statement capitalization threshold should be recorded in GL 288XX and depreciated over the estimated useful lives of the assets. The accumulated depreciation should be recorded in GL 289XX.

Computer software that is either purchased or internally developed should be capitalized as other fixed assets if the cost of the computer software exceeds the statewide financial statement capitalization threshold. Capitalization of computer software includes software license fees if the total dollar amount of the fee divided by the number of units served (terminals) exceeds the threshold.

For internally developed software, only costs associated with the application development phase should be capitalized. Costs associated with the preliminary project and the post-implementation/operating phases should be expensed as incurred. Costs to develop or obtain software that allows for access or conversion of old data by new information systems should also be capitalized. General and administrative costs and overhead expenditures associated with software development should not be capitalized.