



Statewide Accounting Policy & Procedure

Accounting Manual Reference:

Section: Capital Assets

Sub-section: Capital Assets – General

Effective Date: 07/01/2010**Revision Date:** 06/30/2011**Index:**[Policy Summary](#)[Policy Requirements](#)[General Accounting Procedures](#)[Authority](#)[Applicability](#)[Definitions](#)**Policy Summary:**

Capital assets, in general, should be accounted for in accordance with generally accepted accounting principles (GAAP). The Capital Assets section of the Accounting Policy Manual provides comprehensive guidance on accounting for capital assets and reporting the activity in the Comprehensive Annual Financial Report (CAFR). Although this section also requires a complete physical inventory of capital assets at least every two years to confirm existence, it does not specify the operational process to be used to conduct the physical inventories which are critical to safeguarding the State's assets. This section also does not address physical inventory requirements for non-capital assets (e.g., assets held in trust, controlled assets such as weapons, and other assets that cost less than \$5,000, etc.). Among the topics included in this General sub-section of the Capital Assets policies are: asset class descriptions, capitalization thresholds, depreciation methodologies, examples of the types of expenditures that qualify for capitalization in each asset class, journal entry examples for acquisitions and depreciation, and disclosure requirements. Other sub-sections of the Capital Assets section address topics such as construction in progress, asset transfers, dispositions, intangibles, internally generated computer software and impairments.

It is important for the accounting staff at each State organization to understand the significant differences between the statutory, modified accrual and full accrual bases of accounting to properly account for capital assets. State organizations should refer to the *Overview* sub-section of the *Basis of Accounting and Reporting* section of the Accounting Policy Manual for guidance on the different bases of accounting. The primary differences, as they relate to capital assets, are summarized below.

Governmental Funds

Capital assets acquired by governmental funds are recorded as expenditures in the individual funds making the acquisitions. The focus of governmental funds is the flow of current financial resources. Accordingly, only financial assets are reported on the balance sheet of governmental funds. Financial assets are assets which can be spent now or which can be expected to become available for spending in the future. General capital assets are not included in that definition. General capital assets are capital assets of the government that are not specifically related to activities reported in proprietary or fiduciary funds. Although GAAP does not require capital assets to be reported in the governmental fund financial statements, GAAP does require that capital assets, net of accumulated depreciation/

amortization, be reported in the governmental activities column of the government-wide financial statements. In the government-wide financial statements, assets are capitalized only when the cost of the asset meets the capitalization threshold for the asset class as established below and when the asset has a useful life greater than one year. Depreciation or amortization of governmental capital assets applies only to assets that have been capitalized.

Proprietary Funds and Fiduciary Funds

Capital assets acquired by proprietary funds and fiduciary funds should be recorded as assets in the individual funds making the acquisitions. Within these funds the purchase of a capital asset affects only the statement of net assets. The purchase of a capital asset is not recorded as an expense because, under the flow of economic resources measurement focus and the accrual basis of accounting, the funds are not economically affected when liquid assets (e.g., cash) are exchanged for capital assets.

Component Units

Component units of the State should refer to the information on governmental, proprietary, and fiduciary funds above. For CAFR reporting purposes, **blended** component units are reported in the appropriate fund type. **Discretely presented** component units are reported in the CAFR at the government-wide level only; as such, information on these component units is reported on the accrual basis of accounting.

State organizations included in the State of Georgia Appropriations Act must maintain accounting records which provide sufficient information to report on the full accrual, modified accrual (where appropriate) and budgetary bases. Capital assets must be capitalized under the accrual basis but recorded as expenditures under the modified accrual basis. This objective can be accomplished either by maintaining subsidiary accounting records or by preparing conversion entries to modified accrual and full accrual basis for reporting at fiscal year-end.

Policy Requirements:

Management within each reporting organization is responsible for the implementation of this policy and must ensure that proper accounting procedures and internal controls are in place.

Accounting Requirements

Overview

Capital assets of governmental funds are recorded as expenditures at the time of purchase and capitalized in the governmental activities column of the government-wide statement of net assets. Capital assets of the State's proprietary funds are capitalized in the fund in which they are used and are also reported in the government-wide statement of net assets. Because discretely presented component units are reported only in the government-wide statements, capital assets of these component units are also capitalized and reported in the government-wide statement of net assets. Capital assets of fiduciary funds are capitalized and reported only in the fiduciary fund statement of fiduciary net assets.

Capital assets are stated at historical cost or, in some instances, estimated historical cost. Donated capital assets are stated at fair value (FV) at the time of donation. An asset purchased for \$1 (or a similar nominal cost well below FV) is treated as a donated asset and capitalized based on its FV at the time of donation. All land and non-depreciable land improvements are capitalized regardless of cost, except for land and other real estate held as investments by endowments. Endowments are required to report these land and other real estate **investments** at FV and to report the changes in FV as investment income.

The cost of normal maintenance and repairs that do not add to the value of an asset or materially extend the asset's life is not capitalized. The State holds certain assets such as works of art, historical documents,

and artifacts that have not been capitalized or depreciated because the collections are protected and preserved for exhibition, education, or research and are considered to have inexhaustible useful lives.

Major outlays for construction of bridges and roadways in the state highway system are capitalized as projects are constructed. For internally generated computer software, only costs incurred during the application development stage are capitalized. All other major construction projects are capitalized when projects are completed. Interest incurred during construction is not capitalized for governmental activities, but it is included in the capitalized value of assets constructed for use in proprietary enterprise funds.

Capitalization Thresholds

Assets purchased, constructed, or received through capital lease or donation must be uniformly grouped into major classes in accordance with Statement No. 34, paragraphs 116 – 117. The following table summarizes the non-federal fund source capitalization thresholds for the State’s primary classifications of capital assets. Amounts are capitalized, under the full accrual basis of accounting, when the cost or value equals or exceeds these thresholds. Items acquired through capital leases or donations are subject to these capitalization thresholds, using the classifications most closely related to the leased or donated assets.

Non-Federal Fund Source Capitalization Threshold Schedule

Class of Asset	Threshold*
Land/land improvements (other than that held as investments by endowments)	Capitalize All
Land/land improvements held as investments by endowments (<i>not</i> treated as capital assets)	Record as an Investment at FV
Buildings/building improvements	\$100,000
Improvements other than buildings	\$100,000
Infrastructure, bridges and roadways included in the state highway system	Capitalize All
Infrastructure, other	\$1,000,000
Intangible assets, other than software	\$100,000
Personal property (machinery/equipment/furniture/vehicles)	\$5,000
Library books/materials (collections):	
Initial threshold for aggregate collection	\$100,000
Additions if aggregate collection equals or exceeds initial threshold	Capitalize All
Works of art/historical treasures	Capitalize All
Software	\$1,000,000

* See OMB Circulars A-21 (educational institutions), A-87 (state and local governments), or A-122 (non-profit organizations) for federal funds thresholds.

Recognition and Measurement

Capital Asset Acquisition Cost

Capital assets must be recorded and reported at their historical costs, which include the vendor’s invoice (plus the value of any trade-in), sales tax, initial installation cost (including in-house labor), modifications, attachments, accessories or apparatus necessary to make the asset usable and render it into service. Historical costs also include ancillary charges such as freight and transportation charges, site preparation costs and professional fees. Note: Not all costs that are included in capitalized acquisition cost are eligible for reimbursement from general obligation (GO) bonds (e.g. in-house payroll and payroll-related costs). Refer to the *GSFIC Reimbursements for Bond Funded Construction Projects* section of the Accounting Policy Manual for guidance on expenditures that are eligible to be reimbursed

with the proceeds from the sale of general obligation bonds issued by the Georgia State Financing and Investment Commission (GSFIC).

Capitalized interest – Capitalized interest is not included in the cost of capital assets used for governmental activities, including governmental activities of internal service funds. However, in proprietary enterprise funds, interest is capitalized as part of the cost of the project rather than expensed on:

- Assets that are constructed or otherwise produced for a State organization’s own use (including assets constructed or produced for the enterprise by others for which deposits or progress payments have been made).
- Assets intended for sale or lease that are constructed or otherwise produced as discrete projects (for example, real estate developments).

Interest is capitalized when the enterprise fund issues debt or when the enterprise fund has any outstanding debt to finance the asset. However, interest is not capitalized on capital assets acquired or constructed by an enterprise fund with general obligation bonds.

The construction period extends from preconstruction activities until the project is complete and the capital asset is ready to be placed into service. Methods for calculating the amount of interest to be capitalized are discussed in detail in the Proprietary Funds chapter of the *Governmental Accounting, Auditing, and Financial Reporting* (GAAFR) book, published by the Government Finance Officers Association.

Estimating historical cost – In some instances, the acquisition cost of property may not be available and some alternative basis must be used to record the capital asset. For instance, documentation may not have been available to determine the original cost of acquired or constructed property; also, it may be impossible or very time-consuming to reconstruct the actual cost of the property. In this situation, the original cost of the property may be estimated and used as the basis for capitalization. When estimates are used, documentation must be maintained to describe and support the estimation methods employed and the extent to which estimates were used. Insured values and current value estimates cannot be used for capital asset reporting purposes. Allowable estimation methods include using historical sources to determine the cost of similar assets at the time of acquisition and indexing where the historical cost of an asset is estimated by taking the current cost of a similar asset and dividing it by an index figure which adjusts for inflation.

Capitalized Costs vs. Maintenance Costs

Costs incurred after the construction or acquisition of a capital asset should be analyzed to determine the accounting treatment. Expenditures/expenses have to meet the threshold of the respective asset category to be capitalized. Also, the reporting organization must determine if the nature of the expenditures was to maintain the asset at its given level of service or to achieve greater future benefits. Examples describing the accounting treatment for different situations follow:

- Additions: Any addition, extension, enlargement or expansion to a capital asset should be capitalized if the expenditure meets or exceeds the capitalization threshold or the expenditure increases the life or value of the building by at least 25 percent of the original life or cost.
- Improvements and replacements: Only expenditures that increase the service level potential of the capital asset by at least 25% should be capitalized.
- Repairs: Ordinary repairs that maintain the asset in its original operating condition should be expensed. Major repairs that benefit several periods or extend the life of the asset by at least 25% should be capitalized.

For specific examples of the types of costs to capitalize, please refer to the [General Accounting Procedures – Identifying Transactions](#) section below.

Unclear Ownership of Capital Assets

Uncertainty of ownership may arise when a reporting organization maintains or uses an asset, but another governmental entity finances the capital asset and retains a reversionary interest or is responsible for replacement of the asset. Footnote 67 of GASB Statement No. 34 states that in cases when ownership is unclear, a government should report a capital asset when it is responsible for managing that asset (i.e., it is primarily responsible for maintenance). When one government is responsible for maintaining a capital asset and a different government is responsible for replacing the same asset, the government responsible for maintaining the asset should report it. A reporting organization that uses an asset in its activities and makes the decisions regarding when and how the asset will be used and managed should record the asset.

Capital Asset Contribution and Donation

A donation is a voluntary nonexchange transaction as described in GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*. Both parties to a donation transaction may be governments or one party may be a nongovernmental entity, including an individual. ***Assets donated by parties outside the financial reporting entity are reported at fair value (FV) as of the date of donation plus ancillary charges.*** Additionally, a capital asset purchased for \$1 (or a similar nominal cost well below FV) is treated as a donation and therefore capitalized based on its FV.

Governments may receive contributions in the form of capital assets. Most contributions are voluntary nonexchange transactions. When a government receives a contribution or donation of an asset that it intends to use as a general capital asset, no entry is required in governmental funds. No current financial resource flow has taken place. State organizations must however make the necessary adjustments on the Capital Asset Form submitted to SAO at the end of the fiscal year to show the addition or reduction of donated assets. Such donation activity should also be recorded in the capital asset system of the organization.

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Below is a chart showing how a reporting organization receiving a donated asset from an organization outside the State reporting entity should record the transaction:

		<i>Donor Organization</i>	
		Outside State Reporting Entity	
<i>Receiving Organization</i>	Governmental	Asset Valuation	Estimated Fair Value
		Financial Statement Treatment	No accounting entry in fund statements*
	Proprietary	Asset Valuation	Estimated Fair Value
		Financial Statement Treatment	Debit: Capital Asset Credit: Capital Contribution
	Fiduciary	Asset Valuation	Estimated Fair Value
		Financial Statement Treatment	Debit: Capital Asset Credit: Additions – Donated Assets

*No entry is made at the governmental fund level but the donation is reported in the governmental activities column of the State government-wide statements as a capital contribution. Therefore, as stated above, the donation must be reflected in the capital asset system records and reported on the Capital Asset Form for year-end reporting purposes.

When a government receives donated assets that it does not intend to use as capital assets, but holds them for sale, they should be reported as investments in the governmental fund balance sheet and as contribution revenue in the governmental funds statement of revenues, expenditures, and changes in fund balances and should be equal to the fair value of the assets contributed. Deferred revenue should be reported if the assets are not sold within the period of time that the government uses to define available for purposes of revenue recognition.

Governments may receive capital assets as part of the corpus of an endowment reported in a permanent fund. Like other general capital assets, these assets are reported only in the governmental activities column in the government-wide statement of net assets, unless the government intends (and is permitted) to convert these assets to financial resources.

Trade-In

When the purchase of a new capital asset includes the trade-in of an old asset for governmental funds, reporting organizations should record an expenditure in their statutory and/or modified accrual records for the amount paid to acquire the new asset (financial resources expended) and not the actual purchase price which includes the value of assets traded-in. No gain or loss is recorded for the governmental fund transaction due to the flow of current financial resources measurement focus of governmental funds. For full accrual reporting purposes (used in government-wide financial statements, proprietary and fiduciary funds), the trade-in value of the old asset is added to the amount expended to reflect the full acquisition cost of the new asset in the capital asset system records.

Following are journal entry examples to reflect the acquisition of an asset that includes a trade-in. Assume cash paid is \$10,000, the net book value of the asset traded-in is \$2,000 (original cost of \$10,000 and accumulated depreciation of \$8,000), and the trade-in allowance equals the net book value of the asset traded-in. No gain or loss is recognized if the net book value of the asset traded in equals the trade-in allowance. A gain is recognized if the net book value of the asset traded-in is less than the trade-in allowance, but a loss is recognized if the net book value of the asset traded-in exceeds the trade-in allowance. The new asset is recorded at the cash paid plus the net book value of the old asset.

Governmental fund/Budget fund:

The acquisition is reflected as an expenditure:

Debit	\$10,000	Capital Expenditures
Credit	\$10,000	Cash

Government-wide statements:

At the entity-wide level, the governmental fund expenditure needs to be reversed and a capital asset needs to be reflected to report on the full accrual basis of accounting – the new asset is recorded and the asset traded-in is removed:

Debit	\$12,000	Capital Asset – New Asset
Debit	\$8,000	Accumulated Depreciation – Old Asset Traded-in
Debit	\$0	Loss on Disposition - Old Asset Traded-in
Credit	\$10,000	Capital Asset – Old Asset Traded-in
Credit	\$10,000	Capital Expenditures

Proprietary funds and fiduciary funds:

For proprietary and fiduciary funds that do not operate on a statutory basis, the transaction is recorded as a capital asset at the time of acquisition:

Debit	\$12,000	Capital Asset – New Asset
Debit	\$8,000	Accumulated Depreciation – Old Asset Traded-in
Debit	\$0	Loss on Disposition - Old Asset Traded-in
Credit	\$10,000	Capital Asset – Old Asset Traded-in
Credit	\$10,000	Cash

Exchange of Capital Assets

An exchange is a reciprocal transfer between a government and another organization that results in the government acquiring capital assets by surrendering other capital assets. The transaction usually involves little or no monetary consideration as opposed to a trade-in.

Exchanges between organizations included in the State reporting entity should be recorded at the book value of the assets received whether the assets are similar or not.

Assets acquired by the exchange of assets between a State organization and an organization outside of the State reporting entity should be recorded based on the value of the asset surrendered, if available. Whether the assets are similar or dissimilar will determine if the book value or the fair value of the assets surrendered will be used to record the asset acquired. Similar assets are assets that are of the same general type, that perform the same function, or that are employed in the same line of operation.

Similar assets – When recording an exchange of similar assets with an entity not included in the State’s reporting entity, State organizations must use a **book value** basis for the assets surrendered.

- When assets are exchanged and no monetary consideration is paid or received, the asset acquired is recorded at the book value of the asset surrendered.
- When monetary consideration is given as part of the exchange, the asset acquired is recorded at the sum of the cash paid plus the book value of the asset surrendered.

Dissimilar assets – When recording an exchange of dissimilar assets with an entity not included in the State’s reporting entity, State organizations must use a **fair value** basis for the assets surrendered.

- When assets are exchanged and no monetary consideration is paid or received, the asset acquired is recorded at the fair value of the asset surrendered.
- When monetary consideration is given as part of the exchange, the asset acquired is recorded at the sum of the cash paid plus the fair value of the asset surrendered.

Leased Assets

Capital assets include those acquired through capital leases. At the inception of a lease, contractual agreements must be reviewed to make an initial determination of the appropriate accounting treatment (as to whether the agreement is a capital or operating lease) as prescribed by FASB 13, *Accounting for Leases* (as amended through November 30, 1989). A capital asset is recorded only when the lease agreement is determined to be a capital lease and it meets the State capitalization threshold.

Detailed guidance on classifying and accounting for leases, including the capitalization criteria and State guidelines for classifying specific assets such as copiers, are addressed in separate policies, including Accounting Directives. Leases that meet the FASB criteria for capitalization, the State’s lease capitalization policies, and the State’s capitalization threshold are considered capital leases and are treated as asset purchases financed by long term debt. Other leases are considered operating leases.

Amortization, Depreciation and Useful Lives

Amortization and depreciation are methods used to allocate the costs of capital assets over their economic useful lives. They are reflected only under the full accrual basis of accounting and are not reported on either the statutory or the modified accrual basis of accounting. As such, amortization and depreciation are reported only in the government-wide statements, and in the proprietary and fiduciary funds. Amortization and depreciation expense are presented as operating expenses regardless of the source of funds used to purchase the assets.

Inexhaustible assets (e.g., land, certain artwork, historical treasures, intangible assets with indefinite useful lives, etc.) and infrastructure assets reported under the modified method are not depreciated or amortized. The State of Georgia does **not** use the modified method for infrastructure, as allowed by GASB Statement No. 34. Other capital assets are depreciated or amortized on the straight-line basis over the following estimated useful lives:

Infrastructure	10 - 100 years
Buildings and Building Improvements	5 - 60 years
Improvements Other than Buildings	15 - 50 years
Machinery and Equipment	3 - 20 years
Intangible Assets Other than Software	20 years
Intangible Assets – Software	3 - 10 years
Library Collections	10 years
Works of Art and Collections	5 - 40 years

The straight-line method is used by all State organizations. State organizations should use the following month convention for purposes of calculating depreciation/amortization.

SAO maintains capital asset profiles, which include useful life estimates, for users of the asset management module of the statewide financial system. State organizations that use other capital asset systems may establish estimated useful lives within the above ranges. If not utilizing the SAO profiles in determining estimated useful lives, reporting organizations can use general guidelines obtained from professional or industry organizations, information for comparable assets in the statewide financial system or of other governments, or internal information. A State organization should also consider an asset's present condition/quality, its application and environment, and how long it is expected to meet service demands when determining estimated useful lives. The method of estimating the useful life must be formally documented by the State organization.

Once established, estimated useful lives for major categories of capital assets should be periodically compared with the reporting organization's actual experience and appropriate adjustments should be made to reflect that experience.

Amortization and depreciation data should be calculated and recorded within the State organization's capital asset records for each eligible asset. Accumulated amortization and depreciation are then summarized and posted to the accounting general ledger for full accrual funds and utilized to convert modified accrual fund statements to the full accrual entity-wide statements.

Residual Value

Residual value or salvage value is the government's estimate of what a capital asset may be sold for when it is no longer used in operations. The estimated residual value, if any, must be declared before amortization and depreciation can be calculated. Historical sales information is invaluable when determining estimated residual values. Also, at disposition, proceeds from sales of assets are netted against residual values when computing net gains or losses from sales of fully amortized or depreciated assets.

Basis of Accounting

Funds that operate on a statutory basis must convert their accounting activity to the modified accrual and/or accrual bases of accounting for the Comprehensive Annual Financial Report (CAFR). Proprietary and fiduciary funds that do not operate on a statutory basis use the accrual basis of accounting throughout the year.

- **Statutory Basis for Budgetary Compliance Reporting**
Capital asset activity is recorded as an expenditure on the statutory basis of accounting at the earlier of either the time the funds are encumbered (i.e., when purchase orders or other contractual obligations to procure goods or services have been executed) or the time the goods or services are received. Accruals are required at year-end for encumbered goods and services received but not processed through the accounts payable subsystem. Also, a reclassification from encumbrance liability to accounts payable is required for any encumbered purchases that are received by year-end but not yet processed through the accounts payable subsystem.

Reporting organizations should use the following ***expenditure*** account series for modified accrual basis reporting of capital asset acquisitions.

- 720xxx – Equipment
- 722xxx – Motor Vehicles
- 723xxx – Land
- 724xxx – Buildings
- 725xxx – Improvements Other than Buildings

- 726xxx – Works of Art and Historical Treasures
- 727xxx – Library Collections
- 729xxx – Water, Timber, Mineral and Land rights
- 730xxx – Patents, Trademarks and Copyrights
- 733xxx – Infrastructure
- 821xxx – Computer Equipment
- 823xxx – Software

Although the above accounts are the primary capital expenditure accounts, it is appropriate to use other expenditure accounts for capitalizable ancillary charges or costs associated with the acquisition or construction of capital assets. Examples include attorney fees, architectural services, contractual services, etc.

- **Converting to Modified Accrual Basis for CAFR Reporting**
Any ending encumbrance liability balance related to capital assets is eliminated under the modified accrual basis of accounting. The offsetting change in the encumbrance liability is recorded as an expenditure to recognize the current year impact on expenditures for capital assets activity. A reserve for encumbrances is recognized under the modified accrual basis. The following year beginning fund balance is increased by the prior year encumbrance liability balance related to capital assets.
- **Converting to Accrual Basis for CAFR Reporting**
Governmental fund activity must be adjusted to the full accrual basis of accounting for year-end government-wide reporting purposes. Capital assets that were reported as expenditures in governmental funds under the modified accrual basis of accounting must be capitalized under the full accrual basis of accounting if outlays for individual assets exceed the capitalization threshold. These capitalized assets are then depreciated or amortized (if appropriate).

Reporting organizations should use the following asset account series for accrual basis reporting of capital asset transactions.

- 161xxx – Intangibles Other than Software
- 162xxx – Accumulated Depreciation – Intangibles Other than Software
- 168xxx – Computer Software
- 169xxx – Accumulated Depreciation – Computer Software
- 170xxx – Land
- 171xxx – Buildings
- 172xxx – Accumulated Depreciation – Buildings
- 173xxx – Improvements Other than Buildings
- 174xxx – Accumulated Depreciation – Improvements Other than Buildings
- 175xxx – Machinery and Equipment
- 176xxx – Accumulated Depreciation – Machinery and Equipment
- 177xxx – Library Collections
- 178xxx – Accumulated Depreciation – Library Collections
- 180xxx – Construction In Progress
- 183xxx – Infrastructure
- 184xxx – Accumulated Depreciation – Infrastructure
- 185xxx – Capitalized Collections
- 186xxx – Accumulated Depreciation – Capitalized Collections
- 187xxx – Work of Art and Historical Treasures – Non-Depreciable

The expenditure account used under the modified accrual basis to recognize the acquisition of an asset by a governmental fund will be reversed and a capital asset account will be used to convert to full accrual reporting for the government-wide statement. An example of an accounting entry made for government-wide reporting of a building is as follow:

Debit	\$xxx,xxx	Buildings (171xxx – Capital Asset)
Credit	\$xxx,xxx	Buildings (724xxx – Expenditure)

- **Accrual Basis for Funds Not Reporting on a Statutory Basis**
Activity in proprietary and fiduciary funds that do not operate on a statutory basis is reported throughout the year using the full accrual basis of accounting. Acquisitions that meet the capitalization threshold are recorded as capital assets, not as expenditures or expenses, and depreciated or amortized if appropriate.

Disclosure Requirements

Significant Accounting Policies for Capital Assets

Significant accounting policies related to capital assets must be disclosed. Examples of policies to disclose include:

- Capitalization thresholds.
- Methods used for estimating historical cost or fair value, if applicable. Methods used to calculate depreciation expense and the estimated useful lives of capital assets.
- The extent of infrastructure reporting for networks and subsystems acquired prior to fiscal periods ending after June 30, 1980.
- The decision to follow the modified approach for one or more networks or subsystems of its infrastructure assets, if applicable.

Notes to the Financial Statements

The notes to the financial statements must include detailed information about capital assets, including capitalized leased assets. The four basic requirements are:

1. The beginning and end of year balances, with accumulated depreciation shown separately from historical cost (or fair value for donations).
2. Capital additions during the period.
3. Sales or other dispositions and deletions during the period.
4. Current period depreciation and amortization expense, with disclosure of the amounts included in each line of functional expense reported for governmental activities in the statement of activities. Note that for this disclosure, the total amount of depreciation/amortization expense included in internal service fund charges to governmental activities may be disclosed as a single amount.

The above information must be presented in a format that also includes the following:

- Separate disclosure of capital assets related to governmental activities vs. those related to business-type activities.
- Separate reporting of the balances and activity for each of the major classes of capital assets (e.g., land, buildings and improvements, equipment, infrastructure, construction in progress, etc.). This reporting by major class is required separately for both historical cost and accumulated depreciation.
- Separate reporting of capital assets that are not being depreciated or amortized (land, construction-in progress, certain art collections, intangible assets with indefinite useful lives, etc.) vs. those that are being depreciated or amortized.

For collections that are not capitalized, reporting organizations should disclose a description of the collections and the reasons the assets are not capitalized. Disclosure is also required of the carrying amount of any assets that are out of service (idle) at the end of the year because of either a permanent or temporary impairment. Additionally, the notes should provide any information not visible on the face of the financial statements regarding the nature, amount, and financial statement classification of capital asset impairments recognized during the period. Refer to the Impairment policy sub-section for additional information.

GAAP also requires the disclosure of the gross amount of assets recorded under capital leases at the balance sheet date. More specific disclosures related to capital leases are addressed in separate policies.

General Accounting Procedures:

Identifying Transactions

To ensure compliance with GAAP and other requirements of this policy, State of Georgia organizations must:

- Establish controls to ensure proper identification of capital assets.
- Ensure that capital asset transactions are properly valued and recorded in asset management records in compliance with State of Georgia policies and laws.
- Ensure that a physical inventory of capital assets is conducted at least every two years to validate the existence of capital assets reported in financial statements. Assets held in trust and personal property with a cost less than \$5,000 are not capitalized for accounting purposes. Each organization may establish inventory requirements for small value assets, if applicable.

The following guidance provides detailed descriptions for each major class of asset and examples of costs that should be included in the capitalized valued. A capital asset should be recorded only if its total acquisition cost meets or exceeds the capitalization threshold for the asset class. The straight-line method is used for all depreciable/amortizable assets, regardless of the asset class. Inexhaustible items (see Definitions section below) should not be depreciated or amortized.

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 is characterized as having an unlimited (indefinite) life. Land improvements consist of betterments, site preparation and site improvements (other than buildings) that ready the land for its intended use. The costs associated with improvements to land are added to the cost of the land. Land and land improvements are inexhaustible assets and do not depreciate over time.

Expenditures to be capitalized as land and land improvements include:

- Original purchase price or fair market value at time of gift
- Commissions (e.g., brokers' commissions)
- Professional fees (closing fees, title searches, architect, legal, engineering, appraisal, surveying, environmental assessments, etc.)
- Land excavation, fill, grading, drainage, and clearing
- Demolition of existing buildings and improvements (less salvage)
- Removal, relocation, or reconstruction of property of others (railroad, telephone and power lines)
- Interest on mortgages accrued at date of purchase
- Accrued and unpaid taxes at date of purchase
- Other costs incurred in acquiring the land
- Water wells (including the initial cost for drilling, the pump and its casing)
- Rights-of-way

In compliance with GASB Statement No. 52, land and land improvements held as investments by endowments should not be recorded as capital assets. They should instead be recorded as investments at fair value, with changes in fair value during the period reported as investment income.

Buildings and Building Improvements

A building is a structure that is permanently attached to the land and is not intended to be transportable or moveable. Buildings that are an ancillary part of the State's highway network, such as rest area facilities and toll buildings will be reported as infrastructure rather than as buildings. Building improvements are capital events that materially extend the useful life of a building, increase the value of a building or both. A building improvement should be capitalized and recorded as an addition of value to the existing building if the cost of the improvement meets or exceeds the capitalization threshold or increases the life or value of the building by at least 25 percent of the original life or cost.

When calculating depreciation expense, reporting organizations should set residual value at 10% of the building's historical cost. Subsequent improvements that change the use or function of the building must be depreciated. Buildings designated as "historical" will not be depreciated unless used in the operations of the State of Georgia. However, any improvements or betterments not deemed "historical" will be depreciated in the same manner as any other improvements made to a building.

Examples of costs to be capitalized as buildings

Purchased Buildings:

- 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 (including internal payroll and payroll-related costs of employees directly involved in the activity)
- Environmental compliance costs (i.e., asbestos abatement)
- Professional fees (legal, architect, inspections, title searches, etc.)
- Payment of unpaid or accrued taxes on the building to date of purchase
- Cancellation or buyout costs of existing leases
- Other costs required to place the asset into operation

Constructed Buildings:

- Completed structure costs
- Interest accrued during construction (enterprise activities only – not governmental or internal service activities)
- Cost of excavation, grading or filling of land for a specific building
- Expenses incurred for the preparation of plans, specifications, blueprints, etc.
- Cost of building permits
- Professional fees (architectural, engineering, legal, management fees for design and supervision, etc.)
- Costs of temporary buildings used during construction
- Unanticipated costs such as rock blasting, piling, or relocation of the channel of an underground stream
- Cost of permanently attached fixtures or machinery that cannot be removed without impairing the use of the building
- Cost of additions to buildings (expansions, extensions, or enlargements)

Examples of costs to be capitalized as improvements to buildings

Note: For a replacement to be capitalized, it must be part of a major repair or rehabilitation project which meets or exceeds the capitalization threshold or must entail expenditures that increase the life or value of the building by at least 25 percent of the original life or cost. A replacement may also be capitalized if the new item/part is of a significantly improved quality and higher value as compared to the old item/part (e.g., replacement of an old shingle roof with a new fireproof tile roof). Replacement or restoration to the original utility level would not qualify for capitalization. Determinations must be made on a case-by-case basis.

- Conversion of attics, basements, etc., to usable office, clinic, research or classroom space
- Structures attached to the building such as covered patios, sunrooms, garages, carports, enclosed stairwells, etc.
- Installation or upgrade of heating and cooling systems
- Installation/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 door frames, 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, masonry, etc.
- Installation or upgrade of plumbing and electrical wiring
- Installation or upgrade of phone or closed circuit television systems, networks, fiber optic cable, wiring required in the installation of equipment (that will remain in the building)
- Other costs associated with the above improvements

Examples of costs that do not qualify for capitalization

Care should be taken to distinguish capitalizable improvements from non-capitalizable maintenance costs. The following items must not be capitalized as improvements to buildings. Instead, these items must be recorded as building maintenance expenditures/expenses.

- Adding, removing and/or moving walls in conjunction with renovation projects that are not considered major rehabilitation projects and that 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
- 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 deteriorated siding, roof, or masonry sections
- Replacement of a part or component of a building with a new part of the same type and performance capabilities, such as replacement of an old boiler with a new one of the same type and performance capabilities
- Any other maintenance-related expenditure which does not increase the value or useful life of the building

Improvements Other than Buildings

Depreciable improvements and betterments made to land include assets (other than general use buildings) built, installed or established to enhance the quality or facilitate the use of land for a particular purpose.

Examples of costs to be capitalized as improvements other than buildings

- Fencing and gates
- Landscaping
- Parking lots, driveways, parking barriers
- Outside sprinkler systems
- Recreation areas and athletic fields (including bleachers)
- Golf courses
- Paths and trails
- Septic systems
- Swimming pools, tennis courts, basketball courts
- Fountains
- Plazas and pavilions
- Retaining walls

Infrastructure

Infrastructure includes long-lived capital assets that are normally stationary in nature and can be preserved for a significantly greater number of years than most capital assets. Infrastructure assets are often linear and continuous in nature.

Note: Prospective reporting of general infrastructure assets was required beginning in fiscal year 2002. Also required was the retroactive reporting of infrastructure assets purchased, constructed, or donated in fiscal years ending after June 30, 1980 or that received major renovations, restorations, or improvements during that period.

Infrastructure improvements are capital events that materially extend the useful life and/or increase the value or capacity of the infrastructure. A change in capacity increases the level of service provided by infrastructure. For example, additional lanes can be added to a highway or the weight capacity of a bridge can be increased. An infrastructure improvement should be capitalized and recorded as an addition of value to an infrastructure asset if the improvement cost meets the capitalization threshold or increases the life or value of the asset by at least 25 percent of the original cost or life.

Care should be taken to distinguish capitalizable improvements from non-capitalizable maintenance costs. Maintenance costs allow infrastructure to continue to be used during its originally established useful life, and therefore, maintenance costs are expensed in the period incurred.

Infrastructure paid for jointly by the state and other governmental entities should be capitalized by the entity responsible for future maintenance.

Examples of costs to be capitalized as infrastructure

- Highways (Including Rest Areas)
- Roads and Streets (Including Curbs, Gutters, Sidewalks, Signage and Fire Hydrants)
- Bridges
- Railroads

- Canals and Waterways (Including Wharfs, Docks, Sea Walls, Bulkheads, and Boardwalks)
- Dams and Drainage Facilities
- Radio and Television Transmitting Towers
- Electricity, Water and Gas Lines (Main Lines, Distribution Lines, and Tunnels)
- Fiber Optic and Telephone Distribution Systems (Between Buildings)
- Lighting Systems (For Highways and Roads)

Personal Property (Machinery/Equipment/Furniture/Vehicles)

Personal property includes fixed or movable tangible assets used for operations. Improvements or additions to existing personal property that exceed the capitalization threshold or increase the value or life of the asset by at least 25 percent of the original cost or life should be capitalized and recorded as an addition of value to the existing asset.

Note: Costs of extended warranties and/or maintenance agreements, which can be separately identified from the cost of the equipment, should not be capitalized.

Examples of costs to be capitalized as personal property

- Original contract or invoice price
- Freight charges
- Import duties
- Handling and storage charges
- In-transit insurance charges
- Sales, use, and other taxes imposed on the acquisition
- Installation charges
- Charges for testing and preparation for use
- Costs of reconditioning used items when purchased
- Parts and labor associated with the construction of equipment (including internal payroll and payroll-related costs of employees directly involved in the activity)

Intangible Assets Other than Software

Refer to the *Intangibles – General* sub-section of the Accounting Policy Manual for comprehensive guidance on accounting for intangible assets other than software.

Intangible Assets – Software

Refer to the *Intangibles – General* and *Internally Generated Computer Software* sub-sections of the Accounting Policy Manual for comprehensive guidance on accounting for software.

Library Books and Materials (Collections)

A library book is generally a literary composition bound into a separate volume and identifiable as a separate copyrighted unit. Library reference materials are information sources other than books which include journals, periodicals, microforms, 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. Changes in value for professional, academic or research libraries may be reported on an aggregated net basis.

Library Characteristics – A professional, academic or research library normally has one or more of the following characteristics:

- Information is housed in a centralized location.
- Physical security measures are in place to protect the assets.

- Checkout procedures and policies exist and are used.
- Individual item costs and supplemental information is generally contained in a supplemental database.
- Volumes assigned to libraries are typically available to employees, students, and other individuals for check-out or use.
- Existence of the library helps the reporting organization fulfill its mission.
- The value is material to the reporting organization.
- Equipment assigned to libraries typically remains under central security for on-premises use.
- A library may be reported on a composite basis by making net adjustments to total value to reflect increase or decrease in total value. Net adjustments must be made at least once annually by the close of the fiscal year.

A library collection is capitalized if the entire collection exceeds \$100,000. All subsequent purchases of books and materials for a professional, academic or research library are also capitalized, with no minimum dollar amount. Library acquisitions are valued at cost or other reasonable basis; deletions are valued at annually adjusted average cost (total book value at June 30 divided by the number of volumes in the collection at June 30). The library maintains records of all books and other library items, which suffice as detailed inventory records. Books, periodicals and other materials purchased but not used in the library should be expensed unless they constitute a capital event (i.e., they meet the capitalization threshold as an individual unit).

Examples of costs to be capitalized as library books and materials

- Invoice price
- Freight charges
- Handling
- In-transit insurance charges
- Binding
- Electronic access charges
- Reproduction and like costs required to place assets in service, with the exception of library salaries.

Works of Art and Historical Treasures

Works of art and historical treasures include collections or individual items of cultural, aesthetic, or historical value and significance. Collections are generally held by reporting organizations such as museums, libraries, historic sites, botanical gardens, zoos, etc. Such items and collections owned by a State organization should generally be capitalized at historical cost or fair value at the date of donation. However, GASB Statement No. 34 encourages but does not require capitalization of a collection (or additions to it) if the collection meets ***all*** of the following criteria:

- It is held for public exhibition, education, or research in furtherance of public service rather than for financial gain.
- It is protected, cared for or preserved.
- It is subject to an organizational policy that requires the proceeds from sales of collection items to be used to acquire other items for collections.

Although capitalization of such collections is not required, effective with the July 1, 2001 implementation of Statement No. 34, the State of Georgia policy is to capitalize all future work of art and historical treasure acquisitions, unless they are held for financial gain. Collections meeting the above exception criteria and acquired before July 1, 2001 might not be capitalized. If a collection is not capitalized, the

reporting organization that owns it must maintain a description of the collection and the reasons for not capitalizing it (e.g., it is held for sale/financial gain or it was acquired prior to July 1, 2001 and meets the capitalization exception criteria, etc.). Donations of works of art and historical treasures should be recognized as revenues or deferred revenues subject to the provisions of Statement No. 33. When donated collection items are added to non-capitalized collections, reporting organizations should recognize program expense equal to the amount of revenue recognized.

Only exhaustible collections should be depreciated – those whose useful lives are diminished by display or educational or research applications. Inexhaustible items or collections (see Definitions section below) should not be depreciated.

Examples of costs to be capitalized as works of art and historical treasures

- Collections of rare books, manuscripts
- Maps, documents and recordings
- Works of art such as paintings, sculptures, and designs
- Artifacts, memorabilia, exhibits
- Unique or significant structures

Construction in Progress (CIP)

Refer to the Construction in Progress sub-section of the Accounting Policy Manual for comprehensive guidance on accounting for construction in progress.

Accounting Transactions and Journal Entries

A comprehensive example of the acquisition and depreciation of a capital asset is provided in the Attachment. The example demonstrates the entries required for the statutory basis of accounting and those required for converting to the other bases of accounting. The asset management module of the statewide financial system generates entries to reverse the expenditure/encumbrance activity and to reflect the capital asset transactions needed for full accrual reporting. The SAO, using capital asset forms submitted by reporting organizations, makes all necessary adjustments to convert from the statutory basis of accounting to the modified accrual and full accrual bases of accounting when applicable.

Examples for construction in progress, asset transfers, dispositions, and impairments are provided in other Capital Assets sub-sections of the Accounting Policy Manual.

Year-End Accounting Procedures

The SAO will request information about capital assets as part of its year-end information package. Refer to the year-end form titled “Capital Assets” for specific information needs and instructions. Reporting organizations must provide the requested information to ensure that appropriate accrual basis adjusting entries are reported for annual GAAP-basis financial reports. The following summarizes the primary information needed to adjust from statutory basis reporting to GAAP reporting:

- Total capital assets – Provide amounts for assets subject to capitalization by major asset class as of fiscal year-end and amounts recorded to expenditure by account for current year purchases.
- Depreciation expense and accumulated depreciation – Provide the balance of accumulated depreciation at fiscal year-end and the amount to be reported as current year expense, in accordance with applicable depreciation methods and useful lives.
- Capital asset donations (amounts should be included in total capital assets per the first item above) – Provide the details, including fair value at date received, for capital assets received by donation during the current year.

- Gains/losses on sales and other disposals of capital assets – Provide a listing of all assets sold, including historical cost, accumulated depreciation and amount of proceeds received from the sale. For all other disposals of capital assets, including items disposed of by donation, provide historical cost and accumulated depreciation.

Authority:

Authoritative:

- GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*
- GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*
- GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*
- GASB Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*
- GASB Codification Section 1400, *Reporting Capital Assets*
- GASB Codification Section 2200, *Comprehensive Annual Financial Report*
- GASB Codification Section 2300, *Notes to Financial Statements*

Other Sources:

The Government Finance Officers Association (GFOA) *Governmental Accounting, Auditing, and Financial Reporting* (GAAFR) “Blue Book” and its *Committee on Accounting, Auditing, and Financial Reporting* (CAAFR):

- GFOA – GAAFR – 2005, Chapter 6, *Proprietary Funds*
- GFOA – GAAFR – 2005, Chapter 11, *Notes to the Financial Statements*
- GFOA – GAAFR – 2005, Chapter 12, *Transaction-specific and Account-specific Guidance*
- GFOA – CAAFR Recommended Practices – *Establishing Appropriate Capitalization Thresholds for Tangible Capital Assets* (1997, 2001, updated 2006)
- GFOA – CAAFR Recommended Practices – *Establishing the Estimated Useful Lives of Capital Assets* (2002 and 2007)

Applicability:

Personnel at each reporting organization included in the State of Georgia reporting entity that have capital asset accounting and reporting responsibilities should be knowledgeable of this policy, as should personnel responsible for maintaining capital assets inventory records.

Definitions:

Amortization – The process of reducing a recognized asset (such as an intangible asset) systematically by recognizing expenses or costs [Excerpt from FASB Accounting Standards Codification (ASC) Master Glossary].

Ancillary Charges – Costs that are directly attributable to capital asset acquisition and that are necessary to place the asset into its intended location and use: examples include freight, transportation and handling; assembly and installations costs; site preparation costs; and other professional expenditures. These costs are capitalized as part of the asset.

Book Value (BV) – Historical cost less accumulated depreciation, also referred to as net book value (NBV).

Capital Assets – Land, improvements to land, easements, buildings, building improvements, vehicles, machinery, equipment, works of art and historical treasures, infrastructure, and all other tangible or intangible assets that are used in operations and that have initial useful lives extending beyond a single reporting period. Capital assets that have been or will be used in operations are also comprehended in this

definition [GASB 34 definition, as modified by GABS 42]. The State of Georgia capitalizes an asset if its value equals or exceeds the capitalization threshold for the particular asset class.

Depreciation – The systematic and rational allocation of the cost of a capital asset over its estimated useful life [2005 GAAFR, Chapter 12].

Fair Value (FV) – It is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Following Month Convention – A method under which an asset placed in service at any time during a given month is treated as if it had been placed in service on the first of the following month. The method allows for taking depreciation in whole month increments and simplifies the calculation process.

Improvement – An improvement is a substitution by a better asset, one with superior performance of the current assets being used. An improvement also extends the life or improves significantly the marketability of the original asset through added functionality, enhanced performance, or increased service capability.

Inexhaustible Assets – Items such as land, certain intangible assets, and collections/works of art or historical treasures whose economic benefit or service potential either cannot be entirely consumed or is used up so slowly that the estimated useful lives are extraordinarily long or indefinite. Regarding collections/works of art or historical treasures – because of the cultural, aesthetic, or historical value, the holder of the asset applies efforts to protect and preserve the asset in a manner greater than that for similar assets without such cultural, aesthetic, or historical value.

Infrastructure Assets – 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 lighting systems. These public domain capital assets are typically immovable and of value only to the State. Buildings, except those that are an ancillary part of a network of infrastructure assets, should not be considered infrastructure assets for purposes of this section.

Replacement - A replacement is a substitution of an asset with a similar asset.

Residual Value (Also referred to as salvage value) – The estimated fair value of a capital asset, infrastructure or otherwise, remaining at the conclusion of its estimated useful life. In most cases, it is probable that many infrastructure assets will have no salvage value, given the cost of demolition or removal [GASB Implementation Guide 2009-2010, question 7.13.3].

Straight-line Method – A method of calculating depreciation expenses which assumes that the asset is used up equally over its estimated useful life: historical cost less residual value, divided by useful life.

Voluntary Nonexchange Transactions – Transactions that result from legislative or contractual agreements, other than exchanges, entered into willingly by the parties to the agreement (for example, certain grants and private donations) [GASB 33].

Capital Asset Acquisition Example – Conversion from Statutory Basis of Accounting to Other Bases

<u>Assumptions:</u>	<u>Year 1</u>	<u>Year 2</u>	
• Execute purchase order for equipment, including installation	10,000		
• Portion received during the year	9,000	1,000	Year 2 = Set-up and installation
• Portion processed by AP during the year	7,000	3,000	
• Useful life for acquired asset		10	
• Straight-line depreciation recognized once asset goes into service (Assume year 2 with full year of depreciation)			

Basis of Accounting	Journal Entry / Year-End Balance Descriptions	Governmental, Proprietary & Fiduciary Funds that Operate on a Statutory Basis		Proprietary & Fiduciary Funds that Operate Only on the Full Accrual Basis	
		Year 1	Year 2	Year 1	Year 2
Statutory Basis:					
	Debit / (Credit)				
Execute purchase order	Expenditure	10,000	-		
	Encumbrance Liability	(10,000)	-		
Process voucher through AP	Expenditure	7,000	3,000		
	Accounts Payable	(7,000)	(3,000)	N/A	N/A
Reduce Encumbrance	Encumbrance Liability	7,000	3,000		
	Expenditure	(7,000)	(3,000)		
At year-end accrue received/ not processed-reverse next year	Encumbrance Liability	2,000	(2,000)		
	Accounts Payable	(2,000)	2,000		
Year-end balances (Balance is cumulative)					
	Expenditure/Fund Balance	10,000	10,000		
	Accounts Payable	(9,000)	(10,000)		
	Encumbrance Liability	(1,000)	-		
Modified Accrual Basis:					
The change in the encumbrance liability is offset to expenditure:					
Reverse ending encumbrance	Encumbrance Liability	1,000	-		
	Expenditure	(1,000)	-	N/A	N/A
Adjust beginning fund balance for prior year encumbrance bal	Expenditure	-	1,000		
	Beginning Fund Balance	-	(1,000)		
Year-end balances					
	Expenditure/Fund Balance	9,000	10,000		
	Accounts Payable	(9,000)	(10,000)		
Full Accrual Basis:					
Establish asset	Capital Asset (includes CIP)	9,000	1,000	9,000	1,000
	Expenditure	(9,000)	(1,000)		
	Accounts Payable			(9,000)	(1,000)
Adjust beginning net assets to reestablish prior year asset balances	Capital Asset	-	9,000	N/A	N/A
	Accumulated Depreciation	-	-		
	Beginning Net Assets	-	(9,000)		
Record depreciation	Depreciation Expense	-	1,000	-	1,000
	Accumulated Depreciation	-	(1,000)	-	(1,000)
Year-end balances					
	Expense/Net Assets	-	1,000	-	1,000
	Accounts Payable	(9,000)	(10,000)	(9,000)	(10,000)
	Capital Asset - Gross	9,000	10,000	9,000	10,000
	Accumulated Depreciation	-	(1,000)	-	(1,000)