

# State of Georgia Capital Assets

## General

### *Objective*

Account for the State's capital assets in conformity with General Accepted Accounting Principles (GAAP).

### *Compliance*

All agencies will comply with the criteria set forth in this document and other authoritative resources when analyzing acquisitions to determine if an asset has met all the capital asset criteria before a capital asset is recorded in the accounting records and reported in the financial statements. In addition, all agencies are required to annually report accurate, complete and timely capital asset information to the State Accounting Office (SAO).

### *Definition and Classes*

Capital assets are tangible and intangible assets acquired for use in the operations that will benefit more than a single fiscal period.<sup>1</sup> The State's major capital asset classes include land, land improvements, buildings, building improvements, improvements other than buildings, infrastructure, personal property (machinery, equipment and furniture), software, library collections, works of art and historical treasures.

### *Ownership*

The State will report all and only those capital assets they own. Ownership typically is supported by legal documentation, such as, deeds or titles. There are situations when one party has the risks and benefits of ownership associated with a capital asset, while another party holds the title to the asset (e.g., capital leases). When this occurs, the party that has the risks and benefits of ownership will record and report a capital asset.

### *Reporting*

The accounting and financial statement presentation for capital assets depends on the type of fund and the financial statements involved. The State uses three types of funds; 1) governmental, 2) proprietary and 3) fiduciary funds. Typically, the type of fund determines the measurement focus and the basis of accounting. Governmental funds use the current financial resources measurement focus and the modified accrual basis of accounting. Proprietary and fiduciary funds use the economic resources measurement focus and the accrual basis of accounting. Governmental funds record capital assets acquisitions as expenditures in the period incurred and do not report capital assets or depreciation in their fund financial statements. Proprietary and fiduciary funds capitalize the costs of capital asset acquisitions and report capital assets and depreciation in their fund financial statements. In addition to the fund financial statements, the State is required to prepare government-wide financial statements. Government-wide financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting and include government and proprietary funds, as well as, component units. Due to the differences between the measurement focus and the basis of accounting for governmental fund financial statements and government-wide financial statements, adjustments need to be recorded to accurately and properly report capital assets and depreciation in the government-wide financial statements.

### *Resources*

The State provides information on the management of capital assets in the State of Georgia Accounting and Procedures Manual<sup>2</sup> and the Capital Asset Guide<sup>3</sup> within the State of Georgia Accounting and Procedures Manual. These resources provide information to assist organizations in accurately recording and properly reporting capital assets in their respective funds.

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<sup>1</sup> GASB Statement #34, paragraph 19

<sup>2</sup> State of Georgia Accounting Procedures Manual, Section 3, pages 3-1-23 through 3-1-30

<sup>3</sup> State of Georgia Accounting Procedures Manual, Section 4, Capital Asset Guide, pages 1-18

# State of Georgia Capital Assets

## Items to Review

### *Leases*

Assets acquired through lease agreements must be evaluated to determine if the lease is a capital or operating lease. A lease must meet specific criteria to be recorded as a capital lease. If these criteria are met, a capital asset should be recorded. Leases that do not meet the criteria for a capital lease are recorded as an operating lease. Refer to the Leases Policy for details.

### *Sale of Capital Assets*

When an asset is fully disposed of before it is fully depreciated a gain or loss on the disposition must be recognized. The gain or loss should be the difference between the net book value (historical cost minus accumulated depreciation) and the proceeds from the disposition, taking into account any expenses of the disposition as well.<sup>4</sup>

### *Assets Acquired by the Exchange of Other Assets*

Assets can be acquired by the exchange of similar assets or dissimilar assets.<sup>5</sup>

- Exchanges of similar assets are those used to perform the same function, same line of business or the same general type of asset. An exchange of a Ford truck for a Dodge truck would be an example of an exchange of a similar asset.
- An example of trading dissimilar assets is the exchange of machinery and equipment for land.

### *Impairment*

A capital asset is considered to be impaired when its service utility has permanently declined significantly and unexpectedly. Events or changes in circumstances that may be indicative of impairment include evidence of physical damage, changes in legal or environmental factors, technological changes or evidence of obsolescence, changes in manner or duration of use of a capital asset and construction stoppage.<sup>6</sup>

Generally an asset would be considered impaired if both:

- The decline in the service utility of the asset is large in magnitude and
- The event or change in circumstances was outside the normal life of the cycle of the asset.<sup>7</sup>

If a reportable capital asset is impaired, there are two options for reporting the impairment.

- If the asset will be permanently removed from service, the asset should be written down to the lower of the carrying value or fair value.
- If the asset will continue to be used, that asset should be written down by the estimated impairment loss.<sup>8</sup>

### *Movable Personal Property*

Movable personal property (machinery, equipment, furniture) with a historical cost of \$1,000 or more must be inventoried by all State agencies. If the historical cost is less than \$5,000 do not capitalize or depreciate.<sup>9</sup>

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<sup>4</sup> Asset Guide, pages 4-5, definition and example of computation for gain or loss

<sup>5</sup> Capital Asset Guide, page 5, guidance on accounting for similar and dissimilar assets

<sup>6</sup> GASB Statement #42, paragraph 9

<sup>7</sup> GASB Statement #42, paragraph 11

<sup>8</sup> GASB Statement #42, paragraph 16

<sup>9</sup> Capital Asset Guide, page 6, controlled assets that must be secured

# State of Georgia Capital Assets

## Capitalization

### Definition

Capitalization is the method used to delay the recognition of expenses by recording an expense as a long-term asset.

### Criteria

Capital assets should be capitalized when the following criteria are met:

- The asset is tangible in nature.
- The asset is used in the operation of the State's activities.
- The asset has a useful life of one (1) year or more and provides a benefit throughout that period.
- The asset meets the standard capitalization threshold based upon the asset category (classes).

## Classification and Thresholds

All agencies will use the following major asset classes and their corresponding standard capitalization threshold to account for and fully disclose capital asset activities:<sup>10</sup>

- Land and land improvements .....Capitalize all
- Buildings and building improvements .....\$100,000
- Improvements other than buildings .....\$100,000
- Infrastructure .....\$1,000,000
- Personal property (machinery, equipment and furniture ) .....\$5,000
- Library books and materials (collections) .....Capitalize all if collection exceeds \$100,000
- Works of art and historical treasures .....Capitalize all
- Software .....\$1,000,000

The Capital Asset Guide provides the following details for each major capital asset class.<sup>11</sup>

- Definitions
- Depreciation methodology
- Capitalization thresholds
- Examples of expenditures (costs) to capitalize
- Examples of expenditures (costs) *not* to capitalize

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<sup>10</sup> Capital Asset Guide, page 2

<sup>11</sup> Capital Asset Guide, pages 7-18

# State of Georgia Capital Assets

## Valuation

### *Acquisition*

Capital assets may be acquired by purchase, donation and transfer or self-constructed.

### *Purchase, Donation and Transfer*

Capital assets should be reported at their historical cost. In the absence of historical cost information, the asset's estimated historical cost may be used. Assets donated by discretely presented component units or by parties outside the financial reporting unit should be reported at their fair value on the date of donation is made.<sup>12</sup> When capital assets are moved from one fund or activity to another, the recipient fund or activity should continue to report those assets at their historical cost as of the date they were acquired by the primary government.

The historical cost and fair value of a capital asset should include all of the following:<sup>12</sup>

- Ancillary charges necessary to place the asset in its intended location (e.g., freight and transportation charges).
- Ancillary charges necessary to place the asset in its intended condition for use (e.g., installation and site preparation charges).
- Capitalized interest (only for enterprise funds and internal service funds that are reported as part of business-type activities).<sup>13</sup>

When invoices or similar documentation is not available, an estimated historical cost or fair value of the asset will be necessary. Common methods to estimate the historical cost or fair value include:

- Use old vendor catalogs to establish the average cost of obtaining the same or similar asset at the time of acquisition.
- Use an appropriate price index to deflate the current cost of the same or similar asset.
- Use a professional service to provide a fair value appraisal and/or estimate of the historical cost of the asset.

### *Self-Constructed*

The historical cost of self-constructed assets is determined by the costs directly related to construction, such as, materials, labor and a portion of overhead.

### *Additions and Improvements*

The historical cost of a capital asset should include the cost of any subsequent additions or improvements but exclude the cost of repairs. An addition or improvement, unlike repairs, either enhances a capital asset's functionality (effectiveness or efficiency) or it materially extends a capital asset's expected useful life.<sup>14</sup>

- Additions represent a new asset (e.g., a new wing to a building) and must equal or exceed the standard threshold related to the major capital asset class to be capitalized.
- Improvements represent a substitution of a better asset (e.g., a concrete floor for a wooden floor) and must equal or exceed standard threshold related to the major capital asset class to be capitalized.
- Repairs and maintenance costs maintain the capital asset in its original operating condition and should be expensed when incurred.

For additions and improvements the carrying amount of the old assets and associated accumulated depreciation if applicable, should be removed from the accounting records, if the amount is known. The cost of the new asset should be capitalized. If the original cost and accumulated depreciation are not known, capitalize the additional cost.

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<sup>12</sup> GASB Statement #34, paragraph 18

<sup>13</sup> FASB Statements #34 and #62

<sup>14</sup> GAAFR (2005), page 253

## State of Georgia Capital Assets

### Valuation

#### *Costs not capitalized*

There are situations when costs are incurred to acquire a capital asset and the *asset is not purchased*. These costs *should not be capitalized*. The following are types of expenditures that *should not be capitalized*:

- Cost to remove or demolition of buildings, structures, equipment or other facilities.
- Cost of surveying, title searches, legal fees and other professional services.
- Cost of abandoned construction.

# State of Georgia Capital Assets

## Depreciation

### *Definition*

Depreciation is the systematic and rational allocation of the cost of the capital asset over its estimated useful life.

### *Depreciation Expense and Accumulated Depreciation*

Depreciation expense is measured by allocating the historical cost or fair value of the capital asset over its estimated useful life. Accumulated depreciation is the amount of depreciation that has accumulated over time (i.e., depreciation expense for several months or years). When a capital asset is fully depreciated the historical cost or fair value of the asset has been fully recorded as an expense.

### *Calculation*

To calculate the depreciation for a capital asset, agencies must know:

- Historical cost or fair value
- Salvage or residual value
- Estimated useful life
- Depreciation methodology

All agencies are responsible for determining the historical cost or fair value. The State has established, by major capital asset class, the residual value, estimated useful life and depreciation methodology.<sup>15</sup> All agencies must use the State criteria unless otherwise approved by SAO.

### *No Depreciation*

Depreciation is not appropriate for certain capital assets, such as, land and land improvements, works of art and historical treasures. These capital assets are referred to as inexhaustible (exceptions for works of art and historical treasures). Inexhaustible capital assets is one whose economic benefit or service potential is used up slowly that its estimated useful life is extraordinarily long.<sup>16</sup> In addition, depreciation is not appropriate for construction-in-progress.

- Works of art and historical treasures are depreciated if they are exhaustible. These assets are exhaustible if the useful lives are diminished by display or educational or research applications.<sup>17</sup>

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<sup>15</sup> Capital Asset Guide, pages 7-18

<sup>16</sup> GASB Statement #34 Q&A, items 27 and 80

<sup>17</sup> GASB Statement #34, paragraph 29

# State of Georgia Capital Assets

## Reporting

### *Governmental Funds*

Governmental funds report the costs associated with acquiring capital assets as capital expenditures. Capital assets acquired by governmental fund resources are known as *general capital assets*. General capital assets are *not* capitalized or depreciated in the governmental fund financial statements. However, general capital assets should be recorded in the accounting records so that they can be capitalized and depreciated in the government-wide financial statements.<sup>18, 19</sup>

### *Proprietary and Fiduciary Funds*

Proprietary and fiduciary funds report the costs associated with acquiring capital assets in the respective fund making the acquisition. Capital assets are capitalized and depreciated in their respective funds financial statements.<sup>18, 19</sup>

Proprietary funds (enterprise and internal service) are referred to as business-type activities.

### *Component Units*

The State has component units in governmental, proprietary and fiduciary funds. Refer to the fund types on how to report capital assets.

### *Government-wide Financial Statements*

The government-wide financial statements present information about the overall State. All governmental and proprietary (business-type) activities are included, but fiduciary activities are excluded.

Component units in the governmental and proprietary funds are blended in the government-wide financial statements and discretely presented. Component units in fiduciary funds are not reported in the government-wide financial statements.

### *Depreciation*

Capital assets that are being or have been depreciated should be reported net of accumulated depreciation in the proprietary funds, fiduciary funds, component units and the government-wide financial statements.

Capital assets, in the government-wide financial statements, that are not being depreciated are reported separately.

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<sup>18</sup> AICPA, Audits of State and Local Governments (GASB edition 34), paragraph 7.02

<sup>19</sup> Codification of Governmental Accounting and Financial Reporting Standards, paragraph 1400.114-116

# State of Georgia Capital Assets

## Disclosure Requirements

GAAP require the State to disclose, in a format that demonstrates the change between the beginning and ending book values:<sup>20</sup>

- The historical cost of the capital assets (or their fair value at the time of donation)
- Accumulated depreciation
- Additions during the period
- Deletions during the period

In doing so, organizations must make the following distinctions for all of the above items.

- Capital assets related to governmental activities must be reported separately from those related to business-type activities (proprietary funds).
- Different major classes of capital assets (e.g., land, buildings and improvements, equipment, infrastructure, construction-in-progress) must be reported separately from one another.
- Capital assets that are not be depreciated (land, construction-in-progress, certain art collections, and infrastructure reported using the modified approach) must be reported separately from those that are being depreciated.
- Accumulated depreciation must be reported separately for each major class of depreciable capital assets (rather than just in total).

In addition, the notes must disclose how much current year depreciation has been included in each line of functional expense reported for governmental activities.

Whenever a capital asset is out of service at the end of the year as the result of either a permanent or temporary impairment, that fact must be disclosed. The notes should provide information such as the nature, amount, and financial statement classification of capital asset impairments recognized during the period.

## Agency Requirements

SAO requires all agencies to complete and provide the following information:

- Agencies ***on PeopleSoft will be required to provide*** all the capital asset and depreciation information.
  - Complete the Form\_Capital Assets\_Accum Deprec – Governmental, Proprietary and Fiduciary.
    - Instructions provided
- Agencies that ***do not use PeopleSoft will be required to provide*** all the capital and depreciation information.
  - Complete the Form\_Capital Assets\_Accum Deprec – Governmental, Proprietary and Fiduciary.
    - Instructions provided

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<sup>20</sup> GASB Statement #34, paragraph 117