

Chapter 30 – Fixed Assets

30.50	Fixed Asset Types	
30.50.10	B – Buildings and Fixtures	July 1, 2004
30.50.20	C – Construction in Progress	July 1, 2004
30.50.25	D – Equipment, Heavy Duty	July 1, 2004
30.50.30	E – Equipment and Furniture	July 1, 2004
30.50.40	H – Historical Treasures, Art and Library Collections	July 1, 2004
30.50.50	I – Improvements, other than Buildings	July 1, 2004
30.50.60	L – Land	July 1, 2004
30.50.65	Q – Equipment, Shop	July 1, 2004
30.50.70	S – Infrastructure	July 1, 2004
30.50.80	T – Intangible Assets	July 1, 2004
30.50.90	V – Vehicles and Vessels (air/land/water)	July 1, 2004
30.50.100	X – Controllable – Below Capital, but depreciable	July 1, 2004

30.50

Fixed Asset Types

30.50.10 B – Buildings and Fixtures

Buildings are any structure permanently affixed to land. Fixtures are any attachment permanently affixed to buildings.

Buildings that are an ancillary part of a network of infrastructure assets should be recorded as infrastructure asset. Examples include a toll plaza or rest area building.

The State acquires ownership rights in buildings through purchase, construction, donation, bargain purchase, or tax foreclosure.

When buildings are purchased, the cost should include the purchase or contract price of all permanent building structures plus any ancillary costs of acquisition such as attorney fees, appraisers, and financial advisors, and other expenditures necessary to put a building into its intended state of operation.

If a building is being constructed, the ‘Construction in Progress’ account will contain the current value of construction costs. See ‘Construction in Progress’ section for more information. After the building is constructed, the building asset is created and the ‘Construction in Progress’ asset is deleted.

If a building is acquired by gift or bargain purchase, the building account should reflect the fair market value at the date of acquisition. Note: a *bargain purchase* is a purchase priced significantly lower than the accepted fair market value.

If land has existing structures and these structures are demolished (razing), it is management’s intent, at the time of acquisition that will determine how to record the demolition cost.

1. The intent, at the time of acquisition, is *to demolish* the building – capitalize the demolition cost as part of the land. (See Land section)
2. The intent, at the time of acquisition, is *to keep* the building and a future decision is made to demolish the building – if constructing a new building, then the demolition cost is capitalized as a component of the new building; otherwise, it is an indirect expense and considered a period cost (expensed immediately).

During the construction period of the new building, interest is considered part of the cost of the building and should be capitalized as part of the building cost for proprietary accounts (business-type activities).

Improvements to buildings are generally absorbed into the value of the building and, unlike land, are not carried in separate asset accounts. The valuation of improvements to the asset includes all costs incurred to complete the improvement.

30.50.20 C – Construction in progress

This account represents temporary capitalization of *labor, materials, and direct overhead* costs of a construction project.

When constructing an asset, the following costs are appropriate to record as Construction In Progress (CIP) until this constructed asset is placed into use:

1. All *direct costs* are included in the total cost of the asset.
2. *Interest costs* may be capitalized as part of construction cost of the Fixed Assets for proprietary funds.

As construction progresses, the cumulative expenditures are capitalized as Construction in Progress. Upon completion of the Fixed Asset, the balance in this specific CIP account is manually transferred to an appropriate asset type such as "Buildings." After the creation of this new asset type, the related CIP is deleted from the fixed asset subsystem.

Tracking of these costs is made easier with the 'Project' subsystem within Advantage. The 'Project' subsystem is a tool to post and monitor expenditures directly relating to a specific construction project. As the payment is made within Advantage and a Project name/number is referenced, the cost is accumulated with other costs of the same Project name/number. A query on this Project name/number would give the total charged to the Project.

Self-constructed assets *should not* be recorded at a cost higher than what an outright purchase of a similar asset would cost. The portion of cost that is higher than the purchase price of a similar asset should be recorded as a period expense.

Interest costs are *not* capitalized in the governmental funds.

Interest costs on debt used *during* Fixed construction for enterprise funds are to be capitalized. The capitalization starts from the date of the borrowing through the date the asset is ready for its intended use.

Interest earned on unspent money, borrowed for this same period, reduces the amount to be capitalized. The basic, private-sector guidance on interest capitalization can be found in FASB Statement No. 34, *Capitalization of Interest Cost* and FASB Statement No. 62, *Capitalization of Interest Cost in Situations Involving Certain Tax-Exempt Borrowings and Certain Gifts and Grants*.

30.50.25 D – Equipment, Heavy Duty

Includes Trucks, either medium or heavy duty. Plows, Loaders, tractors, trailers, bulldozers, graders, etc.

30.50.30 E – Equipment and furniture

This account includes tangible property of a more or less permanent nature, which is useful in carrying on operations, except for land, buildings, improvements other than buildings, vehicles, and construction in progress. Some examples are machinery, furniture and furnishings, heavy tools, laboratory equipment, photographic equipment, and copiers.

Equipment with an original acquisition cost of \$5,000 or more should be recorded as a Fixed asset. Software that is included with a new PC (already installed) is considered part of the PC.

When equipment is purchased, the cost should include the amount of money ultimately paid, including ancillary charges such as transportation, installation, and any other expenditure required to place the asset in its intended location and condition for use.

Judgment should be used in capitalizing ancillary charges; it is not desirable to allocate immaterial amounts, such as freight charges. These costs should be expensed when they are not material or not efficient to allocate.

30.50.40 H – Historical Treasures, Art, and Library Collections

Historical Treasures, Works of Arts, Library Collections, and similar assets should be capitalized at their historical cost or fair market value at the date of donation/purchase. However, governments are encouraged, *but not required*, to capitalize these items if all the following conditions are met. The collection is:

1. Held for public exhibition, education, or research in furtherance of public service, rather than financial gain.
2. Protected, kept unencumbered, cared for, and preserved.
3. Subject to an organizational policy that requires the proceeds from sales of collection items to be used to acquire other items for collections.

30.50.50 I – Improvements, other than Buildings

This account reflects acquisition value of depreciable improvements, other than buildings, which adds value to land. Examples of such improvements are:

1. Fences;
2. Retaining walls;
3. Pavement, such as parking lots and airport runways;
4. Picnic equipment; and,
5. Monuments.

Cost includes purchase price, contract price, or job order cost, professional fees of architects, site preparation costs and any other expenditure necessary to place the improvement into its intended state of operation.

This type of Fixed Asset is also used for leasehold improvements. If an improvement greater than \$5,000 is made to a leased Fixed Asset (leasehold improvement), depreciate the improvement over the lesser of the life of the improvement *or* the remaining life of the original asset.

30.50.60 L – Land

Land is real property, excluding buildings, for which title is held by the State. Certain types of assets relating to land are not real property but are considered permanent and therefore not depreciable. These include easements, rights of way, and water rights. They are treated and capitalized as land assets.

There is no minimum threshold for capitalizing land. All land must be recorded.

The recorded cost of land includes purchase price, FMV if the land was donated, or FMV if the land was purchased at a bargain purchase option, *plus* any ancillary costs at the time of acquisition. Ancillary costs include, but are not limited to:

1. Legal and title fees;
2. Closing costs;
3. Appraisal and negotiation fees;
4. Surveying fees;
5. Damage payments; and,
6. Site-preparation costs (clearing, filling, leveling, landscaping and grading).

If management's intent, at the time of acquisition of land containing a building, is to demolish the building (razing), then the cost of demolition would be included in the capitalized value of the land. See Building Section for other types of razing.

"Land Held for Resale," either purchased or obtained through tax foreclosure, is considered inventory for accounting purposes. Land, either purchased or obtained through tax foreclosure, intended to be retained for government use, is capitalized as Land.

If land is acquired by exercise of the right of eminent domain, the award to the landholders becomes the equivalent of the purchase price and is treated similarly to land purchased.

30.50.65 Q – Equipment, Shop

Includes vehicle lifts, fuel tanks, compressors, Etc.

30.50.70 S – Infrastructure

Infrastructure assets are long-lived, Fixed assets that normally are stationary in nature and can be preserved for a significantly greater number of years than most Fixed assets. The following items are examples of infrastructure assets (this list is not meant to be exhaustive):

- Highways
- Bridges
- Tunnels
- Drainage systems
- Water and sewer systems
- Dams
- Lighting systems
- Piers
- Wharves/docks
- Weirs
- Marinas
- Boat ramps
- Outdoor swimming pools

- Radar and radio towers
- Incinerators
- Recreation structures

Certain assets may be an ancillary part of the infrastructure network or subsystem and recorded as infrastructure. Networks/subsystems are comprised of all assets that provide a particular type of service/function for the State. The following are some examples of infrastructure networks/subsystems:

1. Roadway curbs, sidewalks, signal lights, guard rails, etc.;
2. Rest area facilities associated with a turnpike/interstate;
3. Road maintenance structures such as shops and garages associated with a highway system; and,
4. Water pumping buildings associated with water systems.

30.50.80 T – Intangible Assets

Intangibles are assets that are not physical in nature but convey rights to the State. Intangibles include; patents, copyrights, and franchises.

Purchased software and software considered internally generated are also intangible assets. GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, is effective beginning fiscal year 2010, but must be applied retroactively. The Office of the State Controller will be providing more guidance on this in fiscal year 2009.

Easements, rights of way, and water rights are considered **land** assets, and are not amortized.

Intangibles, like tangible assets, are recorded at cost. Cost includes all costs of acquisition and expenditures necessary to make the intangible asset ready for its intended use; such as purchase price, legal fees, and other incidental expenses.

Intangible assets should be amortized over their estimated useful lives.

Legal, regulatory, or contractual provisions.

1. Provisions for renewal or extension.
2. Effects of obsolescence.
3. A useful life may parallel the service life expectancies of individuals or groups of employees.

30.50.90 V – Vehicles and Vessels (air/land/water)

This category includes light trucks, cars, boats (vessels) and other rolling stock. The cost includes the purchase cost, expenditures for significant improvements and any other necessary expenditure required to place the asset into its intended state of operation. Working equipment, such as bulldozers, are considered equipment, not vehicles.

30.50.100 X – Controllable – Below Capital, but depreciable

The departments may own other depreciable assets that fall below the capitalization threshold. These lower value assets benefit more than one fiscal year, and therefore need to be depreciated. Examples of X type assets include; computers, servers, etc.