

# Chapter 30 – Fixed Assets

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## **30.70** Fixed Asset Definitions

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30.70.10 Definitions

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# Fixed Asset Definitions

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### 30.70.10 Definitions

#### **Amortization:**

The gradual reduction or liquidation of an amount over a period of time according to a specified schedule either by a direct credit, or debit; or through the use of a valuation account.

#### **Ancillary Costs:**

Costs that are directly attributable to asset acquisition, such as freight and transportation costs, site preparation costs, and professional fees that are necessary to place a Fixed Asset into its intended state of operation. Ancillary costs are capitalized as part of the cost of a Fixed Asset; however, minor ancillary costs may be expensed.

Examples of ancillary costs include:

1. Buildings and Improvements - Professional fees of architects, attorneys, appraisers, financial advisors, etc.; damage claims; costs of fixtures permanently attached to a building or structure; insurance premiums, interest, and related costs incurred during construction; other expenditures necessary to place a building or structure into its intended state of operation.
2. Equipment - Transportation charges, installation costs, and any other normal and necessary expenditures required to place the asset into its intended state of operation.
3. Land - Legal and title fees, surveying fees, appraisal and negotiation fees, damage payments, site preparation costs, and costs related to demolition of unwanted structures.

#### **Art Collections:**

An individual work of art or group of items of original artwork such as paintings, sculptures, craftwork or other materials commonly identified as a work of art. Art collections that are considered inexhaustible and meet certain criteria are not required to be capitalized. Departments meeting the criteria for not capitalizing a collection have the option of capitalizing art collections as non-depreciable Fixed Assets. Art collections that are exhaustible (such as those whose useful lives are diminished by display or

educational/research applications) are to be capitalized and depreciated.

**Betterment:**

An addition made to, or change made in, a Fixed Asset, other than maintenance, that is anticipated to prolong its expected useful life or to increase its capacity, efficiency, or quality of output.

Betterment's include extraordinary repairs or improvements to an existing Fixed Asset.

**Book Value:**

The net amount at which an asset or asset group appears on the books of account, as distinguished from its market or intrinsic value. In the case of assets subject to reduction by valuation allowances, book value refers to cost or stated value less the appropriate allowance.

**Building Improvements:**

Improvements pertain not only to structures, but also associated items, such as loading docks, heating and air-conditioning systems, and all other property permanently attached to, or an integral part of, the structure.

**Buildings:**

A Fixed Asset reflecting the acquisition costs of a permanent structure, *excluding land*; any roofed structure used for permanent or temporary shelter of persons, animals, vegetation, or equipment.

**Capital Leases:**

A lease of an asset that treats the assets as being owned. A lease of this nature must be capitalized if it meets the criteria detailed in *FASB-13*.

**Composite Method:**

A method used to calculate depreciation expense that groups similar assets (such as library resources) or dissimilar assets of the same class (such as all roads and bridges in a park) using the same depreciation rate.

**Computers:**

- *Personal computer* - The standard desktop configuration, CPU, monitor, keyboard, mouse. This asset is desktop resident and not portable.

- *Laptop computer* - The portable type of computer.
- *Server* - The computer used to perform system functions such as mail handling, file and data base management, and LAN management.

**Construction:**

All associated cumulative costs (i.e. design, survey, fixtures, etc.) related to a capital project that results in a Fixed Asset of the State. Upon completion of the capital project, that is, the point at which the asset is placed in service for its intended use, the balance in the construction in progress account is transferred to an appropriate asset account such as buildings.

**Construction in Progress:**

A Fixed Asset reflecting the cost of construction work undertaken but not completed at the end of the accounting period.

**Cost:**

The amount of money or other consideration exchanged for property or services; or the historical cost of an asset/investment at the time of acquisition, including any ancillary costs (e.g., legal fees and commissions) but excluding any purchased accrued interest, unless a new cost has been assigned based upon a permanent decline in value.

**Department:**

Unless otherwise provided by Statute, operational units of State government consisting of every department; office; institution, whether educational, correctional or other; department, division; board; or commission.

**Depreciable Fixed Assets:**

Fixed Assets that are depreciated because they are exhaustible (i.e., their useful lives diminish over time). Exceptions include infrastructure assets reported using the modified approach.

**Depreciation:**

Expiration of the useful life of Fixed Assets, other than depletable assets, attributable to wear and tear, deterioration, action of the physical elements, inadequacy and obsolescence, which is charged off during a particular period. In accounting for depreciation, the cost of a Fixed Asset, less any salvage value, is prorated over the estimated useful life of such an asset.

**Distributed Assets:**

Substantial number of assets that are geographically dispersed.

**Donated Assets:**

Assets acquired by gift, donation, or payment of a nominal sum that is not reflective of the asset's true market value. The cost assigned to donated assets is the fair market value at time of acquisition plus all appropriate ancillary costs. If the fair market value is not practicably determinable (e.g. due to lack of sufficient records) estimated costs must be used.

**Eminent Domain:**

The power of a government to acquire private property for public purposes. It is frequently used to obtain real property that cannot be purchased from owners in a voluntary transaction. Where the power of eminent domain is exercised, owners are compensated by the State in an amount determined by the courts.

**Equipment:**

Tangible property other than land, buildings, improvements other than buildings, or infrastructure, which is used in operations and with a useful life of more than one year. Examples are machinery, vehicles, tools, computers and electronic devices, and furnishings. Equipment may be attached to a structure for purposes of securing the item, but unless it is permanently attached to, or an integral part of, the building or structure, it is to be classified as equipment and not buildings.

**Executory Costs:**

Costs associated with leased tangible assets such as insurance, maintenance, or tax expenses.

**FA Document:**

Event Type **FA01** - A Fixed Asset document used to create a new Fixed asset on the Advantage Fixed Assets Subsystem.

Event Type **FA02** - A Fixed Asset document used to create a betterment to an existing asset on the Advantage Fixed Assets Subsystem.

Event Type **FA10** - A Fixed Asset document used to increase asset value for shell on the Advantage Fixed Assets Subsystem.

Event Type **FA14** - A Fixed Asset document used to unpend an asset shell and pending asset balance when the asset should not be setup on the Advantage Fixed Assets Subsystem.

Event Type **FAM2** - A Fixed Asset document used to setup an asset that was transferred or sold from another department on the Advantage Fixed Assets Subsystem. (Used with FAM1, see FD document).

Event Type **FA28** - A Fixed Asset document used to create a betterment to an internal sale asset on the Advantage Fixed Assets Subsystem.

**FC Document:**

Event Type **FA11** - A Fixed Asset document used to cancel an asset on the Advantage Fixed Assets Subsystem. (Used when other adjusting documents cannot correct the error).

**FD Document:**

Event Type **FA04** - A Fixed Asset document used to dispose of an asset on the Advantage Fixed Assets Subsystem.

Event Type **FAM1** - A Fixed Asset document used to internally sell or transfer to another state department on the Advantage Fixed Assets Subsystem. (FD document workflows to Surplus for approval. Surplus copies forward to FA document with Event type FAM2 to new department).

**FE Document:**

Event Type **FA03** - A Fixed Asset document used to manually record depreciation for an asset on the Advantage Fixed Assets Subsystem. (Used when other adjusting document cannot correct the error).

**FP Document:**

Event Type **FA11** - A Fixed Asset document used to cancel an asset on the Advantage Fixed Assets Subsystem. (Used when other adjusting documents cannot correct the error).

**FI Document:**

Event Type **FA07** - A Fixed Asset document used to adjust asset value for existing asset on the Advantage Fixed Assets Subsystem.

**FM Document:**

Event Type **FA05** - A Fixed Asset document used to modify the non accounting asset information (description, serial number, dates, etc.) on the Advantage Fixed Assets Subsystem. This is also used to transfer assets to Surplus Property using Location 0000 or 9999.

**FP Document:**

Event Type **FA12** - A Fixed Asset document used to change the sales prices for an asset that has been disposed of on the Advantage Fixed Assets Subsystem.

**FX Document:**

Event Type **FA08** - A Fixed Asset document used to change the asset type for an asset that has been disposed of on the Advantage Fixed Assets Subsystem. (Can only be used for non-memo assets that have not been previously depreciated).

**ME Document:**

Event Type **FA13** - A System Fixed Asset document used to calculate monthly depreciation for assets setup with Straight Line depreciation on the Advantage Fixed Assets Subsystem

**Fair Value:**

The amount that could reasonably be expected to be received for an asset/investment in a current sale between a willing buyer and a willing seller.

**Financial Accounting Standards Board (FASB):**

Establishes standards of financial accounting and reporting for private enterprise (applicable to proprietary funds).

**Fixed Assets:**

Assets that meet the State's capitalization policy such as land, improvements to land, easements, buildings, leasehold improvements, vehicles, machinery, equipment, works of art and historical treasures, infrastructure, and all other tangible or intangible assets that are used in State operations and that have initial useful lives extending beyond one year, and original acquisition values above specified thresholds. Fixed Assets do not include depletable resources such as minerals or timber.

**Fixtures:**

Attachments to buildings that are not intended to be removed and which cannot be removed without damage to the buildings. Those fixtures with a useful life presumed to be as long as that of the building itself are considered a part of the building; all others are classified as equipment.

**Furniture:**

Movable articles in a room or establishment that render it fit for working or living. It includes items such as chairs, tables, cabinets, bookcases, etc.

**General Fixed Assets:**

Fixed Assets that are not assets of any fund, but of the government as a whole. Most often, general fixed assets are acquired through the expenditure of the financial resources of governmental funds. General fixed assets include all fixed assets not accounted for in proprietary funds or trust funds.

**Generally Accepted Accounting Principles (GAAP):**

Uniform minimum standards and guidelines for financial accounting and reporting. They govern the form and content of the financial statements of an entity. GAAP encompass the conventions, rules and procedures necessary to define accepted accounting practice at a particular time. They include not only broad guidelines of general application, but also detailed practices and procedures. GAAP provide a standard by which to measure financial presentations. The primary authoritative body on the application of GAAP to State and local governments is the Governmental Accounting Standards Board (GASB).

**Governmental Accounting Standards Board (GASB):**

The authoritative accounting and financial reporting standard-setting body for government entities.

**Historical Cost:**

Original acquisition cost of an asset, including all ancillary costs involved in putting that asset into its intended use.

**Improvement:**

An addition, alteration, betterment or structured change to an asset that results in its greater durability or extended useful life or to comply with current code of regulations.



**Improvements Other Than Buildings:**

Fixed Assets that reflect the cost of permanent improvements other than buildings and infrastructure that do not relate to the State highway system, which add value to land such as parking lots, fences and retaining walls.

**Infrastructure:**

Long-lived, Fixed Assets that are stationary in nature and can be preserved for a significantly greater number of years than most Fixed Assets. Examples of infrastructure assets include roads, sidewalks, bridges, tunnels, drainage systems, water and sewer systems, dams, and lighting systems. With the exception of the State highway system operated by the Department of Transportation, which uses the modified approach to depreciation, infrastructure assets are to be depreciated.

**Intangible Assets:**

Assets that are not physical in nature. Examples are water rights, air rights, rights of ways (if material), easements. Also, purchased computer software and internally generated software are intangible assets.

**Inventorial Assets:**

Assets required to be recorded, either because they meet the criteria of a fixed asset or because they are items considered to be particularly vulnerable to loss.

**Inventory:**

The process of preparing an itemized list recording land, buildings, equipment and other tangible property.

**Land:**

A fixed asset that reflects the value of land properties, including rights of way, owned by the State. If land is purchased, its capitalized value is to include the purchase price plus costs such as legal fees, and filling and excavation costs incurred to put the land in condition for its intended use. If land is acquired by gift, its capitalized value is to reflect its fair market value at time of acquisition. Land does not include depletable resources.

**Leasehold:**

The right to the use of real estate by virtue of a lease, usually for a specified term of years, for which consideration is paid.

**Lease Purchase Agreements:**

Contractual agreements which are termed “leases,” but in substance they are purchase contracts.

**Library Collections:**

Items of historical or literary significance, such as documents, maps, photos, and original books. Library collections that are considered inexhaustible and meet certain criteria are not required to be capitalized. Departments meeting the criteria for not capitalizing library reserves have the option of capitalizing them as non-depreciable Fixed Assets. Library reserve collections that are exhaustible (such as those whose useful lives are diminished by display or educational/research applications) are to be capitalized and depreciated

**Machinery:**

See Equipment.

**Maintenance:**

Day-to-day, routine, normally recurring repair and upkeep. Maintenance activities keep an asset in good working condition throughout its estimated useful life.

**Minimum Lease Payment:**

These are the minimum present value payments the lessee is obligated to pay or expected to pay in connection with the property, excluding executory costs.

**Museum and Historical Collections:**

An individual item or group of items of historical or natural history significance. These items could be located in State museums or in any State department. They include items such as photographs, negatives, letters, blueprints, antique furniture, historical documents, miscellaneous artifacts, and other similar items. Museum and historical collections that are considered inexhaustible and meet certain criteria are not required to be capitalized. Departments meeting the criteria for not capitalizing a collection have the option of capitalizing museum and historical collections as non-depreciable Fixed Assets. Museum and historical collections

that are exhaustible (such as those whose useful lives are diminished by display or educational/research applications) are to be capitalized and depreciated.

**Property Officer:**

Individual at each department/service center who is responsible for fixed assets including, and not limited to, asset training, records retention, inventory, reconciliation, and certification.

**Razing:**

To level (structures) to the ground.

**Reconciliation:**

The process of correlating one set of records with another set of records and/or a physical inventory count that involves identifying, explaining, and resolving differences.

**Repair:**

Expenditures made to maintain assets in operating condition; they are recorded as expenditure in the accounting period in which they are incurred on the basis that it is the only period benefited.

**Replacement Cost:**

The amount of cash or other consideration that would be required at a certain date to obtain an asset, or its equivalent, that can render similar service (but which need not be of the same structural form) as the property to be replaced.

**Salvage Value:**

An estimate of the amount that will be realized at the end of the useful life of a depreciable asset.

**Small and Attractive Assets:**

Assets that do not meet the State's capitalization threshold but that an department considers particularly vulnerable to loss, thus subject to special property control.

**Straight-line Method:**

Under the straight-line method, amortization is prorated in equal dollar amounts to interim periods throughout the life of an asset. The straight-line method of depreciation allocates the cost of a Fixed asset systematically over the useful life of the asset by way of the following formula: (cost less salvage value) divided by estimated useful life in years.

**Useful Life:**

An estimate of the total time that an asset will be usable and in service.