Section 5 – Capital Assets

Overview

Generally, capital assets are the largest asset of a local government. Capital assets are tangible and intangible assets acquired for use in operations that will benefit the local government for more than a single fiscal period. Typical examples of capital assets include land, land improvements, construction-in-progress, infrastructure/improvements, buildings, furniture, motor vehicles, audio-visual and software. As a general rule, local governments should report only those capital assets that they own. For capital leases, although title to the financed asset does not pass to the lessee until the end of the lease term, the lessee does assume the risk of ownership. Therefore, it is reported as Property under Capital Lease.

Statutory Requirements

Chapter 274, F.S., governs the administration of tangible personal property owned by certain local governments. Section 274.01, F.S., defines “governmental units” for purposes of the requirements as the governing board, commission or authority of a county or taxing district of the State or the sheriff of the county. Section 274.02, F.S., defines “property” as fixtures and other tangible personal property of a nonconsumable nature and requires the State’s Chief Financial Officer to establish, by rule, the requirements for the recording of property. DFS Rule 69I-73, F.A.C., prescribes requirements for recording and inventorying tangible personal property, marking of property items, and disposing of property items.

Capital Asset Valuation

Capital assets should be reported at their historical cost, which can include: (1) all charges to place the asset in its intended location (for example, freight); (2) all charges to place the asset in its intended condition for use (for example, installation or site preparation); and, (3) subsequent additions or improvements that enhances a capital asset’s functionality or extends its expected useful life. Expenditures for repairs are generally not included in historical cost. If historical cost information is not available, estimated historical cost may be used. Donated capital assets should be reported at their fair value on the date the donation is made. Typical donated capital assets include land, buildings, furniture, fixtures, and equipment.

Capital Asset Capitalization and Accountability

Any asset that benefits more than one fiscal period potentially could be classified as a capital asset. As a practical matter, not all items that meet the definition of a capital asset should be capitalized for reporting purposes. Local government officials should establish a dollar value or capitalization threshold that capital assets must exceed if they are to be capitalized. Other considerations, as recommended by the GFOA, include:

- Items capitalized should have an estimated useful life of at least two years from the date of acquisition;
- Capitalization thresholds are best applied to individual items rather than to groups of similar items unless the effect of doing so would be to eliminate a significant portion of total capital assets (e.g., books of a library district)
- Capitalization thresholds should not be set at less than $5,000 for any individual item; and,
- Governments that are recipients of Federal awards should be aware of Federal requirements that prevent the use of capitalization thresholds in excess of certain specified maximum amounts (currently $5,000) for purposes of Federal reimbursement.

When capital assets are not capitalized, governments should still ensure that adequate control and accountability is maintained, especially in certain circumstances, such as:

- For those local governments subject to ch. 274, F.S., and DFS Rules, tangible personal property with a value or cost of $1,000 or more and a projected useful life of one year is required to be recorded for inventory purposes.
- Assets that pose a risk to public safety and could be the source of potential liability.
- Assets that must be accounted for pursuant to a legal or contractual provision.
- Assets that are easily transportable and readily marketable or easily diverted to personal use.

Many governments use a perpetual inventory system to maintain effective control over capital assets. Such a system is constantly updated for additions and deletions of the capital assets inventory. Periodic verification is still required to ensure adequate control and accuracy of the government's inventory. GFOA recommends that governments inventory its tangible capital assets, at least on a test basis, no less than every five years. For those local governments subject to ch. 274, F.S., and DFS Rules, an inventory is required for property with a cost or value of $1,000 annually or whenever there is a change in custody.

Capital Asset Maintenance and Replacement

Local governments should establish a system for assessing the condition of capital assets and develop a plan and budget for capital asset maintenance and replacement. Assessing the condition of capital assets can be done in conjunction with the inventory process. GFOA issued best practice recommendations for this process in its *Capital Asset Assessment, Maintenance and Replacement Policy* (see link in reference section).

Depreciation

Depreciation is the systematic and rational allocation of the cost of a capital asset over its estimated useful life. Land and construction-in-progress are typically not depreciated. Local government officials need to establish the useful life and depreciation method for each class of capital asset. Straight-line depreciation is the most common method. The composite depreciation method is applied to a certain type of capital asset rather than to an individual capital asset.

Past experience should be used to determine the estimated useful life of an asset. When the government has no past experience to rely upon, the experiences of other governments can be useful. However, when depending on others' experiences, the government should take into consideration differences in quality of materials that comprise the asset, differences in the extent of use or the intended uses of the asset, and environmental differences between assets held by others and those acquired by the government. Once established, estimated useful lives should be periodically compared to actual experiences to make adjustments as necessary.

Capital Assets Reporting

Governmental Accounting Standards Board, Statement 34, requires capital assets to be reported on the government-wide Statement of Net Position and in the Notes to Financial Statements. Each local government must make four distinctions:

- Capital assets related to governmental activities that must be reported separately from those related to business-type activities.
- Different major classes of capital assets
- Capital assets that are not being depreciated.
- Accumulated depreciation that must be reported separately for each major class of depreciable capital assets.

In addition, the following must also be reported:

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

The format of the disclosure must demonstrate the change between the beginning and ending book values.

References

Florida Department of Financial Services, Bureau of Local Government –
www.myfloridacfo.com/aadir/localgov/

Chapter 274 Tangible Personal Property Owned by Local Governments, Florida Statutes – Statutes regarding tangible personal property for certain local governments – http://www.leg.state.fl.us/Statutes/index.cfm?Mode=View%20Statutes&Submenu=1&Tab=statutes

Florida Department of Financial Services Rule 69I-73 Tangible Personal Property Owned by Local Governments, Florida Administrative Code – https://www.flrules.org/gateway/ChapterHome.asp?Chapter=69I-73

Governmental Accounting, Auditing, and Financial Reporting (Blue Book) by Stephen J. Gauthier (http://www.gfoa.org/)

Accounting for Capital Assets: A Guide for State and Local Governments (2008 Edition) – http://www.gfoa.org/accounting-capital-assets-guide-state-and-local-governments

GFOA Best Practices and Advisories:

- *Establishing Appropriate Capitalization Thresholds for Capital Assets* – http://www.gfoa.org/establishing-capitalization-thresholds-capital-assets

- *Establishing the Estimated Useful Lives of Capital Assets* – http://www.gfoa.org/canadian-best-practice/establishing-estimated-useful-lives-capital-assets

- *Ensuring Control over Noncapitalized Items* – http://www.gfoa.org/search/node/%E2%80%A2%09Ensuring%20Control%20over%20Noncapitalized%20Items

- *Capital Asset Assessment, Maintenance and Replacement Policy* – http://www.gfoa.org/asset-maintenance-and-replacement

- *The Need for Periodic Inventories of Tangible Capital Assets* – http://www.gfoa.org/periodic-inventories-tangible-capital-assets

- *Role of the Finance Director in Capital Asset Management* - http://www.gfoa.org/role-finance-director-capital-asset-management

- *Capital Project Monitoring and Reporting* - http://www.gfoa.org/capital-project-monitoring-and-reporting

Financial Policy Examples - Capital Asset Management - http://www.gfoa.org/financial-policy-examples-capital-asset-management

Capital Confusion: 12 Misunderstandings about Accounting for Capital Assets - http://www.gfoa.org/capital-confusion-12-misunderstandings-about-accounting-capital-assets