

Volume No. 1—Policies and Procedures	TOPIC NO	30305
Function No. 30000—Capital Asset Accounting	TOPIC	Capitalized or Controlled Assets
Section No. 30300—Asset Categorization	DATE	August 2012

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Overview

Introduction The purpose of this topic is to provide clear and uniform guidance for determining the proper classification of an asset. Guidance on capital assets owned or controlled by State agencies that can be excluded from capitalization requirements are included in this topic in PROCEDURES Subtopic "Exclusions."

The policies and procedures discussed in this topic are the minimum needed, in conjunction with the suggested procedures of CAPP Topic No. 30505, *Physical Inventory*, to assume effective control over the Commonwealth's capital assets.

Policy

Capitalized Assets The asset has an expected useful life of greater than one year and the asset individually has a value or cost of \$5,000 or more at the date of acquisition. See CAPP Topic No. 30105, *Introduction*.

Agencies *wishing* to capitalize assets with a value less than \$5,000 due to programmatic requirements or other justifiable reasons should request an exception to the \$5,000 capitalization limit in writing from the Department of Accounts. The request for an exception should state the justification for the exception.

All tangible property meeting the following criteria is deemed capitalizable and must be included by all central users on FAACS.

Controlled Assets Tangible property that has an expected life of greater than one year and a value or cost less than \$5,000 at the date of acquisition may be considered controllable and may be entered in FAACS by all central users at the discretion of the agency to provide accountability and to help safeguard the asset.

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Policy, Continued

Controlled assets are not included in the Commonwealth’s Comprehensive Annual Financial Report (CAFR). Capital assets generally are subject to control by the creation and maintenance of a record of the asset on a system, the assignment of responsibility for stewardship, and a periodic inventory of capital assets.

Agencies that can demonstrate that they have an acceptable means for controlling assets valued at less than the capitalization limit and that do not wish to use FAACS for controlling assets may use an alternative system of controlling lower valued assets.

Proper stewardship must be maintained over all agency capital assets, including those valued at less than \$5,000. The agency has the discretion to develop an internal policy regarding controlling or tracking assets valued at less than \$5,000. The choice not to control or track certain classes of capital assets on FAACS, an agency-based automated system or PC application in no way eliminates the stewardship responsibility of the agency regarding these assets.

Agencies have the following options:

- Agencies may discontinue controlling or tracking assets valued at less than \$5,000 on FAACS or the agency-based system.
- Agencies may continue to use FAACS or the agency-based systems to control some assets valued at less than \$5,000.
- Agencies may use a PC application that is not specifically designed as a capital asset system, such as EXCEL or ACCESS, to control or track some or all lesser valued assets.

DOA recommends, but does not require, agencies to control or track certain classes of higher valued non-capitalized, easily transportable assets, particularly those frequently used in the home such as personal computers, laptops, palm pilots or other electronic equipment. Such assets may be tracked either on FAACS, an agency-based capital asset system or a PC application. See CAPP Topic No. 30105, *Introduction*.

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Policy, Continued

Capital Assets Purchased with Federal Funds Assets acquired with federal funds are subject to the policies established above for capitalized and controlled assets, except for those agencies receiving Medicaid and/or Medicare funds that must request an exception to the \$5,000 criteria. The institutions under the Department of Behavioral Health and Developmental Services (DBHDS), for example, have retained a capitalization limit of \$1,500 for its older assets due to federal requirements. New DBHDS assets are now being recorded using the \$5,000 capitalization threshold since the federal government increased its requirements to allow for the higher threshold.

Excludable Assets Agencies naming assets that are obviously valuable, but for which it is impractical to determine a dollar value, should contact the DOA Financial Reporting unit for guidance.

Software Purchased or Developed for Internal Use Software and other intangible assets should be recorded at cost or estimated cost as specified in CAPP Topic No. 30325, *Software and Other Intangible Assets*.

Procedures

Capitalized and Controlled Property Both capitalizable and controllable property is subject to all requirements regarding security, maintenance, and utilization. Whereas information regarding capitalizable assets is entered for both control and required financial reporting, information regarding controllable assets is entered primarily for property management purposes. These assets are flagged with a control indicator in order to distinguish them from capitalized assets. Controllable assets are excluded from accounting calculations, depreciation, and certain financial reports produced for financial disclosure purposes.

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Procedures, Continued

Assets Less Than \$5,000

Since each asset entered into FAACS involves both time and expense to enter and control the asset, it is suggested that agencies use FAACS for controlling assets less than **\$5,000** only after consideration has been given to the cost incurred for the benefit derived. Alternative methods of controlling noncapitalized assets, such as use of PC application, inventory store card, supply procedures, etc., should also be considered. Assets not controlled through FAACS are still subject to the basic accountability and stewardship policies of the Commonwealth. There are differences in managing accounting and reporting for capital assets to meet Federal government requirements. FAACS supports both State and Federal reporting requirements. Refer to CAPP Topic No. 31105, *Federal Requirements*.

Capital Assets Purchased with Federal Funds

Agency management is responsible for ensuring that the depreciation for capitalized capital assets purchased with federal grant funds is not charged to the Federal Government in the indirect cost recovery plan. Therefore, an ownership status of "G" (federally financed) and a funding source code of 20, Federal Grant, should be used.

Since FAACS produces a Straight-Line Calculation Audit Report that breaks out the total depreciation for assets coded with an Ownership Status of "G," agencies must exclude this amount from indirect cost recovery calculations. In essence, the asset is owned by the grantee or subgrantee agency, and the use of the "G" ownership code is merely to facilitate capturing excludable depreciation.

Since controlled assets purchased with federal grant funds are owned by the grantee or subgrantee agency and not subject to depreciation, no special treatment is accorded. See CAPP Topic No. 31105, *Federal Requirements*, for further details.

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Internal Control

General

Each agency and institution should implement cost beneficial internal control procedures to ensure that:

- Capital assets purchased with federal grant funds are recorded appropriately in FAACS.
 - Controls are in place to exclude the depreciation of capitalized capital assets purchased with Federal grant funds from the indirect cost recovery plan.
 - Assets are properly classified for financial reporting purposes.
 - Recordkeeping procedures exist that account for Excludable assets.
 - Excludable assets are safeguarded against damage or theft.
 - A periodic inventory is performed of Excludable assets.
 - Assets are recorded in a timely manner.
 - Assets are adequately safeguarded and controlled.
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Records Retention



General

Fiscal records related to managing capital assets should be retained for a period of 2 years plus current fiscal year, or until audited, whichever is greater. However, for pending, ongoing, or unresolved litigation, audits or claims, retain documentation until completion, resolution, or negotiation of settlements.

Destruction of records must be in accordance with policies and procedures of the Records Management Section, The Library of Virginia.

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Subject Cross References

References CAPP Topic No. 30105, *Introduction*
 CAPP Topic No. 30325, *Software and Other Intangible Assets*
 CAPP Topic No. 30505, *Physical Inventory*
 CAPP Topic No. 31105, *Federal Requirements*
 CAPP Topic No. 70325, *Data Entry*
