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Overview

Introduction

The purpose of this topic is to provide guidance on the proper categorization of capital assets for input into the Fixed Asset Accounting and Control System (FAACS). Once an asset has been classified as either capitalized or controlled (see CAPP – Cardinal Topic No. 30305, *Capitalized or Controlled Assets*) it is important that it be further defined into the proper detailed category.

Although this requirement applies to both capitalized and controlled assets, it is primarily for capitalized assets to ensure compliance with generally accepted accounting principles (GAAP) when preparing agency financial statements (if applicable) and the Commonwealth's Comprehensive Annual Financial report (CAFR). The proper category is also important in applying appropriate depreciation rates based on useful life in order to properly report net asset values, where required, and recover indirect cost.

Policy

Capital Assets Defined

Capital assets are defined by five major asset categories:

- Land
- Buildings
- Infrastructure (formerly Improvements Other Than Buildings) excludes highways, bridges and other infrastructure maintained by the Virginia Department of Transportation (VDOT) or by local governments since FAACS is not used to obtain the information necessary for CAFR reporting. Software and other intangible assets will be recorded as *"Infrastructure"* and not as *"Equipment."* See CAPP – Cardinal Topic No. 30325, *Software and Other Intangible Assets.*
- Equipment (includes furniture, fixtures, books, and livestock), and
- Construction in Progress.

Works of art, historic treasures, and library books are included in the above-referenced categories.

These are the major asset categories utilized for financial reporting by the Commonwealth of Virginia and the individual State agencies.

Procedures

Land

Land is capitalized; however, it is considered to be an inexhaustible asset (with infinite life), and therefore, it is not depreciated.

The cost of land should include, in addition to the acquisition, ancillary costs as

- legal and title fees,
- unpaid taxes assumed,
- surveying and recording fees,
- appraisal and negotiation fees,
- easements,
- damage payments,
- site preparation costs (clearing, filling, and leveling) and
- demolition of unwanted structures.

Improvements that produce permanent benefits to the land, such as costs for fill and grading that ready the land for erection of a structure or landscaping, are considered inexhaustible. These are capitalizable, but not depreciable.

The cost of land does **not** include expenditures in connection with land improvements that are considered exhaustible (that deteriorate with use or passage of time) or are part of an infrastructure asset such as

- paving,
- parking lots, and
- fencing.

These costs are set up in a separate asset category, *"Infrastructure*," and are depreciated. Unlike land, these items have finite lives and are depreciable.

Tract Identification Number

To control and record land data, the State has instituted a unique **Tract Identification Number** assigned to each tract of land within the State's inventory by the Department of General Services (DGS), Division of Engineering and Buildings, Division of Real Estate Services, and maintained by DGS in the Integrated Real Estate Management System. A tract is defined as any parcel or group of contiguous parcels of State-owned land under the control of, or occupied by, an agency, department or institution of the Commonwealth in support of programs of the agency, department or institution.

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Procedures, Continued

Buildings

The cost of buildings should include the purchase or construction cost, professional fees for architects, attorneys, appraisers or financial advisors, and any other expenditure necessary to put a building or structure within its intended state of operations. The cost also includes improvements to buildings. The main criteria for capitalizing building improvements is whether the expenditures significantly extend the useful life or significantly enhance the value of the individual building.

In order to assist in determining whether the value has been significantly impacted, DOA suggests using the CAFR building capitalization threshold of $100,000. As such, the following criteria should be used to determine when an improvement to an existing building may be capitalized:

- If the building improvement is greater than or equal to $100,000, then the improvement may be capitalized as a separate "Building" asset.
- Expenditures not meeting the capitalization criteria should be expensed.

Use of Component ID Fields for Buildings

Older state buildings may generally be used for the intended purposes as long as the building is properly maintained. Often these buildings are fully depreciated. Sometimes major building renovations or other improvements are undertaken to these buildings which are capitalized. To ensure that the renovation is properly depreciated, a separate record is set up in FAACS for the renovation, usually with a FAACS ID that is similar to that of the original building. The key field information (agency number, asset category and FAACS ID) for the original building should be entered in to the component ID fields in the renovation record when it is created. This provides a link between the two records that pertains to the same asset. Refer to CAPP – Cardinal Topic No. 30405, *Additions, Renovations and Repairs*.

Building Identification Number

To control and record building data, the State has instituted a unique **Building Identification Number**, which is assigned to each building within the State's inventory by the Department of General Services, Division of Real Estate Services, and maintained by DGS in the Integrated Real Estate Management System. Leased buildings are given separate, unique identification numbers.

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Procedures, Continued

Infrastructure

Infrastructure (formerly Improvements Other Than Buildings) is a category that is primarily composed of long-lived capital assets that normally:

1. can be preserved for a significantly greater number of years than most capital assets; and,
2. is stationary in nature.

Examples of infrastructure assets include

- roads,
- bridges,
- tunnels,
- drainage systems,
- water and sewer systems,
- dams,
- parking lots,
- street lighting systems, and
- software and other intangible assets.

See CAPP – Cardinal Topic No. No. 30325, *Software and Other Intangible Assets,* for related information.

Buildings, except those that are an ancillary part of a network of infrastructure assets such as water pumping buildings associated with water systems, should not be considered infrastructure assets but should be classified as buildings.

Maintenance to an infrastructure asset that does not extend the asset's useful life or expand its capacity should be expensed (i.e., not capitalized). On the other hand, costs incurred that do extend the asset's useful life or expand its capacity should be capitalized.

Infrastructure assets are depreciable, and the total acquisition or construction cost must be considered for capitalization. Agencies are responsible for reporting the agency maintained infrastructure (such as roads, bridges, curbs, surface gutters, streets, sidewalks, drainage systems, parking lots, lighting systems) and similar assets which, while not identifiable to any particular structure, nevertheless, have a quantifiable value to the agency.

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Procedures, Continued

Infrastructure continued

Examples of "Infrastructure" are listed below along with additional descriptive information that would normally be entered in the asset record.

Paving: Include total dimensions of the site and qualitative information such as the existence of related earth berms and parking lot striping.

Fencing: Total linear feet, including gates, etc. List by type.

Concrete Work: Sidewalks, flatwork, etc. List of total areas of various types. List curbs separately.

Misc. Structures: Small structures not listed by separate location such as sheds, sign posts, bleachers, etc. List individually without regard to component breakdown.

Plumbing: List as total plumbing for the site, including drain irrigation, drinking fountains, hose bibbs, and on-site sewer.

Streets, road and bridges: Include only those streets, roads and bridges that are maintained by the agency, and not any that are maintained by VDOT or by a city, town or local government (see *Streets and Roads* below).

Electrical: List area lighting separately from miscellaneous and electrical services.

Software and other intangible assets: See CAPP – Cardinal Topic No. 30325, *Software and Other Intangible Assets.*

Streets and Roads

When public streets and roads cross agency property, agencies will determine which portions of the roads and streets, if any, to include in FAACS based on the entity that provides maintenance. If VDOT (or a locality) provides maintenance, the street or road will not be included in FAACS. If the agency is responsible for maintaining the improvement, it will be included in FAACS in this category.

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Procedures, Continued

Equipment

Determine whether an item is a 1) separate piece of equipment having its own recorded cost and description, or 2) component and included as part of the cost and description of the overall asset. The majority of items are usually separate pieces of equipment. As with buildings, DOA suggests using the CAFR equipment capitalization threshold. If the building improvement results in an improvement or replacement of an existing "Equipment" item and is greater than or equal to $50,000, the new asset may be capitalized as a separate "Equipment" asset. Any items not capitalized should be expensed.

Component Cost

A component part is that part of a unit of equipment that cannot be used independently of the remaining piece of equipment or is physically connected to the major asset. This definition applies even though the component part may meet the capitalization criteria by itself.

<u>Example</u>

A personal computer (PC) consists of a Central Processing Unit (CPU), monitor, and keyboard. This is considered to be one unit consisting of three parts, none of which can be used independently. Therefore, the total cost of the PC should be included in FAACS with a tag attached to the CPU and the asset description showing a PC consisting of a CPU, monitor, and keyboard. Under normal conditions, if one of the pieces had to be replaced, it would either be covered under a maintenance contract and no cost would be incurred, or the replacement piece would be purchased and the change would be considered an expense and not capitalized.

Component Cost Example 1

Certain types of equipment may be used with a large number of other types of equipment. For example, a telephoto camera lens may be used on any of a number of cameras separately inventoried and tagged by the agency. ADP equipment is another area in which there would be equipment components, such as a printer connected to a mainframe.

The key difference here is that these items can operate on many different pieces of equipment, and the equipment to which they are attached can operate independent of the component (e.g., the camera can operate without the telephoto lens and the mainframe can operate without the printer). Therefore, the item is not a constituent element (or component) of the system. It is a separate piece of equipment. If the item meets the capitalization criteria as an individual item, it should be separately recorded and tagged as a capital asset equipment item.

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Procedures, Continued

Component Cost Example 2

Another example would be panels associated with providing an open office workstation. If fifteen panels were required to create an office area, and the aggregate cost met the capitalization criteria, but the individual cost per panel did not, the panel item(s) would not be capitalized. This is because the per-unit cost must be considered when this is the normal billing procedure. "An office" consisting of 15 panels is not being purchased. Instead, 15 panels are being purchased to build an office. If the individual cost of one panel meets the capitalization criteria, then 15 distinct assets would be set up and **not** one asset consisting of 15 panels.

However, if an agency replaces or installs multiple office cubicles as a single project, (herein referred to as an “office cubicle system”), then the entire “office cubicle system” should be recorded as a capital asset whenever the total costs exceed $5,000.00. “Office cubicle system” projects typically involve extensive construction costs such as new lighting, new wiring (both electrical and IT networking installation), new carpet, etc., in addition to the actual installation cost of the new office cubicles. Construction in Progress should be recorded during the construction phase and then reversed when the new “office cubicle system” is completed and recorded as a capitalizable asset.

Library books at institutions of higher education are normally individually categorized at the institution and, therefore, need only be entered at the summary level in FAACS. Also, State-owned scientific and other research livestock which meet the capitalization criteria should be included in the equipment major asset category.

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Procedures, Continued

Construction-in-Progress (Summary Maintenance)

The costs included in Construction-in-Progress (CIP) are the total project-to-date expenditures per Cardinal or local ledger system, together with the related accounts payable, insurance premiums, interest and other related costs.

Agencies should use the following guidelines to determine if costs associated with capital projects are 1) capital expenditures versus current period expenses and 2) whether the project should be recorded in the CIP account in FAACS at year end.

- If the cost incurred increases the future economic benefits, it is a capital expenditure. Future economic benefits are increased by:
    - Extending the life of the asset
    - Improving productivity, and
    - Improving the quality of service.

- If the cost incurred was to maintain the asset, it is a current period expense.
- Review all costs associated with capital projects appropriations to determine if the project should be capitalized.

  NOTE: Determine if the project meets capitalization requirements. See CAPP – Cardinal Topic No. 30305, *Capitalized or Controlled Assets*.

- Ensure project and related expenditures fall into appropriate phase in the life of the asset.
    - Planning
    - Acquisition
    - Construction
    - Improvement
    - Renovation
    - Repair
    - Replacement
    - Relocation,
    - Demolition, and,

- Construction in progress may also apply to software and other intangible assets development projects as specified in CAPP – Cardinal Topic No. 30325, *Software and Other Intangible Assets.*

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Procedures, Continued

Construction-in-Progress Documentation Requirements

Agencies must ensure that sufficient internal documentation is maintained to support changes made to CIP balances. The following information is necessary to meet this requirement:

- Each project should be assigned a project number to accurately track all project-related disbursements. **Each** invoice for **every** project should be reviewed and entered into a comprehensive spreadsheet which includes, at a minimum, the following information:
  - Project Number
  - Project Name
  - Subproject Name
  - Date Paid
  - Fund Code
  - Department or Cost Center (formerly Cost Code)*
  - Vendor Name
  - A breakdown of the payment showing amounts expensed and capitalized (listed separately). If capitalized, the spreadsheet should also document the asset category (land, building, equipment, infrastructure or CIP).

* Cost Code is no longer an available ChartField in Cardinal

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Procedures, Continued

- For each reclassification from CIP, the following information should be added to the spreadsheet:
  - Amount of decrease in CIP
  - Date of decrease in CIP
  - Asset category of offsetting increase (e.g. building, infrastructure)
  - Offsetting increase charged to expense, if any (this should be rare since expense items should not have been initially recorded as CIP).

This spreadsheet will allow the agency to more easily track CIP and should be reconciled to the FAC751 (Schedule of Changes in Construction in Progress by Agency and Project) at least quarterly to ensure accuracy and completeness of reported amounts. It should also be made available for APA and DOA review upon request.

Refer to Appendix 1 for a sample spreadsheet that may be used for CIP documentation. Agencies may access the sample spreadsheet at http://www.doa.virginia.gov/Financial_Reporting/FAACS/FAACS_Main.cfm.

Leasehold Improvements

Leasehold improvements to assets leased to the Commonwealth should be identified through the State nomenclature codes and capitalized under the appropriate major asset category.

Works of Art and Historic Treasures

Works of art, historic treasures and similar assets should be capitalized at the historic cost or fair value at the date of donation. Capitalization is encouraged but not required for collections of works of art/historic treasures that meet the following conditions:

- The collection is held for public exhibition, education, or research in furtherance of public service, rather than financial gain,
- the collection is protected, kept unencumbered, cared for and preserved; and
- the collection is subject to an organizational policy that requires the proceeds from sales of collection items to be used to acquire other items for the collection.

Procedures, Continued

Capitalized collections of works of art/historic treasures are generally considered to be exhaustible, that is useful life of the assets is diminished by display or educational research applications. These should be depreciated over the estimated useful life. On the other hand, if an item or collection is considered to be inexhaustible, depreciation is not required.

Footnotes to the CAFR should provide detailed information about capital assets reported in the statements. The footnotes should also contain information on non-capitalized collections of works of art/historic treasures and a description of the collection and reasons why it is not capitalized.

Library Books and Nomenclature Codes

Library books having a useful life of greater than one year are capital assets and are depreciable. Because most library collections consist of a large number of books with modest values, group or composite depreciation methods may be appropriate.

Assuming that the total book value of an agency's collection of library books is equal to or greater than $5,000, the books should be included on FAACS. An alternative method may be used to ensure that the value of the books is included in the CAFR.

One way to deal with library books is to make an annual group entry for the fiscal year's purchases of books. The group could be assigned a number indicating the asset type and FY of purchase.

Nomenclature Code 08400009200, *Books, Library,* having a 10-year useful life is available for use for library books. If this code were used, each FY's group entry would then fully depreciate over a ten-year period. Ten years is generally recommended as the useful life for library books. Also available is nomenclature code 08400009900 for books that have a 5-year useful life if this is more appropriate for the agency.

Internal Control

General

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

- Assets are properly categorized into the prescribed major asset categories;
- All expenditures are properly recorded in Cardinal to ensure completeness of data for review and evaluation;
- All asset expenditures are recorded in a timely and accurate manner and supported by detail documentation;
- All assets are further categorized, as appropriate, into more detailed categories necessary for various programmatic cost recoveries; and
- Appropriate detail is maintained to reconcile data in FAACS with data maintained in the Integrated Real Estate Management System maintained by the Division of Real Estate Services.

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.

DOA Contact

Contact

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Subject Cross References

References

CAPP – Cardinal Topic No. 30305, *Capitalized or Controlled Assets*

CAPP – Cardinal Topic No. 30325, *Software and Other Intangible Assets*

CAPP – Cardinal Topic No. 30405, *Additions, Renovations and Repairs*

CAPP – Cardinal Topic No. 70325, *Data Entry*

Appendix 1: Construction in Progress (CIP) Documentation Spreadsheet

Agency Name: ______________________
Agency Number: ______________________
Prepared by: ______________________
Date: ______________________

Reviewed by: ______________________
Date: ______________________

Purpose: To document CIP activity.

							Capital Asset Category				
DateP	Fun	Project No	Project Nan	Subproject NAME	Dept/ Cost Cente	Vendor	Land	Building	Equipmen	Infrastrutu	CIP

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Appendix 1: Construction in Progress (CIP) Documentation Spreadsheet, Continued

		Reclassification from CIP					
Expense	Total Payment	Decrease CIP	Date of Decrease	Increase Building	Increase Equipment	Increase Infrastructure	Expense
	$0.00						
	$0.00						
	$0.00						
	$0.00						
	$0.00						
	$0.00						
	$0.00						
	$0.00						
	$0.00						
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