

TOPIC	CAPITAL ASSET REPORTING	SUB-SECTION 23.00.00
SECTION		ISSUANCE DATE July 8, 2010
SUB-SECTION	INDEX	REVISION NUMBER 11-002

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SECTION	OVERVIEW	ISSUANCE DATE April 20, 2010
SUB-SECTION	INTRODUCTION	REVISION NUMBER 10-011

INTRODUCTION

GENERAL

Capital assets are reported to the Office of the State Auditor, Division of Property. This Office is referred to as the State Property Office (SPO). Statewide information applicable to property (capital assets) owned by each state agency is captured in the SPO system. Agencies should reconcile their financial records with the information reported in the system. This enhances the credibility of the statewide information being reported by the agencies to the Auditor.

An agency is responsible for reporting any property additions and deletions on a monthly basis. The Form F is completed, signed, and submitted to SPO with each monthly report. SPO reviews the data to ensure that it matches what has been reported in the system. For more information on reporting property to SPO, refer to the Property Officers Manual which is available at www.osa.state.ms.us.

BFR receives capital asset data from SPO on a periodic basis. The data is utilized in preparing GAAP Capital Asset reports. Reports reflecting capital asset activity are sent to the agencies for review and approval at interim and year-end. For more information on GAAP reporting for capital assets, see Section 27.50.10.

TOPIC	CAPITAL ASSET REPORTING	SUB-SECTION 23.10.20
SECTION	OVERVIEW	ISSUANCE DATE April 20, 2010
SUB-SECTION	DEFINITIONS	REVISION NUMBER 10-011

DEFINITIONS

Capital assets are assets that are used in operations and that have initial useful lives extending beyond a single reporting period. All costs necessary to place the asset in its intended location and condition for use are capitalized (i.e. cost of negotiations, finder's fees, freight and shipment charges if considered material to the cost of the asset, installation, etc.).

Definitions of the classes of capital assets recognized by the State in its financial reporting are listed below:

Buildings

Buildings are permanent structures to house persons or state property, together with fixtures attached to and forming a permanent part of the building. The cost of the building includes all labor, material and professional services to construct the building, together with insurance, and other indirect costs incurred during the period of construction to put the building into its intended use.

Capitalizable improvements to buildings are added as betterments to the value of the building and, unlike land improvements, are not carried in a separate asset account. The building and its improvements become an inseparable unit. A betterment is generally considered to extend the useful life of a building.

Furniture and equipment whose expected life is less than that of the building are not usually included in the cost of the building, but are placed in the category of Furniture and Equipment.

Capitalization threshold for GAAP is \geq \$50,000.

Construction in Progress

Construction in Progress (CIP) represents a temporary capitalization of labor, materials, equipment and overhead costs of a construction project. These construction costs are usually reflected in a capital projects fund. Most CIP projects are handled by the Bureau of Building, Grounds, and Real Property Management (BOB) within DFA. When a building or other construction project is completed and ready for use, the agency receives notification from BOB. The CIP balance is removed from BOB and is appropriately recorded as one or more of the other major asset classes on the agency's property report.

Costs related to projects under construction that are not managed by BOB are reported as CIP by the agency.

Capitalization threshold for GAAP is determined by the capitalization threshold for the type of project (i.e. buildings \geq \$50,000, etc.).

Furniture and Equipment

Furniture and Equipment is visible, tangible property that is non-consumable in nature and has a useful life of at least one year. Vehicles are considered furniture and equipment.

Capitalization threshold for GAAP is \geq \$5,000.

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Infrastructure

Infrastructure consists of long-lived capital assets that normally are stationary in nature and normally can be preserved for a significantly greater number of years than most capital assets. Examples of Infrastructure include boardwalks/docks, bridges, culverts, curbs, dams, drainage ditches/systems, electric distribution systems, fiber optic cabling systems, fire hydrants, gas distribution systems, guard rails, irrigation systems, piers, rail systems, roads, sanitary sewer piping, sea walls/bulkheads, storm sewer piping, street signage, streets, traffic lights/signals, trestles, tunnels and water distribution piping including water tanks.

Ancillary assets incurred as a result of increasing the level of service in an existing capital asset land, such as roads in a park, should be reported as land improvements, not infrastructure.

Capitalization threshold for GAAP is \geq \$100,000.

Land

The total asset value of land includes two basic elements - acquisition cost and costs to prepare land for its intended use. The acquisition cost of land includes the purchase price; closing costs, such as title search costs, legal fees and recording fees; costs of surveys. Costs incurred to prepare the land for its particular use include draining, clearing, grading, filling or demolition and removal of existing structures when such improvements have an indefinite life; tax liabilities assumed and expenses for settling other liens against the property.

Land acquired by exercise of the right of eminent domain is recorded at the amount paid to the landholder. Land received as a gift or donation is recorded at fair market value, which is usually determined by appraisal.

All land should be reported for GAAP.

Land Improvements

Land improvements are permanent (i.e. non-movable) improvements, other than buildings, that add value to land, but do not have an indefinite useful life. Land improvements include athletic fields, fencing, fountains, gates, gazebos, golf courses, landscaping, parking barriers, parking lots, paths, pavilions, retaining walls, septic systems, sidewalks, swimming pools, tennis courts, wells and yard lighting. Land improvements also include ancillary assets incurred as a result of increasing the level of service of an existing capital asset land (i.e. roads in a park).

Capitalization threshold for GAAP is \geq \$25,000.

TOPIC	CAPITAL ASSET REPORTING	SUB-SECTION 23.10.30
SECTION	OVERVIEW	ISSUANCE DATE July 6, 2011
SUB-SECTION	USEFUL LIVES	REVISION NUMBER 12-002

USEFUL LIVES

Capital assets are depreciated on the proprietary and fiduciary (with the exception of agency funds) fund financial statements as well as the government-wide financial statements. Capitalization thresholds, category codes, useful lives and salvage values used by the state are:

Capitalization Thresholds

Land	Report All
Land improvements	\$ 25,000
Buildings	50,000
Furniture and Equipment	5,000
Infrastructure	100,000
Intangibles	1,000,000
Construction in Progress	Based on project

<u>Category Code</u>	<u>Capital Asset</u>	<u>Useful Life</u>	<u>Salvage Value</u>	<u>Description</u>
CE	Computer Equipment	3 yrs	1%	Computers and peripheral equipment
F5	Furniture and Equipment	5	1	Visible, tangible property not reported in other categories
F10	Furniture and Equipment	10	1	
F15	Furniture and Equipment	15	1	
CTL	Cars and Trucks - Low Use	5	10	Infrequent use and/or mileage
CTH	Cars and Trucks - High Use	3	10	Frequent use and/or mileage
OT	Other Transportation	10	10	Aircraft, boats, buses, etc.
H5	Heavy/Outdoor Equipment	5	5	Backhoes, dozers, front-end loaders, tractors, playground equipment, scoreboards, bleachers, radio towers, lawn equipment, storage tanks, etc.
H10	Heavy/Outdoor Equipment	10	5	
H15	Heavy/Outdoor Equipment	15	5	
	Land Improvements	20	20	See Section 23.10.20
	Buildings	40	20	See Section 23.10.20
	Infrastructure	20	20	See Section 23.10.20
	Intangibles	Varies	0	See Section 23.20.10

TOPIC	CAPITAL ASSET REPORTING	SUB-SECTION 23.20.10
SECTION	INTANGIBLE ASSETS	ISSUANCE DATE July 6, 2011
SUB-SECTION	DEFINITION	REVISION NUMBER 12-002

DEFINITION

Intangible assets are reported as capital assets per GASB Statement No. 51 *Accounting and Financial Reporting for Intangible Assets*. Intangible assets are purchased, licensed, donated, or internally generated. Examples are land use rights (easements, water rights, timber rights, and mineral rights), intellectual rights (patents, trademarks, and copyrights), and computer software.

GENERAL

An intangible asset:

- lacks physical substance. However, it may be contained in or on an item with physical substance, such as software on a computer.
- has a nonfinancial nature. It is not in a monetary form similar to cash and investment securities, and it does not represent either a claim or right to assets in monetary form similar to receivables, or a prepayment for goods or services.
- has an initial useful life that extends beyond a single reporting period.

If an asset meeting the above criteria is acquired or created primarily for the purpose of directly obtaining income or profit, or results from capital lease transactions reported by lessees, or is goodwill created through the combination of a state agency and another entity, then it is excluded from being reported as an intangible asset.

An intangible asset is identifiable, which means that either the asset is capable of being separated from the agency and sold, transferred, licensed, rented, or exchanged; or the asset arises from contractual or other legal rights, regardless of whether those rights are transferable or separable from the entity or from other rights or obligations.

Land use rights are not separated from land already owned or acquired by the agency. The value of the individual rights should remain aggregated and reported as the tangible asset land. Land use rights acquired in a transaction that did not involve acquiring the underlying property are reported as an intangible asset if it meets the reporting criteria.

Intangible assets acquired through nonexchange transactions (donations, capital contributions) are reported at fair market value. In the case of a donated right-of-way easement, the expense that the agency would have incurred to acquire the easement can be used to estimate the fair value of the easement.

INTERNALLY GENERATED INTANGIBLE ASSETS

An intangible asset is internally generated if it is created or produced by the agency or an entity contracted by the agency, or if it is acquired from a third party but requires more than minimal incremental effort on the part of the agency to begin to achieve its expected level of service capacity. Expenses incurred prior to meeting the following criteria should remain as an expense. Expenses related to the development of internally generated intangible assets are capitalized only when all of the following have occurred:

- Specific objective of the project and its service capacity are determined.
- Technical or technological feasibility is present for completion of the project.
- Current intention, ability, and presence of effort for completion of the project are present. The agency has made a level of commitment toward completing the project.

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SECTION	INTANGIBLE ASSETS	ISSUANCE DATE July 6, 2011
SUB-SECTION	DEFINITION	REVISION NUMBER 12-002

Depending upon the activity, the development and installation of internally generated computer software will be expensed or capitalized based on the following stages:

- Preliminary Project Stage - activities include conceptual formulation, evaluation of alternatives, the determination of the existence of needed technology, and the final selection of alternatives for the development of the software. Costs in this stage are expensed as incurred.
- Application Development Stage - activities consist of design, configuration, and interfaces; coding; installation to hardware; and testing, including parallel processing. Costs meeting the criteria for this stage, including related labor costs, are capitalized. Data conversion is considered an activity of this stage only to the extent it is necessary to make the software operational, that is, in condition for use. Otherwise, data conversion is considered part of the post-implementation/operation stage.
- Post-Implementation/Operation Stage - activities include application training and software maintenance. Training of employees does not further the development of the software and does not contribute toward putting the software in condition for use. Data conversion is part of this stage unless it qualifies for the application development stage as noted above. These costs are expensed as incurred.

When activities in the preliminary project stage are completed, and management authorizes and commits to funding, capitalization of costs begins. For commercially available software that will be modified to the point of being considered internally generated, these activities are considered to have occurred when the agency purchases or licenses the software. Capitalization ceases when the computer software is substantially complete and operational. The recognition guidance is applied based on the nature of the activity, not the timing of its occurrence. For example, costs for training activities that occur during the application development stage are expensed as incurred.

Modification of internally generated software that is already in operation is considered maintenance and is expensed as incurred. The modification is capitalized if it results in an increase in functionality, an increase in the level of service, or extends the estimated useful life of the software.

USEFUL LIFE AND GAAP REPORTING THRESHOLD

Intangible assets are amortized over their useful lives on the proprietary and fiduciary (with the exception of agency funds) fund financial statements as well as the government-wide financial statements. The useful life should not exceed the time limits imposed by contractual or legal provisions. Renewal periods may be considered in determining the useful life if there is evidence that the agency will renew the contract and any costs incurred as part of the renewal are insignificant in relation to the level of service capacity expected to be obtained. Significant costs associated with renewal would indicate the creation of a new capital asset.

An indefinite useful life occurs where there are no legal, contractual, regulatory, technological, or other factors that limit the useful life of the asset. Assets with indefinite useful lives are not amortized.

The capitalization threshold for GAAP reporting is \geq \$1,000,000.