Minnesota Management & Budget
Statewide Operating Policy

Minnesota Management and Budget, General Accounting | Number 0106-02
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Land and Land Improvements Reporting

Objective

To ensure that all capital assets are reported in accordance with Generally Accepted Accounting Principles (GAAP), Minnesota Statutes, including 16A.50 Financial Report to the Legislature (https://www.revisor.mn.gov/statutes/?id=16A.50), and other state and federal laws and reporting requirements.

Policy

Minnesota Statute 16A.50 requires Minnesota Management & Budget (MMB) to report to the legislature on the operation of all state funds during the last fiscal year in accordance with GAAP. This information is reported in the Comprehensive Annual Financial Report (CAFR). This policy and related policies (Statewide Operating Policies 0106-01 through 0106-09) apply to those assets required to be capitalized and reported in the CAFR.

All state agencies are required to maintain up-to-date and complete records of all existing capital assets, including the current status (i.e., In-Service, Retired/Disposed, etc.) and must be recorded in the Asset Management (AM) module of the StateWide Integrated Financial Tools (SWIFT). All purchases integrated from other modules, betterments, improvements, additions, impairments, transfers and retirements must be tracked and verified within the SWIFT system. An annual certification will be required to be completed in the format and according to the instructions established and provided by MMB at the end of the state fiscal year to confirm the completeness and accuracy of the information held in SWIFT. Additional periodic certifications will also occur.

Any asset that benefits more than one reporting 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. A dollar value capitalization threshold has been established by capital asset category. Refer to the asset category (classes) below, and related policies, for specific capitalization thresholds.

The Department of Administration (ADM) is responsible for requirements establishing state property management accountability standards and guidance. Please refer to ADM's *State of Minnesota Property Management Policy and User Guide* for additional information on the proper reporting of all assets, sensitive items, consumable inventories and supplies.

Land and Improvements

Land: Includes all land purchased or otherwise acquired by the state. Due to the perpetual nature of land it is non-depreciable. It is reported under the SWIFT category of LAND.

Land Improvements: Consist of betterments, other than buildings, that ready land for its intended use. They are directly related to a parcel of land and have a cost greater than $300,000. Examples of land improvements include site improvements such as excavation, fill grading, utility installation, and removal of existing structures. Land improvements for CAFR purposes are improvements that produce permanent benefits; therefore, they are non-depreciable. Land Improvements are reported under the SWIFT category of LAND. Improvements that require maintenance and occasional replacement, such as parking lots, sidewalks, erosion control, artillery ranges, and fencing, are depreciable assets that should be reported as Infrastructure. (See also policy number 0106-06 – Infrastructure Reporting.)

Reporting Capital Assets

The reporting of capital assets in the CAFR will vary depending on the fund type through which the asset is acquired. Capital assets acquired through governmental type funds must be reported on the government-wide balance sheet net of accumulated depreciation. Capital assets acquired through proprietary and fiduciary fund types are required to be capitalized and reported in the individual fund, since they are used in the production of goods or services provided and sold, and/or the cost of services is recovered through charges to user departments.

Valuation of Capital Assets

Capital assets may be acquired through various methods including direct purchase, construction or gift. Capital assets will be accounted for at cost or, if the cost is not practicably determinable, at estimated historical cost. Donated capital assets will be recorded at their Fair Market Value (FMV) at the time received.

The cost of a capital asset includes not only its purchase price, but also ancillary charges necessary to place the asset in its intended location and condition for use. Estimated costs for assets may be necessary because of a lack of original documents or because establishing original cost is not practicable.

Capitalizable Costs Associated with Land Acquisitions

Capitalizable costs associated with land acquisitions that should be included in the original cost (not all-inclusive):

- Original contract or purchase price
- Brokers' commissions
- Closing fees, such as title search, and legal fees
- Real estate surveys
- Grading, filling, draining, clearing
- Demolition costs (e.g. razing of an old building)
- Assumption of liens or mortgages
- Judgments levied through suits

Not all expenditures incurred while placing an asset in its intended use should be capitalized. The following are types of expenditures that should not be capitalized.

- Costs relating to the removal or demolition of buildings, structures, equipment or other facilities. Two exceptions are as follows: (1) Cost to remove or demolish a building or other structure existing at the time of acquisition of land with the intention of removal or demolition to accommodate its intended use (such cost is considered part of land). (2) Cost to remove or demolish a building or other structure with the intention of replacing the old asset (such costs are considered a part of the cost of the new asset).

- Costs incurred on assets that are not purchased, e.g., surveying, title searches, legal fees, and other expert services on land not purchased.
- Extraordinary costs incidental to the construction of capital assets such as those due to strike, flood, fire or other casualties.
- Costs of abandoned construction.

Determining Capitalizable Costs in Multiple-Element Contracts

Contracts that include both capitalizable and non-capitalizable costs must be reviewed to determine whether the capitalizable costs meet or exceed the established thresholds. If so, the purchase price must be allocated between these two components. If not, all costs must be expensed as incurred. The State's Authorized Representative or other staff, as assigned, is responsible for determining the appropriate allocation of costs based on objective evidence of the fair value of each element, whether or not the contract breaks down the purchase price by individual elements.

Costs Subsequent to Acquisition (Improvements or Betterments)

Costs incurred to achieve greater future benefits (e.g., improves efficiency, or materially extends the useful life of the assets, etc.) are capitalized. Expenditures that simply maintain a given level of service or condition are expensed.

Any improvement to land with a cost of $300,000 or more must be capitalized in SWIFT. An improvement is either the substitution of a better asset having superior performance for the one currently used, or the development of the land for a specific use. Some examples of land improvements include excavation, fill grading, utility installation, and removal of existing structures.

Transfer of Capital Assets between Fund Types

Capital assets reported in the governmental fund type and subsequently transferred to a proprietary or fiduciary fund type must be removed from the governmental fund type through a transfer-out and reported as a capital contribution in the proprietary or fiduciary fund type. Conversely, capital assets reported in a proprietary or fiduciary fund type and subsequently transferred to the governmental fund type must be reported as a transfer-out in the proprietary or fiduciary fund type and reported as a transfer-in in the governmental fund type. Cost and accumulated depreciation will follow this transfer in SWIFT.

Transfer of Capital Assets between Business Units

These transactions are processed through the InterUnit Transfer process on the Cost Adjust/Transfer Assets page in SWIFT. This is not a retirement on the part of the originating business unit; there should never be a gain or loss on this type of transaction. It is the responsibility of the agencies involved to communicate with each other regarding the transfer of the asset.

Impairment of Capital Assets

A capital asset is considered to be impaired when its service utility has permanently declined significantly and unexpectedly. Events or changes in circumstances that may be indicative of impairment include evidence of physical damage, or changes in legal or environmental factors.

Generally an asset would be considered impaired if both:

1. The decline in service utility of the asset was large in magnitude; and,
2. The event or change in circumstances was outside the normal life cycle of the asset.

In the event a reportable capital asset is impaired, there are two options for reporting the impairment:

1. If the asset will no longer be used, the asset should be written down to the lower of carrying value or FMV.
2. If the asset will continue to be used, the asset should be written down by the estimated impairment loss, as defined in GASB Statement No. 42, "Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries."

Accounting for the Removal of Capital Assets

Agencies must verify net book value and accumulated depreciation at time of disposition.

All asset retirements are routed to ADM for authorization of the approved disposition method.

Definitions

Asset Category: Major asset classes defined by GAAP are used for CAFR purposes, In SWIFT, Asset Category defaults from the selected Asset Profile ID (see below).

Asset ID: This 12 character number is automatically generated within SWIFT or may be created manually. Duplicate asset numbers are not allowed within SWIFT for a Business Unit.

Asset Profile ID: Sets the depreciation criteria, Asset Category, and Asset Type associated with an asset. It also determines if an asset is Capitalized, Non Capitalized, or Sensitive.

Asset Tag Number: An asset tag number may be assigned to aid the physical inventory process. This is often the number affixed to an asset. Duplicate tag numbers are not allowed within SWIFT for a Business Unit.

Capital Asset: Has useful life greater than two years and a cost greater than established capitalization threshold. Capital versus Non-Capital is determined by the Asset Profile assigned.

Non-Capital Asset: Has a cost less than established capitalization threshold and is tracked in the AM module. Capital versus Non-Capital is determined by the Asset Profile assigned.

Capital Lease: Is treated as a financial asset. It is carried on the state’s financial statements and is depreciated. The lease agreement will generally contain a buy-out or transfer of title provision. Profile IDs are required for capital leases.

In-Service/Not In-Service: The date that the asset started/stopped being used. The depreciation calculation begins on the date in-service. Depreciation will stop if the asset is not in-service.

Recategorize: Changing the Asset Category (above). This may change depreciation.

Reinstate: Assets added back into SWIFT. If an asset has been mistakenly retired or disposed, it must be reinstated in SWIFT.

Sensitive Items: Are items that generally cost less than the established capitalization threshold, are generally for individual use, or could be easily sold, and are most often subject to pilferage or misuse.

Related Policies and Procedures

MMB Statewide Operating Policy 0106-01 Capital Asset Reporting (http://mn.gov/mmb-stat/documents/accounting/fin-policies/chapter-1/0106-01-capital-asset-reporting-policy.pdf)

MMB Statewide Operating Policy 0106-03 Buildings, Structures, and Improvements Reporting (http://mn.gov/mmb-stat/documents/accounting/fin-policies/chapter-1/0106-03-buildings-improvements-policy.pdf)

MMB Statewide Operating Policy 0106-04 Construction in Progress Reporting (http://mn.gov/mmb-stat/documents/accounting/fin-policies/chapter-1/0106-04-construction-in-progress-policy.pdf)

MMB Statewide Operating Policy 0106-05 Development in Progress Reporting (http://mn.gov/mmb-stat/documents/accounting/fin-policies/chapter-1/0106-05-development-in-progress-policy.pdf)

MMB Statewide Operating Policy 0106-06 Infrastructure Reporting (http://mn.gov/mmb-stat/documents/accounting/fin-policies/chapter-1/0106-06-infrastructure-policy.pdf)

MMB Statewide Operating Policy 0106-07 Intangibles – Including Internally Generated Computer Software & Easements Reporting (http://mn.gov/mmb-stat/documents/accounting/fin-policies/chapter-1/0106-07-intangibles-policy.pdf)

MMB Statewide Operating Policy 0106-08 Art and Historical Treasures Reporting (http://mn.gov/mmb-stat/documents/accounting/fin-policies/chapter-1/0106-08-art-historical-treasures-policy.pdf)

MMB Statewide Operating Policy 0106-09 Equipment, Furniture, and Fixtures Reporting (http://mn.gov/mmb-stat/documents/accounting/fin-policies/chapter-1/0106-09-equipment-policy.pdf)

See also

Minnesota Department of Administration, State of Minnesota Property Management Policy and User Guide (http://www.mn.gov/admin/images/Surplus_PropertyManagementGuide_Complete.pdf)

GASB Statement No.42 Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries (http://www.gasb.org/cs/ContentServer?site=GASB&c=Document_C&pagename=GASB%2FDocument_C%2FGASBDocumentPage&cid=1176160028905)

GASB Statement No.51 Accounting and Financial Reporting for Intangible Assets (http://www.gasb.org/cs/ContentServer?site=GASB&c=Document_C&pagename=GASB%2FDocument_C%2FGASBDocumentPage&cid=1176159972237)

GASB Statement No.62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements (http://www.gasb.org/cs/ContentServer?site=GASB&c=Document_C&pagename=GASB%2FDocument_C%2FGASBDocumentPage&cid=1176159967625)

SWIFT Asset Management Quick Reference Guides (https://mn.gov/mmb/accounting/swift/training-support/reference-guides/asset-management.jsp)