Capital Asset 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.

Capital Asset Categories (Classes)

Capital assets have cost information associated with them. They can be counted as part of a physical inventory process. In general, capital asset records are recorded and maintained if the original cost meets the thresholds listed below. Additionally, some agencies maintain capital asset records to comply with state or federal laws or other reporting requirements (such as charging equipment usage to projects).
These requirements may include assets with an original cost less than these established thresholds, and must also be capitalized and tracked in SWIFT. The capital asset categories for CAFR reporting are:

**Land and Land Improvements**
Also see policy number 0106-02 Land and Land Improvements Reporting.

*Land:* All land purchased or otherwise acquired by the state. Land is non-depreciable.

*Land Improvements:* 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. 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.)

**Buildings, Structures, and Improvements**
Also see policy number 0106-03 Building, Structures, and Improvements Reporting

*Buildings:* All buildings purchased, constructed or otherwise acquired for state use with a historical cost greater than $300,000. Buildings are depreciable.

*Building Improvements:* Include all additions, replacements, major repairs, and reinstallations or rearrangements on buildings with a cost of $300,000 or greater. Also, building improvements include the cost and any additions, replacements, major repairs, and reinstallations/rearrangements with a cost equal to or greater than $300,000 on buildings that do not meet the reporting requirement above. Building improvements are depreciable.

**Construction in Progress**
Also see policy number 0106-04 Construction in Progress Reporting

*Construction-in-Progress (CIP):* Contains amounts expended in one fiscal year on a new construction, land or building improvement or other capital construction project that will be finished in a future year. CIP projects related to Buildings and Infrastructure with an estimated project cost greater than $300,000 must be capitalized. Because depreciation cannot begin until capital assets are substantially ready to be placed into service, CIP is not depreciable.

**Development in Progress**
Also see policy number 0106-05 Development in Progress Reporting

*Development-in-Progress:* Capitalized costs related to an internally generated intangible capital asset that is not yet substantially ready to be placed in service. Development-in-Progress (DIP) contains amounts expended in one fiscal year that will be finished in a future year on development of Internally Generated Computer Software (IGCS). IGCS projects that have an estimated cost of 75% of the capitalization threshold must be tracked and capitalized. Because depreciation does not begin until a capital asset is substantially ready to be placed into service, DIP is non-depreciable.
Infrastructure
Also see policy number 0106-06 Infrastructure Reporting

*Infrastructure:* Includes 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. Infrastructure with a cost greater than $300,000 must be capitalized. Generally infrastructure is depreciable (MNDOT is the only agency with non-depreciable infrastructure). Examples of infrastructure include roads, bridges, tunnels, drainage systems, water and sewer systems, dams, and lighting systems.

Intangibles – Including Internally Generated Computer Software & Easements
Also see policy number 0106-07 Intangibles – Including Internally Generated Computer Software & Easements Reporting

*Intangible Assets:* Intangible assets are those that lack physical substance, are nonfinancial in nature (cannot be receivables or prepayment of goods), and have an initial useful life that extends beyond a single reporting period. Excluded are assets meeting the definition that are acquired or created for generating income or profit (considered investments), capital lease transactions, and goodwill from combining government and another entity. An intangible asset must be identifiable, meaning it either can be separated or divided from the government by sale, transfer, license, rental or exchange; or, arises from contractual or other legal rights. Intangible assets may be depreciable or non-depreciable. Examples of Intangibles include internally generated computer software, water rights, timber rights, easements, trademarks, and patents.

Currently the State of Minnesota has two types of intangible assets: Internally Generated Computer Software (IGCS) and Easements.

*Internally Generated Computer Software (IGCS):* Intangible capital assets that are either created or produced by the government itself or by an entity contracted by the government or acquired from a third party, but that still require more than minimal incremental effort on the part of the government to begin to achieve their expected level of service capacity. IGCS is depreciable. IGCS capitalization thresholds are: $2,000,000 for Governmental funds; $1,000,000 for Fiduciary funds; and, $30,000 for Proprietary funds. (See also policy number 0106-05 – Development In Progress.)

*Easements:* An easement is a non-possessory right of use and/or entry onto real property of another without possessing it. Generally easements are non-depreciable being that they typically have an indefinite life, or are perpetual in nature. However there are some circumstances in which a “Temporary Easement” may exist. In this case it would be depreciable based on the life of the easement. All easements are capitalized for CAFR purposes.

Art and Historical Treasures
Also see policy number 0106-08 Art & Historical Treasures Reporting

*Art and Historical Treasures:* Any painting, sculpture, monument, or antiquity, etc., with a cost greater than $30,000 or, if donated, at Fair Market Value (FMV) at the time of donation exceeding $30,000. These assets are not depreciated.

Equipment, Furniture, and Fixtures
Also see policy number 0106-09 Equipment, Furniture, and Fixtures Reporting

*Equipment:* Tangible property with a value of $30,000 or greater that is used in the operation of the state’s activities for two or more years. Equipment is property that does not lose its identity when removed from its location and is not changed materially or expended in use. Equipment is depreciable. For CAFR
purposes, the equipment category will contain equipment, fleet, furniture and fixtures, IT hardware, and IT software that does not meet the definition of internally generated.

**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 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.

**Costs Subsequent to Acquisition (Improvement or Betterments)**

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

The carrying amount of the old assets and associated accumulated depreciation, if applicable, is removed from the accounting records, if the amount is known.

**Leased Assets**

*Leased Assets:* Capital assets include those acquired, in substance, through non-cancelable leases. Leased capital assets are accounted for in accordance with GASB Statement No. 62, "Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements." Capitalized lease commitments should be disclosed in the notes to financial statements.

Leased assets should be capitalized if they meet one of four tests:

1. **Transfer of Ownership:** The lease transfers ownership to the lessee by the end of the lease term.
2. **Bargain Purchase Option:** The lease contains an option to purchase the asset significantly lower than FMV at the date the option becomes exercisable.
3. **Economic Life:** The lease term is equal to 75% or more of the estimated useful life of the leased asset.
4. **Recovery of Investment:** The present value of the minimum payment is > or = to 90% of the FMV.

Leased assets have their own SWIFT categories and if they meet the capitalization thresholds they will be included in their CAFR asset category. For example, leased equipment using SWIFT category L_EQP will be included with CAFR Equipment.
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.

Depreciation

Depreciation is the allocation of the cost of assets having a useful life of more than two accounting periods over the benefited accounting periods. The principle underlying the concept of depreciation is the matching of costs with revenues. The allocation of costs to relate the expenses with revenues emphasizes an income determination objective.

The straight-line depreciation method will be used for all capital assets. Agencies must assign the anticipated useful life of an asset depending upon specific circumstances. The ideal basis should be based on the agency’s experience. This may differ greatly from agency to agency. SWIFT contains an average useful life for all Asset Profiles. This value can and should be revised according to the agency’s experience.

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, changes in legal or environmental factors, technological changes or evidence of obsolescence, changes in the manner or duration of use of a capital asset and construction stoppage.

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.

Retirement transactions related to IT capital assets must be requested through a Property Disposition Request which is routed to MN.IT Services and ADM for authorization of the approved disposition method. All other 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
