Effective May 1, 2024

CHIEF FINANCIAL OFFICER MEMORANDUM NO. 13

SUBJECT: STATEWIDE FINANCIAL STATEMENTS CAPITAL ASSET GUIDANCE AND RULES FOR TANGIBLE PERSONAL PROPERTY

The purpose of this memorandum is to provide guidance related to the proper accounting and reporting of payments made by state agencies for the acquisition of property. When appropriate, items acquired should be recorded in the state's accounting system as capital assets and depreciated or amortized over their useful lives. Items that do not meet the capitalization requirements may generally be expensed. This memo is being updated to provide guidance related to right to use leases, and right to use subscriptions established by GASB Statement No. 87, *Leases;* GASB Statement No. 96, *Subscription Based Information Technology Arrangements (SBITAs).*

The state's financial statements report capital assets in accordance with standards established by the Governmental Accounting Standards Board (GASB). Capital assets are real, personal, and intangible property, as well as intangible right-to-use lease assets, that have a cost equal to or greater than an established capitalization threshold and have an estimated useful life extending beyond one year. This memorandum includes requirements pursuant to GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*; GASB Statement No. 72, *Fair Value Measurement and Application*; GASB Statement No. 87, *Leases;* GASB Statement No. 96, *Subscription Based Information Technology Arrangements (SBITAs),* and is effective for statewide financial statements for the fiscal year beginning July 1, 2022.

Capital asset reporting thresholds in this memorandum may be higher than thresholds for property control due to different objectives. The primary objectives of financial reporting generally pertain to valuation, allocation, presentation, and disclosures, whereas the primary objectives of property control generally pertain to efficiency, effectiveness, and safeguarding of assets. For example, controls designed to prevent or promptly detect a loss of a small value asset, while important operationally, are not necessarily relevant for financial reporting purposes. Because of the objective differences, this memorandum should not be used for property control purposes. Agencies are encouraged to refer to Rule Chapter 69I-72, Florida Administrative Code, titled *State-owned Tangible Personal Property*, for guidance on property control. Agencies may establish thresholds for property control that are lower than the thresholds established in this memorandum.

Please contact the Statewide Financial Reporting Section at sfrs@myfloridacfo.com if you have any questions regarding this memorandum.

Specific guidance related to the accounting and reporting of capital assets is as follows:

The state's capital asset policy for statewide financial statements is as follows:

Capital Asset Category	Financial Statement Capitalization Threshold
Right to use subscriptions	$1,500,000
Right to use leased assets	$1,500,000
Land and Land Improvements	Capitalize all
Intangible Assets	$4,000,000
Buildings and Building Improvements	$100,000
Infrastructure and Infrastructure Improvements	$100,000
Leasehold Improvements	$100,000
Construction Work in Progress	Accumulate all costs and capitalize if over $100,000 when completed (internally generated computer software projects are not included in this capital asset category)
Furniture and Equipment	$5,000 for all furniture and equipment; $250 for books and other reference materials not circulated to students or the general public
Works of Art and Historical Treasures	Capitalize all unless they meet the definition of a collection (see the Statewide Financial Statements Guidance referenced below for additional information) or if they have already been capitalized as of June 30, 1999
Library Resources	$25
Other Capital Assets	$5,000

Capital assets should be reported at historical cost. The cost of a capital asset should include ancillary charges necessary to place the asset in its intended location and condition for use. Ancillary charges include costs that are directly attributable to asset acquisition – such as freight and transportation charges, site preparation costs, and professional fees. Donated capital assets should be reported at their acquisition value at the time of acquisition plus ancillary charges, if any.

When the historical cost of a capital asset is not practicably determinable, the estimated historical cost of the asset should be determined by appropriate methods and recorded. Estimated historical costs should be so identified in the record and the basis of determination established in the responsible agency's public records. The basis of valuation for capital assets constructed by agency personnel should be the costs of material, direct labor, and overhead costs identifiable to the project.

An agency that owns capital assets is responsible for correctly reporting these assets at the date of acquisition. Any improvements made to a capital asset that extends the useful life of the asset beyond one year should be capitalized.

In compliance with GASB Statement No. 72, *Fair Value Measurement and Application*, capital assets held as investments should not be recorded as capital assets. They should be recorded as investments at fair value, with changes in fair value during the period reported as investment income.

In compliance with GASB Statement No. 87, *Leases,* and GASB Statement No. 96, *SBITAs,* an intangible right-to-use asset represents the State's right to use an underlying asset for the lease or subscription term. Intangible right-to-use subscription and lease assets are recognized based on the present value of lease payments over the lease term, where the initial term exceeds twelve months. Residual value guarantees and the value of an option to extend or terminate a lease are reflected to the extent it is reasonably certain to be paid or exercised. Variable payments based on future performance or usage are not included in the measurement of the lease.

A. Depreciating/Amortizing Capital Assets

Capital assets should be depreciated/amortized over their estimated useful lives unless they are:

- right to use subscriptions
- right to use leased assets
- inexhaustible (i.e., land and land improvements, certain works of art and historical treasures) or have an indefinite useful life (i.e., intangible assets that have no legal, contractual, regulatory, technological, or other factors that limit their useful life)
- infrastructure assets reported using the modified approach
- work-in-progress (from construction projects or from development costs for internally generated software)

It is the custodian agency's responsibility to estimate the useful life of each capital asset. Agencies using the FLAIR Property Subsystem will be responsible for assigning to the assets the correct state standard portion (first 4 digits) of the property class codes that match the estimated useful lives of the assets.

For statewide financial statement purposes, the straight-line method will be used by the FLAIR Property Subsystem to calculate depreciation/amortization for each capital asset recorded in the property subsystem starting with the month that the asset is received by the responsible state agency. The estimated useful life for each capital asset will be based on the state standard portion of the property class code for the asset assigned by the responsible agency.

Agencies using the property subsystem are responsible for scheduling the depreciation/amortization calculation at year-end prior to closing. Agencies are also responsible for recording their assets in the correct general ledger codes.

A list of state standard property class codes including a crosswalk between class codes and corresponding general ledger codes is available at https://www.myfloridacfo.com/Division/AA/StateAgencies/default.htm.

When an agency elects to depreciate or amortize its capital assets using a method different from the straight-line method or using a different system, the agency is responsible for providing the Department of Financial Services with the calculated depreciation/amortization amounts to be reported in the statewide financial statements.

B. Capital Asset Definitions and Categories

1. Right to Use Subscriptions

Right-to-use subscriptions represents the State's right to use an underlying asset for the SBITA term.

Common types of right to use subscriptions include:

- Software as a Service allows users to connect to and use cloud-based apps over the Internet. Common examples are email, calendaring, and office tools (such as Microsoft Office 365).
- Platforms as a Service is a complete development and deployment environment in the cloud, with resources that enable you to deliver everything from simple cloud-based apps to sophisticated, cloud-enabled enterprise applications. Oracle Cloud Platform is an example of a PaaS.
- Infrastructure as a Service (IaaS) is a type of cloud computing service that offers essential compute, storage, and networking resources on demand. Azure is an example of IaaS.

Right to use subscription assets with a total contract value equal to or greater than the threshold and a useful life extending beyond one year should be capitalized. Assets with a total contract value below the threshold should be expensed (Note: Entities with separately issued financial statements may need lower capitalization thresholds.).

The following general ledger codes should be used to account for right to use subscription assets:

- GL 286XX – used to record right to use subscription assets.
- GL 287XX – used to record accumulated amortization of right to use subscription assets recorded in GL 286XX.
- GL 727XX – used to record right to use subscription asset acquisition expenditures in governmental funds.
- GL 729XX – used to record amortization expense of right to use subscription assets in governmental funds and proprietary funds.

Use of agency-unique GL codes may be helpful to identify right to use subscription assets accounted for in these GL codes.

Amortization

Right to use subscription assets should be amortized on a straight-line basis over the shorter of life of the subscription term or useful life of the underlying tangible asset.

2. Right to Use Leased Assets

Right to use leased assets represents the State's right to use an underlying asset for the lease term. The state enters leases for land, buildings, copiers, furniture, equipment, and other assets.

Right to use leased assets are categorized according to the underlying asset leased:

- Land and other nondepreciable assets
- Buildings
- Furniture and equipment
- Other

Right to use leased assets with a total contract value equal to or greater than the threshold and a useful life extending beyond one year should be capitalized. Assets with a total contract value below the threshold should be expensed (Note: Entities with separately issued financial statements may need lower capitalization thresholds.).

The following general ledger codes should be used to account for right to use leased assets:

- GL 284XX – used to record right to use leased assets.
- GL 285XX – used to record accumulated amortization of right to use leased assets recorded in GL 284XX.
- GL 724XX – used to record right to use leased asset acquisition expenditures in governmental funds.
- GL 728XX – used to record amortization expense of right to use leased assets in governmental and proprietary funds.

Use of agency-unique GL codes may be helpful to identify right to use leased assets accounted for in these GL codes.

Amortization

Right to use leased assets should be amortized on a straight-line basis over the shorter of the lease term or the useful life of the underlying tangible asset category.

3. Land and Land Improvements

Land is the surface or crust of the earth, which can be used to support structures, and may be used to grow crops, grass, shrubs, and trees. Land improvements consist of betterments, site preparation and site improvements that ready land for its intended use. The cost associated with land improvements is added to the cost of land and should be recorded in General Ledger (GL) Code 271XX. Land and land improvements should not be depreciated.

Examples of items to be capitalized as land and land improvements are:

- Purchase price or acquisition value at time of gift
- Commissions
- Professional fees (i.e. title searches, architect, legal, engineering, appraisal, surveying, and environmental assessments, etc.)
- Land excavation, fill, grading, and drainage
- Demolition of existing buildings and improvements (less salvage)
- Removal, relocation, or reconstruction of property of others (i.e. railroad, telephone, and power lines, etc.)

Items such as roads, bridges, fencing, landscaping, pools, and paved parking lots, etc. are not considered land improvements. These items are considered infrastructure and should be recorded in GL 274XX (see section on Infrastructure and Infrastructure Improvements of this policy).

2. Intangible Assets

Intangible assets lack physical substance, are nonfinancial in nature (i.e., not in a monetary form similar to cash and investment securities and represent neither a claim or right to assets in a monetary form similar to receivables, nor a prepayment for goods or services), and have an initial useful life beyond a single reporting period.

Common types of intangible assets include:

- Computer software
  - Purchased or licensed
  - Internally generated
- Easements
- Land use rights (e.g., water, timber, and mineral rights)

  Note: land use rights obtained with land acquisitions or associated with land already owned should not be reported separately from the land.
- Patents, copyrights, and trademarks

Intangible assets with a cost equal to or greater than the threshold and a useful life extending beyond one year should be capitalized. Assets costing below the threshold should be expensed (Note: Entities with separately issued financial statements may need lower capitalization thresholds.).

The following general ledger codes should be used to account for intangible assets:

- GL 271XX – used to record intangible assets with indefinite useful lives and work-in-progress relating to intangible assets. Work-in-progress for intangible assets (primarily internally generated computer software development projects) is reclassified as appropriate when development of the intangible asset is complete.
- GL 288XX – used to record intangible assets with finite useful lives. Record computer software using this GL code.
- GL 289XX – used to record accumulated amortization of intangible assets recorded in GL 288XX.
- GL 725XX – used to record amortization expense of intangible assets in governmental funds.
- GL 775XX – used to record amortization expense of intangible assets in proprietary funds.

Use of agency-unique GL codes may be helpful to identify intangible assets accounted for in these GL codes.

Internally Generated Intangible Assets

Intangible assets are considered internally generated if created or produced by the state or by an entity contracted by the state or if acquired from a third party but require more than minimal effort to place into service.

Computer software is commonly internally generated. The following activities would satisfy the "more than minimal effort to place into service" criterion: changing code, changing fields, adding special reporting capabilities, and testing any changes.

The activities involved in developing and installing internally generated computer software can be grouped into the following stages:

- Preliminary Project Stage. Activities include conceptual formulation and evaluation of alternatives, determination of existence of needed technology, and final selection of alternatives for the development of the software.
- Application Development Stage. Activities include the design of the chosen path, including software configuration and software interfaces, coding, installation of hardware, testing, including the parallel processing phase, and data conversion needed to make the software operational.

- Post-Implementation/Operation Stage. Activities include application training, data conversion that is beyond what is strictly necessary to make the software operational, and software maintenance.

All outlays associated with activities in the preliminary project stage should be expensed as incurred. All outlays related to activities in the application development stage should be capitalized, provided the following conditions are met: 1) the outlays were incurred subsequent to the completion of the preliminary project stage, and 2) management authorizes and commits to funding (either implicitly or explicitly), at least through the current period. For commercially available software that will be modified to the point that it is considered internally generated, these two conditions generally are met at the time a government makes the commitment to purchase or license the computer software. Capitalization of such outlays should cease once the software is substantially complete and operational (i.e., ready for use). All outlays associated with activities in the post-implementation or operation stage should be expensed as incurred. The activities within the three stages of development may occur in a different sequence. The recognition guidance for outlays associated with internally generated computer software should be applied based on the nature of the activity, not the timing of its occurrence.

When internally generated computer software development projects span more than one-year total projected application development costs should be considered when applying the capitalization threshold, not outlays incurred in individual years.

Outlays associated with an internally generated modification of computer software that is already in operation should be capitalized if the modification results in an increase in the functionality of the computer software, an increase in the efficiency of the computer software, or an extension of the estimated useful life of the software. If the modification does not result in any of the above outcomes, the modification should be considered maintenance, and the associated outlays should be expensed as incurred.

Amortization

An intangible asset should be considered to have an indefinite useful life if there are no legal, contractual, regulatory, technological, or other factors that limit the useful life of the asset (e.g., permanent right-of-way easement). Intangible assets with indefinite useful lives should not be amortized.

Intangible assets with limited useful lives should be amortized over their estimated useful lives. Amortization of computer software should begin when the program is placed into service. Renewal periods should be considered in determining the useful life of intangible assets in situations in which the renewal is expected to be pursued and achieved and serves as an extension of the existing asset. When determining the useful life of the computer software, consideration should also be given to the impact of expected maintenance activities.

<u>3. Buildings and Building Improvements</u>

A building is a structure that is permanently attached to the land, has a roof, is partially or completely enclosed by walls, and is not intended to be transportable or moveable. A building is generally used to house persons, property, and fixtures attached to and forming a permanent part of such a structure.

Building improvements are capital events that materially extend the useful life of a building or increase the value of a building, or both beyond one year. Building improvements should not include maintenance and repairs done in the normal course of business.

The cost of buildings over the statewide financial statement capitalization threshold should be recorded in GL 272XX and depreciated over the estimated useful lives of the buildings. The accumulated depreciation for buildings should be recorded in GL 273XX.

Examples of items to be capitalized as buildings and building improvements are:

- Original purchase price
- Expenses for remodeling, reconditioning, or altering a purchased building to make it ready to use for the purpose for which it was acquired
- Environmental compliance (i.e., asbestos abatement)
- Professional fees (i.e., legal, architect, inspections, and title searches, etc.)
- Payment of unpaid or accrued taxes on the building to date of purchase
- Cancellation or buyout of existing leases
- Completed project costs of constructed buildings
- Cost of building permits
- Permanently attached fixtures or machinery that cannot be removed without impairing the use of the building
- Additions to buildings (i.e. expansions, extensions, or enlargements)
- Conversion of attics, basements, etc., to usable office, clinic, research, or classroom space
- Structures attached to the building such as covered patios, sunrooms, garages, enclosed stairwells, etc.
- Installation or upgrade of heating and cooling systems, including ceiling fans and attic vents
- Original installation or upgrade of wall or ceiling covering such as carpeting, tiles, paneling, or parquet
- Structural changes such as reinforcement of floors or walls, installation or replacement of beams, rafters, joists, steel grids, or other interior framing
- Installation or upgrade of window or doorframe, upgrading of windows or doors, built-in closet, and cabinets
- Interior renovation associated with casings, baseboards, light fixtures, ceiling trim, etc.
- Exterior renovation such as installation or replacement of siding, roofing, or masonry, etc.
- Installation or upgrade of plumbing and electrical wiring
- Installation or upgrade of phone or closed-circuit television systems, networks, fiber optic cable, or wiring required in the installation of equipment (that will remain in the building)

Examples of items to be considered maintenance and repairs and not capitalized as buildings are:

- Adding, removing, and/or moving of walls relating to renovation projects that are not considered major rehabilitation projects and do not increase the value of the building
- Improvement projects of minimal or no added life expectancy and/or value to the building
- Plumbing or electrical repairs
- Cleaning, pest extermination, or other periodic maintenance
- Interior decorations such as draperies, blinds, curtain rods, wallpaper, etc.
- Exterior decoration such as detachable awnings, uncovered porches, decorative fences, etc.
- Maintenance-type interior renovation such as repainting, touch-up plastering, replacement of carpet, tile, or panel sections, sink and fixture refinishing, etc.
- Maintenance-type exterior renovation such as repainting, replacement of sections of deteriorated siding, roof, or masonry, etc.

The lists of examples provided above are not intended to be all-inclusive. Agencies should make determinations on a case-by-case basis.

4. Infrastructure and Infrastructure Improvements

Infrastructure assets are 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 assets include roads, bridges, tunnels, drainage systems, water and sewer systems, dams, and street lighting systems. Infrastructure assets should be capitalized and depreciated unless the modified approach is used. To use the modified approach, the infrastructure assets must comprise a network or subsystem of a network (eligible infrastructure assets), and the following criteria are met:

1) The assets are managed using a qualifying asset management system.

2) It is documented that the assets are being preserved at or above a condition level established by the government.

Currently, for the State of Florida, the Department of Transportation (DOT) is the only agency using the modified approach to account for the agency's eligible infrastructure assets.

Improvements made to infrastructure assets that extend the useful lives or increase the value of the assets, or both, beyond one year should also be capitalized.

The cost of depreciable infrastructure assets over the statewide financial statement capitalization threshold should be recorded in GL 274XX and depreciated over the estimated useful lives of the assets. The accumulated depreciation should be recorded in GL 275XX. The cost of infrastructure assets accounted for using the modified approach should be recorded in GL 263XX (used by DOT only).

5. Leasehold Improvements

A leasehold improvement is an improvement made to a leased building or infrastructure asset by an agency that has the right to use this leasehold improvement over the term of the lease. This improvement will revert to the lessor at the expiration of the lease. The lessor may be another state agency or someone outside of the state government. The lessee generally should be responsible for recording the improvement if the lessee pays for the improvement.

Leasehold improvements should not include maintenance and repairs done in the normal course of business. Further, moveable equipment or office furniture that is not attached to the leased property is not considered a leasehold improvement (see section on Buildings and Building Improvements for examples on maintenance and repairs).
The cost of a leasehold improvement should be depreciated over the shorter of 1) the remaining lease term, or 2) the estimated useful life of the improvement. Leasehold improvements do not have a residual value. Improvements made in lieu of rent should be expensed in the period incurred. If the lease contains an option to renew and the likelihood of renewal is uncertain, the leasehold improvement should be depreciated over the life of the initial lease term or estimated useful life of the improvement, whichever is shorter. The cost of leasehold improvements over the statewide financial statement capitalization threshold should be recorded in GL 267XX. The accumulated depreciation should be recorded in GL 268XX.

6. Construction Work in Progress

Construction work in progress reflects the economic construction activity status of buildings and other structures, infrastructure, additions, alterations, reconstruction, and installation, which are substantially incomplete.

The cost of construction work in progress should be recorded in GL 278XX and should not be depreciated. Construction work in progress assets should be capitalized to their appropriate capital asset categories upon the earlier occurrence of execution of substantial completion contract documents, occupancy, or when the assets are placed into service. It is the agency's responsibility to track all costs related to construction work in progress so that the final value of the constructed asset is correctly captured. The capitalization threshold for a project should not be circumvented due to multiyear appropriations for the project.

7. Furniture and Equipment

Furniture and equipment include fixed or movable tangible assets to be used for operations, the benefits of which extend beyond one year from date of receipt and rendered into service. Example of furniture and equipment are machinery, computers, printers, radios, and vehicles, etc.

Also included in furniture and equipment are books and other reference materials that are not circulated to students or the general public (not contained in a publicly supported library). Books and other reference materials that are circulated to students or the general public are considered library resources and should be recorded in GL 282XX (see section on Library Resources of this policy).

The cost of furniture and equipment over the statewide financial statement capitalization threshold should be recorded in GL 276XX and depreciated over the estimated useful lives of the assets. The accumulated depreciation should be recorded in GL 277XX.

8. Works of Art and Historical Treasures

Works of art and historical treasures should be capitalized at their historical cost at acquisition or acquisition value at the date of donation (if donated) unless they belong to a collection that meets the following criteria:

1) The collection is held for public exhibition, education, or research in furtherance of public service, rather than financial gain.

2) The collection is protected, kept unencumbered, cared for, and preserved.

3) The collection is subject to an organization policy that requires the proceeds from sales of collection items to be used to acquire other items for collections.

Collections already capitalized as of June 30, 1999, will remain capitalized, and all additions to those collections will be capitalized, even if they meet the criteria listed above for exemption from capitalization.

For collections not capitalized, a description of the collection and the reasons these assets are not capitalized should be documented and reported to the Department of Financial Services for inclusion in the statewide financial statements.

The cost of capitalized works of art and historical treasures should be depreciated over the estimated useful lives unless the works of art and historical treasures are inexhaustible. An inexhaustible capital asset is one whose economic benefit or service potential is used up so slowly that its estimated useful life is extraordinarily long.

The cost of depreciable works of art and historical treasures should be recorded in GL 264XX, and the accumulated depreciation should be recorded in GL 265XX. The cost of non-depreciable works of art and historical treasures should be recorded in GL 266XX.

9. Library Resources

Library resources are information sources that are circulated to students or the general public such as books, journals, periodicals, audio/visual media, computer-based information, manuscripts, maps, documents, and similar items which provide information essential to the learning process or which enhance the quality of academic, professional or research libraries.

The cost of library resources over the statewide financial statement capitalization threshold should be recorded in GL 282XX and depreciated over the estimated useful lives of the library resources. The accumulated depreciation should be recorded in GL 283XX.

10. Other Capital Assets

Other capital assets are those capital assets that are not otherwise classified in another capital asset category. The cost of other capital assets over the statewide financial statement capitalization threshold should be recorded in GL 288XX and depreciated over the estimated useful lives of the asset. The accumulated depreciation should be recorded in GL 289XX.