Chapter 30 – Fixed Assets

30.10 Introduction

Chapter 30 – Fixed Assets

30.10.05 Introduction

Fixed assets are assets that benefit more than one fiscal year and the value of the asset exceeds the capitalization threshold. Assets that are less than the capitalization threshold or assets with service utility that will be used up during one fiscal year, must be expensed, when purchased. The lone exception being assets purchased by internal service funds in which revenues need to be properly matched with expenditures.

In terms of this policy, Fixed Assets and Capital Assets are synonymous.

The purpose of a Fixed Asset policy is:
1) to provide control and accountability over Fixed assets, and
2) to gather and maintain Fixed Asset information needed to prepare financial statements, for both departmental and statewide reporting.

For help with processing Fixed Asset transactions in Advantage, please consult the Advantage Fixed Asset manual on the Office of the State Controller website.

For help interpreting this policy, please contact the OSC Liaison for your department.

The Office of the State Controller (OSC) is responsible for designing and maintaining Advantage, the official Statewide accounting system, to ensure proper financial management and adherence to standards.

Departments are responsible for entering all financial information, including Fixed Assets in Advantage. If a department feels this is not appropriate, please contact your OSC liaison.

The State Controller is authorized to approve any and all accounting systems used in State government, to ensure that the system is capable of transmitting accurate and timely data to Advantage and that the system meets both State and federal, financial laws and regulations.

The Advantage Accounting system provides a uniform, fully automated system to account for and report on Fixed Assets owned by State departments.

This Fixed Asset policy covers items relating to:

- Internal Control
  - Accountability and Security
  - GAAP Reporting
  - Inventory
  - Audit Preparation
- Asset Acquisition and Valuation
  - Land
  - Improvements other than Buildings
  - Buildings
  - Equipment and Furniture
  - Vehicles
  - Intangibles
  - Infrastructures
  - Historical Treasures and Works of Art
  - Construction In Progress
- Depreciation and Useful Lives
- Asset Disposition

This policy includes a glossary of terms defining items in accordance with Fixed asset management and reporting responsibilities. It is our intent to provide updates to this policy as needed. For this reason it may be more useful for the reader to access it frequently on the Office of the State Controller website rather than printing it for distribution.

The Office of the State Controller intends to provide training to appropriate department managers and key personnel in the implementation and maintenance of the Fixed Asset subsystem, including related policies and procedures. OSC accepts requests for training at any time.

This policy attempts to be all-inclusive, providing the State of Maine's Fixed Assets policies found in Statute, Controller's Memos and other sources of information. The goal of the guide is to be a reference for those in State Government who are responsible for Fixed Asset management, including but not limited to, Department Heads, Chief Fiscal Officers, Property Officers, and GAAP liaisons.

30.10.10 Policies in this chapter are minimum standards

The policies and procedures in this chapter are the minimum requirements for Fixed Assets that State departments must meet. A department may maintain its own Fixed Asset inventory system in greater detail, or use additional supporting documentation, as long as the department meets the required minimum standards.

30.10.20 Authority for these policies

30.10.20.a The Office of the State Controller is required by MRSA 5, Ch 143, § 1541 Title 5, Chapter 143, Subsection 1547, Paragraph 1 & 2, to establish a Generally Accepted Accounting Principles (GAAP) based accounting system and procedures to ensure the State's assets, including Fixed Assets, are properly accounted for, and that the State of Maine prepares and completes all financial statements in accordance with all governing rules, statutes and GAAP.

30.10.20.b MRSA 5, Ch 143, §1541, 14 requires the Office of the State Controller "To maintain an official statewide system for fixed assets for all state agencies to update and reconcile annually." (see Statutes)

The purpose of the State of Maine's policy is to provide departments with guidance for the appropriate classification and processing of Fixed Asset transactions in compliance with statutes. The term "department" includes but is not limited to State departments, boards, offices, institutions, divisions, bureaus, constitutional offices, independent departments, commissions and elected offices of the State of Maine within the Executive, Legislative, and Judicial Branches.

30.10.30 Applicability

30.10.30.a All departments of the State of Maine must comply, unless otherwise exempted by statute. If a department believes they are exempt, please notify your OSC liaison with the applicable MRSA reference.

30.10.30.b Departments may request a waiver from complying with specific requirements of this chapter. Refer to Subsection 1.10.40 of the SAAM manual for information on how to request a waiver.

30.10.40 Department Responsibilities

The department head must designate, in writing, one or more Property Officers who are responsible for maintaining and safeguarding their Departments' Fixed Assets.

Departments are responsible for developing internal control policies and procedures to protect and control the use of all Fixed Assets. Please refer to Chapter 20 of the SAAM manual for Internal Control guidance.

30.10.50 Title – Absolute vs. Residual

30.10.50.a

Generally, the government entity that holds title to an asset, should record the asset. The one exception is Capital Leases (see section 30.20.30t).

Absolute Title is when title has passed to the State. Temporary custodial responsibility or title shall not be considered absolute for the purposes of this chapter. When the department has **absolute title** of a Fixed Asset:

- Include the Fixed Asset in Advantage Accounting System, and
- Include the value of the Fixed Asset in the annual financial statements.

When an external entity, such as the federal government, retains title, they have **residual title** to the Fixed Asset:

- Include the Fixed Asset in the fixed Asset inventory system. This includes Fixed Assets on lease or long-term loan.

30.10.50.b

Reporting Fixed Assets where ownership is unclear.

When ownership is unclear, the government entity that is responsible for maintaining the Fixed Asset should record the fixed asset and include the asset in its financial statements.

30.10.60 Assets in use by subtenant departments

The purchasing department is the owner of, and has responsibility for the proper accounting and reporting of, Fixed Assets acquired through a capital project. If the authorizing legislation for a capital project provides Fixed Assets for more than one department, or for departments other than the purchasing department, the purchasing department may, by agreement, condition the use of such Fixed Assets by the subtenant department. This agreement could include making the subtenant department responsible for all reporting requirements for those Fixed Assets. Upon completion of the agreement, all ownership rights and responsibilities revert to the purchasing department.

Chapter 30 – Fixed Assets

30.20 Valuing, Capitalizing and Depreciating Fixed Assets

30.20
Valuing, Capitalizing, and Depreciating Fixed Assets

30.20.10 How to value Fixed assets

Fixed assets should be valued at cost, plus all ancillary charges necessary to place the asset in its intended location and condition for use.

30.20.10.a Determine the value of Fixed assets in the following manner:

Purchased Assets - Use historical costs including all non-refundable purchase taxes (e.g., sales taxes), plus all appropriate ancillary costs less any trade discounts or rebates. If the historical cost cannot be determined, use a reasonable estimated cost.

If land is purchased, the capitalized value is to include the purchase price plus costs such as legal fees, filling, and excavation costs incurred to put the land in condition for its intended use.

Building values should include both acquisition and capital improvement costs. Capital improvements include structures (e.g., office buildings, storage quarters, and other facilities) and all other property permanently attached to, or an integral part of, the structure (e.g., loading docks, heating and air-conditioning equipment, and refrigeration equipment). Departments have the option of capitalizing buildings by components when the useful lives of the components vary. Buildings owned by proprietary and trust funds are to include net construction period interest in arriving at the building value.

Furniture, fixtures, or other equipment not an integral part of a building are not considered capital improvements and should be classified as equipment. The cost for this asset type reflects the actual or estimated cost of the asset.

Include the cost of extended maintenance/warranty contracts in the asset valuation if the contract is purchased at the same time (or soon thereafter) as the Fixed asset. Depreciate these contracts over the useful life of the asset. Do not capitalize payments for contracts not purchased at the same time as the Fixed asset.

30.20.10.b **Self-Constructed Assets -** Capitalize all direct costs associated with the construction and department management costs associated with a construction project. Department project management costs may be capitalized in one of two ways:

1. Use actual project management costs directly associated with the project; or

2. Apply a percentage of total budgeted project costs. The application rate may or may not be designed to recover total agency project management costs. Exclude indirect costs unless they are increased by the construction.

In proprietary and trust funds, include net interest costs incurred during the period of construction in the capitalized cost of the asset, if material. Capitalized interest on assets constructed with tax-exempt borrowing should be netted against any interest earned on the investment of the proceeds of the related tax-exempt borrowings. Interest costs are not capitalized in governmental funds.

Self-Constructed Assets – Internally Generated Software – Software is considered internally generated if it is produced/created by the State, or if it is purchased from a third party, and requires more than an incremental effort before placed into operation.

Capitalize all costs relating to application development. Application development includes software configuration and interfaces, coding, installation of hardware, and testing.

Costs related to the preliminary project stage (i.e. conceptual formulation, determination of need, and final selection of alternatives) and the post implementation/operation stage (i.e. training and software maintenance) should be expensed as incurred.

Costs associated with payroll should be recorded using MS-TAMS (Maine State Time and Attendance Management System). Payroll costs should also indicate the project phase (preliminary project, application development, or post implementation).

30.20.10.c **Ancillary Costs** - Normally, ancillary costs should be included in the cost of a Fixed asset. However, minor ancillary costs, not measurable at the time a Fixed asset is recorded in the Advantage Fixed Asset Subsystem, are not required to be capitalized but may be capitalized if the information becomes readily available. Ancillary costs include such items as:

For land and Infrastructure:

- Legal and title fees;

- Professional fees of engineers, attorneys, appraisers, financial advisors, etc.;
- Surveying fees;
- Appraisal and negotiation fees;
- Damage payments;
- Site preparation costs; and
- Costs related to demolition of unwanted structures.

For buildings and improvements other than buildings:
- Professional fees of architects, engineers, attorneys, appraisers, financial advisors, etc.;
- Damage payments;
- Costs of fixtures permanently attached to a building or structure;
- Insurance premiums, interest (refer to Subsection 30.20.10.a), and related costs incurred during construction; and
- Any other costs necessary to place a building or structure into its intended location and condition for use.

For furnishings, equipment, collections, and other Fixed assets:
- Transportation charges;
- Sales tax;
- Installation costs;
- Extended maintenance/warranty contracts (refer to Subsection 30.20.10.a); and
- Any other normal or necessary costs required to place the asset in its intended location and condition for use.

30.20.10.d **Donated Assets -** Use the fair market value at the date of donation, plus all appropriate ancillary costs. If it is not practical to determine the fair market value, use a reasonable estimated cost. If land is acquired by gift, the capitalized value is to reflect its appraised or fair market value at the time of acquisition.

30.20.20 When to capitalize assets

Departments should capitalize assets that meet the minimum dollar threshold (see below) and will be used for more than one fiscal year. If the utility of an asset will be exhausted within one fiscal year the asset may be expensed when purchased.

State assets shall be capitalized by recording in Advantage according to the following thresholds:

- All land (including ancillary costs);

- Infrastructure, other than the State highway system, with a cost of $5,000 or greater;
- Buildings with a value of $100,000 or greater in the Proprietary Funds or $1,000,000 or greater in the Governmental Funds
- Software with a cost of $1,000,000 or greater
- All other Fixed assets with a unit cost (including ancillary costs) of $5,000 or greater, or collections with a total cost of $5,000 or greater, unless otherwise noted.

For Fixed assets acquired by and used in proprietary and trust fund type accounts, record the value of the assets in the fund itself.

Although small and attractive assets do not meet the State's capitalization policy above, they are considered controllable property for purposes of marking and identifying (refer to Section 30.30), inventory records requirements (refer to Section 30.40), and physical inventory counts (refer to Section 30.45).

Close out Construction in Progress and capitalize total, accumulated costs into the appropriate asset classification when a project is substantially complete, accepted, and placed into service.

30.20.20.a **New acquisitions –** Capitalize new assets that meet the State's capitalization policy as stated above.

Additions, improvements, repairs, or replacements to existing Fixed assets are not considered new acquisitions and are discussed below.

30.20.20.b **Additions –** Capitalize expansions of or extensions to an existing Fixed asset that meet the State's capitalization policy above.

30.20.20.c **Extraordinary repairs, betterments, or improvements –** Capitalize outlays that increase future benefits for an existing Fixed asset beyond its previously assessed standard of performance, if they meet the State's capitalization policy as stated above. Increased future benefits typically include:

- An extension in the estimated useful life of the asset.
- An increase in the capacity or efficiency of an existing Fixed asset.
- A substantial improvement in the quality of output or a reduction in previously assessed operating costs.

Leasehold improvements that meet the State's capitalization policy are recorded in the General Ledger as "Leasehold Improvements."

30.20.20.d **Replacements –** For buildings, improvements other than buildings, and equipment, capitalize the cost of outlays that replace a part of another Fixed asset when the cost of the replacement is $5,000 or more *and* at least 10 percent of the replacement value of the asset, or $100,000, whichever is less.

Example:

A $9,000 replacement of a heating boiler (which did not meet any of the criteria to be considered a betterment) in a building having a replacement value of $120,000 would *not* be capitalized. The $9,000 cost is not at least 10 percent of the building's replacement value. Had the building's replacement value been $90,000 or less, the $9,000 boiler replacement would have been capitalized.

EXCEPTIONS to this policy are:

- Replacement roof coverings are not capitalized (whether or not the replacement is with superior materials) unless the replacement extends the useful life of the building.
- Replacement floor coverings and window coverings are not capitalized.
- Costs to remodel (convert) a building to a different use, where the remodeling does not extend the useful life of the structure itself, are not capitalized.

Remove the capitalized value and the associated accumulated depreciation of the replaced Fixed asset or original building component from the accounting records if the amounts are determinable, and capitalize the cost of the replacement.

30.20.20.e **Renovations –** Capitalization Threshold for Renovations

A renovation enhances an already existing asset to a condition beyond that which results from normal maintenance repairs, and/or increases the useful life of the asset. Replacing a roof, or installing a better electrical system in a building, are examples of renovations.

Any renovation to a building must meet the following criteria to be included in the fixed asset system:

1. The cost must be more than $100,000.
2. The renovation must extend the useful life of the component.
3. The renovation must occur when 75% or more of the estimated useful life of the component being renovated has expired.

After determining that a renovation qualifies for inclusion in the fixed asset system, an additional test must be performed to determine whether the original component (being renovated) should be retired.

If the actual cost of the renovation is 75% or more of the replacement cost of the component at the time of completion, the original cost of the component should be retired.

Example:

Replace and upgrade the roof on the OGS Building. The estimated useful life of the roof is 20 years, the remaining useful life is 4 years, the replacement cost of the roof is $500,000, and the renovation actual cost is $400,000.

Does the renovation meet the 75% of the useful life test? Expired life/useful life = 16/20 = 80%; answer is yes.

This renovation would be included in the fixed asset system.

Does the renovation meet the 75% of the replacement cost dollars? $400,000/$500,000 = 80%; answer is yes.

The original component would be retired from the fixed asset system and a new asset recorded.

30.20.20.f **Bulk Purchase –** For proprietary funds, bulk purchases of like Fixed assets with unit costs of less than $5,000 *may* be capitalized as a group where the allocation of costs for the bulk assets over time is matched to the corresponding revenue generated by the bulk assets.

30.20.20.g **Collections –** Collections of Historical Treasures, Works of Art, Library Books, and other similar assets are to be capitalized if the conditions described in Section 30.20.22 are not met.

30.20.22 Assets not capitalized

30.20.22.a Collections of Historical Treasures, Works of Art, Library Books, and other similar assets are not required to be capitalized if their value does not diminish over time and if all of the following conditions are met:

- 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.
- The collection is subject to a department policy that requires the proceeds from sales of any collection items to be used to acquire other items for the collection.

Departments meeting these conditions have the option of capitalizing their collections.

Library resources are capitalized and may be carried on the department's property records as a single item.

For collections not capitalized, disclosures should provide a description of the collection and the collection meets the conditions, above.

Departments must be able to provide descriptions of their collections and the reasons the collections are not capitalized.

While these collections are not required to be capitalized, they are to be catalogued per Subsection 30.40.10.

Donations of works of Art, etc. must be recorded as revenue (GASB-33) and for collections not capitalized, a program expense must be recorded to offset the revenue (GASB-34, par. 28).

30.20.22.b Assets with values that fall below the capitalization threshold should be expensed. The exception being internal service funds which may want to capitalize these items as Type X in order to properly match revenues with expenses.

30.20.30 Capital Leases

The presence of a fiscal funding clause in a lease does not prevent the lease from qualifying as a capital lease, provided that the likelihood of the State invoking the fiscal funding clause is considered remote.

A capital lease is a lease with contractual terms that transfer substantially all the benefits and risks inherent in the ownership of property to the State. A capital lease is viewed as an installment purchase rather than a rental of property. A lease must meet one or more of the following four criteria to qualify as a capital lease:

1. Ownership of the leased property is transferred to the State by the end of the lease term; or
2. The lease contains a bargain purchase option; or
3. *The lease term is equal to 75 percent or more of the estimated useful life of the leased property; or
4. *If, at the inception of the lease, the present value of the minimum lease payments, excluding executory costs (usually insurance, maintenance, and taxes paid in connection with the leased property, including any profit thereon) is 90 percent or more of the fair value of the leased property. (The interest rate to be used in computing the present value is available by contacting the Division of Financial and Personnel Services (DFPS), and is the rate in effect at the execution date of the lease.)

*Neither the third nor the fourth criterion is to be applied when the inception of the lease (inception is the date of the lease agreement) occurs during the last 25% of the life of the asset.

If the lease meets any one of the above criteria, it is to be capitalized at the present value of the minimum lease payments up to the fair value of the leased property. Minimum lease payments include:

- Minimum rental payments - Minimum payments the lessee is obligated to make to the lessor under the lease agreement (excluding executory costs).
- Guaranteed Residual Value - The residual value is the estimated fair market value of the leased property at the end of the lease term. The lessor often transfers the risk of loss to the lessee through a guaranteed residual value. The guaranteed residual value is the certain or determinable amount at which the lessor has the right to require the lessee to purchase the asset, or the amount the lessee guarantees the lessor will realize.
- Penalty for Failure to Renew or Extend the Lease - The amount payable that is required of the lessee if the agreement specifies that the lease must be extended or renewed and the lessee fails to do so.
- Bargain Purchase Option - An option given to the lessee to

purchase the asset at the end of the lease term at a price that is fixed sufficiently below the expected fair market value so that, at the inception of the lease, purchase appears to be reasonably assured.

When lease agreements are capitalized, the property rights acquired under the lease are reported as an asset in the acquiring fund. For example, if the Office of Information Technology (OIT) has a capital lease with a vendor for telecommunications equipment they lease to the Department of Health and Human Services, OIT records the asset as theirs.

Capital leases in governmental funds will be reported only in the government-wide financial statements. Capital leases for proprietary fund types will be reported in the fund-level and government-wide statements, similar to other assets of that type.

The threshold for capital leases is $100,000, that is, if the net present value of the minimum lease payments, excluding executory costs (usually insurance, maintenance, and taxes paid in connection with the leased property) is $100,000 or greater, it is to be recorded. If the net present value is below that threshold, the asset is to be accounted for as an operating lease. If title to these assets transfers to the State at the conclusion of the operating lease, at title transfer they are to be capitalized and added to inventory.

30.20.40 Capital Lease Accounting

30.20.40.a Account for a capital lease as acquiring a Fixed asset and incurring a liability. If the lease involves acquiring more than one asset, each asset is to be capitalized if its fair market value exceeds the threshold.

Account for a lease as an operating lease, when the net present value of the future minimum lease payments or fair value, whichever is lesser, is less than $5,000. If title to the leased asset transfers to the State at the conclusion of the operating lease, capitalize the fair market value of the asset upon receiving title pursuant to Subsection 30.20.20.

30.20.40.b If a lease between State departments meets the requirements of a capital lease per Subsection 30.20.30:

- The lessor department is to treat the lease as a sales-type lease (record a sale on account and remove the asset from inventory); and,
- The lessee department is to treat the lease as a capital lease (record a Fixed asset and a liability).

30.20.40.c Capital leases are to be used only to acquire Fixed assets. (Refer to

Subsection 30.20.20.)

30.20.50 Certificates of Participations

Fixed assets acquired through Certificate of Participations (COPs) are to be capitalized in accordance with the State's capitalization policy.

Fixed assets acquired through a COP should be capitalized when responsibility for the asset is assumed by the department.

(Refer to Subsections 30.20.20)

30.20.60 Infrastructure Accounting

30.20.60.a In accordance with Governmental Accounting Standards Board (GASB) Statement Number 34, acquisitions of Fixed assets defined as infrastructure, which meet the State's capitalization policy, are to be capitalized.

30.20.60.b The State highway system, operated by the Department of Transportation, is classified by the State as Transportation Infrastructure-Modified Approach. Refer to Subsection 30.20.80.

30.20.60.c All transportation related infrastructure not included in Subsection 30.20.60.b and all non-transportation infrastructure assets are required to be depreciated. Refer to Subsection 30.20.70.

30.20.70 Depreciation policy

30.20.70.a Calculate and record depreciation for all depreciable Fixed assets.

Non-depreciable Fixed assets include:

- Land;
- The State highway system operated by the Department of Transportation, which is classified as Transportation Infrastructure-Modified Approach (refer to Subsection 30.20.80);
- Collections of Historical Treasures, Works of Art, Library Books/Reserves, and other similar assets that are inexhaustible (refer to Subsection 30.20.22); and
- Construction in progress.

30.20.70.b Depreciation normally begins when an asset is purchased or completed, and accepted. However, if an asset is not placed into service immediately, depreciation should begin when the asset begins to lose value. Either option should be applied consistently and should be reasonable in the circumstance. Depreciation may be calculated using either the straight-line or composite method.

- To calculate depreciation using the **straight-line method**:

  Annual Depreciation = (Cost – Salvage Value)/Asset Useful Life

- Calculate the **composite method** based on weighted average estimated lives or an estimate of the useful life of the grouping of assets, such as library resources. The assessment could be based on condition assessments or experience with the useful lives of the groupings of assets.

- A consistent composite depreciation rate should generally be used throughout the life of the grouping of assets, but the rate should be recalculated if the composition of the assets or estimate of the useful lives changes significantly.

  For example, if the average useful life of library resources, or portion thereof, is estimated to be 25 years, an annual depreciation rate of 4% would be used. The annual depreciation expense is calculated by multiplying the annual depreciation rate by the cost of the collection.

30.20.70.c **Useful Life for Fixed Assets**

Departments should use the following recommended guide for assigning a useful life to an asset. However, different lives may be used if an department has a compelling reason and the life assigned to an asset can be justified by historical experience. A brief explanation for the use of different lives must be on file with the State Controller's Office.

2-5 year property — includes computers and peripheral equipment, and computer software designed to cause a computer to perform a desired function;

5 year property — includes office machinery, automobiles, light and heavy general purpose trucks;

5-10 year property — includes internally generated intangibles;

7 year property — includes office furniture and fixtures, agricultural machinery and equipment;

10 year property — includes building improvements such as a new roof, plumbing and electrical renovations, vessels and water transportation equipment;

15 year property — includes land improvements;

30-50 year property — includes residential and nonresidential real property such as buildings;

A more comprehensive list is referenced in Appendix 1 to this document. This list is from IRS Publication 946, "How to Depreciate Property."

The State of Maine follows IRS Publication 946 which can be located under publications of the IRS website.

30.20.70.d Departments are responsible for establishing and utilizing an appropriate useful life for assets acquired in less than new condition.

30.20.70.e For leasehold improvements, the useful life is the estimated service life of the leasehold improvements, or the remaining term of the lease, whichever is shorter.

30.20.80 Non-depreciable transportation-related infrastructure assets reported using the modified approach

The State capitalizes the State highway system as a class of infrastructure assets and reports these assets using the “modified approach" to depreciation. Under the modified approach, these infrastructure assets are not depreciated as long as two requirements are met:

1. The assets are managed in an asset management system, which includes keeping an up-to-date inventory of assets, performing condition assessments of the assets and summarizing the results, and estimating the annual amount to maintain and preserve the assets.
2. The State documents that the assets are being preserved approximately at or above the condition level established and disclosed previously by the State.

Chapter 30 – Fixed Assets

30.30 Marking and Identifying Fixed Assets

30.30
Marking and Identifying Fixed Assets

30.30.10 Mark all inventorial Fixed Assets

Inventorial Fixed Assets are described in Subsection 30.40.10.

Mark all inventorial Fixed Assets upon receipt and acceptance to identify that the property belongs to the State of Maine, except as noted in Subsection 30.30.30.

This identification should:

- Facilitate accounting for the asset;
- Aid identification if the asset is lost or stolen;
- Discourage theft; and ultimately,
- Reduce the magnitude of the State's property losses.

30.30.20 How Fixed Assets should be marked

30.30.20.a Permanently affix the identification information to the asset by using a standardized adhesive tag or inscribing the asset according to the following format:

- MAINE STATE (or State seal insignia),
- DEPARTMENT NAME (or authorized abbreviation or department number),
- ASSIGNED CONTROL NUMBER (FIXED ASSET NUMBER)

If an existing Fixed Asset displays only a State control number, which has been assigned, properly affixed, and recorded on an authorized inventory system pursuant to Subsection 30.40.10, it does not need to be retagged.

30.30.20.b Departments may determine where to place the “Maine State" identification and control number on the Fixed Asset. However, the identification and control number should be located on the principal body of the asset, rather than a removable part.

30.30.30 When it is OK not to mark a Fixed Asset

30.30.30a Occasionally, a department will find it is impractical or impossible to mark some of its inventorial Fixed Assets according to these standards. For example, where a Fixed Asset:

- Would lose significant historical or resale value (such as collections of art, historical items, library books);
- Would have its warranty negatively impacted by being permanently marked;
- Is stationary in nature and not susceptible to theft (such as land, infrastructure, buildings, improvements other than buildings, and leasehold improvements); or
- Has a unique permanent serial number that can be used for identification, security, and inventory control (such as vehicles).

In these cases, the identification “Maine State” or State seal insignia is not required, and the department is to apply alternative procedures to inventory and identify such assets as “Maine State.”

Leased assets (capital or operating) should only be permanently marked with the identification upon formal transfer of ownership (title) to the State.

30.30.40 Production of the Fixed Asset inventory tags

30.3040.a

For assets that have been entered into Advantage, see the instructions on the Office of the State Controller’s website.

30.30.50 Fixed Asset inventory tags and control numbers need to be safeguarded

30.30.50a Responsibility for safeguarding Fixed Asset control numbers rests with the department’s inventory officer.

30.30.50b Departments are to ensure that adequate controls are established for safeguarding unissued, mutilated, and voided Fixed Asset inventory tags.

Chapter 30 – Fixed Assets

30.40 Fixed Asset Inventory Records Policy

30.40
Fixed Asset Inventory Records Policy

30.40.10 Which assets need to be inventoried or cataloged?

The following assets are inventorial assets and must be carried on the property records of an department (Asset Type):

- All assets meeting the State's capitalization policy (refer to Subsection 30.20.20),
- Assets with a unit cost (including ancillary costs) less than $5,000 identified as small and attractive assets (refer to Subsection 30.40.20 below),
- Collections of Historical Treasures, Works of Art, Library Books, and other similar assets that meet the criteria in Subsection 30.20.22 , are required to be controlled by means of a perpetual inventory or a recognized cataloging system,
- Trust lands are to be accounted for by the administering department.

30.40.20 Small and attractive assets

Each department should perform a risk assessment (both financial and operational) on the department's assets to identify those assets that are particularly at risk or vulnerable to loss. Assets so identified, that fall below the State's capitalization policy, are considered small and attractive assets. Each department should develop written internal policies for controlling small and attractive assets.

The department should implement specific measures to control small and attractive assets in order to minimize identified risks. Periodically, the department should perform a follow-up risk assessment to determine if the additional controls implemented are effective in managing the identified risks.

The departments may use Advantage to track their small and attractive assets by setting up the asset as a Memo Asset. When the fixed asset is entered via the FA document, the Memo Asset is specified by clicking in the Memo Asset checkbox, in the Header line. Memo Assets must meet the commodity asset threshold (COMMFA), but not the capitalization threshold (FACC). Memo Assets are not depreciated. And the accounting lines do not post.

Departments must include as small and attractive assets all items in the commodity code 68052 – Weapons, Firearms, Signal Guns & Accessories. Otherwise, departments have discretion in setting their definition of small and attractive assets. However, absent a risk assessment and development of written policies for identifying and controlling small and attractive assets, we recommend that departments include the following assets with unit costs of $300 or more as small and attractive:

- Communications Equipment, Public Safety: Audio and Video;
- Optical Devices, Binoculars, Telescopes, Infrared Viewers, and Rangefinders;
- Cameras and Photographic Projection Equipment;
- Personal Computers **(purchased by agency other than OIT, on or before June 2007);**
- Other IT Equipment (Scanners, monitors, printers, fax machines, etc.);
- Office Equipment;
- Radios, Televisions, Tape Recorders, VCRs, and Video Cameras.
- Cell Phones, PDA, GPS devices, etc.

30.40.30 Inventory records requirements

Departments are to maintain Fixed Asset inventory systems that include records for all inventorial assets.

Departments are to use the Advantage Fixed Asset Sub System for all assets that meet the State's capitalization policy. Departments may use an alternate in-house system for local analysis and tracking; however, the official asset record is the Advantage Accounting System.

For assets defined as small and attractive, departments may use Advantage (Memo Assets) which will include a more flexible fixed asset module for controllable property.

Department Name and Code Number - The department name and three digit code number.

Account - For proprietary and trust fund type accounts, this is the account in which the asset is being used. This may or may not be the original purchasing account.

For governmental fund type accounts, this is the account that originally purchased the asset.

For those assets acquired prior to July 1, 1982, for which an account cannot be identified or is no longer in existence, such assets are to be identified as assets of the General Fund.

Acquisition Date - The date the department takes title to, or assumes responsibility for, an asset.

Cost - The total cost (value) assigned to the asset. Refer to Subsection 30.20.10 for clarification.

Depreciation - The portion of the cost of a Fixed Asset representing the expiration in the service life of the asset attributable to wear and tear, deterioration, action of the physical elements, inadequacy, and/or obsolescence which is charged systematically over the useful life of the Fixed asset. Refer to Subsection 30.20.70. This element is not applicable to small and attractive assets.

Description - Name of the asset.

Disposal Authorization - When required, the Bureau of General Services must grant a department the authority to dispose of an asset or as provided by specific statutory authority.

Inventory Control Number - The control number inscribed on, or contained on the inventory tag attached or referring to, an asset.

Location Code - The identification code of the county in which the asset is located.

Salvage Value - The estimated portion of a Fixed Asset's cost that is recovered at the end of its service life less any disposal costs. This element is not applicable to small and attractive assets.

Useful Life - The estimated useful life of the Fixed Asset in years. This element is not applicable to small and attractive assets.

30.40.40 Adding Fixed Assets to the inventory

Upon receipt and acceptance of a Fixed Asset, the department property officer is responsible for supervising the addition of the asset to the inventory system. This includes assigning tagging responsibilities to specific individuals as well as developing and implementing procedures to ensure that the necessary information is entered into the department's Fixed Asset inventory system.

30.40.45 Removing Fixed Assets from the inventory

Departments are to adopt internal policies and procedures consistent with those promulgated by the Office of the State Controller and the Bureau of General Services regarding the timely removal of Fixed Assets from inventory, including procedures for the proper approval of disposal requests.

Fixed Assets are to be removed from active inventory based on the completion of a Property Disposal Request.

Departments are to maintain records of Fixed Asset dispositions in accordance with approved department records retention schedules.

When disposing and removing Fixed assets from inventory, departments are to follow policies and guidelines issued by the Office of the State Controller and the Bureau of General Services, or other specific statutory guidance.

30.40.80 Lost or stolen property

When suspected or known losses of inventorial assets occur, departments should conduct a search for the missing property. The search should include transfers to other divisions or departments, storage, scrapping, conversion to another asset, etc. If the missing property is not found:

- Follow the loss procedures in Section 20.30.
- Have the individual deemed to be primarily responsible for the asset, as well as that individual's supervisor, complete and sign a Property Disposal Request. Include on the Request a description of events surrounding the disappearance of the property, whom was notified of the loss, and steps taken to locate the property. Remove the lost or stolen property from the department's inventory and accounting records where applicable.

Maintain records for losses of inventorial assets in accordance with approved department records retention schedules.

Chapter 30 – Fixed Assets

30.45 Fixed Asset Physical Inventory Policy

30.45
Fixed Asset Physical Inventory Policy

30.45.10 Physical inventory frequency

Conduct physical inventories annually for all inventorial assets except as noted below.

Due to the stationary nature of certain assets (such as land, infrastructure, buildings, improvements other than buildings, and leasehold improvements), performing a physical inventory annually is not required.

Departments may conduct their Fixed Assets inventory on a revolving basis if the following conditions are met:

- Every item is subject to a physical count or verification at least once every three fiscal years.
- The inventory program is documented and the plan has been approved by the OSC.

For art collections, library reserve collections, library resources, and museum and historical collections (which are safeguarded and maintained through a perpetual or cataloging system), departments are to perform a physical inventory of these assets at least once every three years if practical. If not, they are to be periodically sampled on a revolving basis or physically inventoried via accepted industry standards.

30.45.20 Who should conduct and verify the physical inventory?

In order to ensure objective reporting of inventory items, a physical inventory should be performed by personnel having no direct responsibility (custody and receipt/issue authority) for assets subject to the inventory count. If it is not feasible to use such personnel for any part of the inventory, then those portions are, at least, to be tested and verified by a person with neither direct responsibility for that portion of the inventory nor supervised by the person directly responsible.

30.45.30 Physical inventory instructions

Written physical inventory instructions must be documented and distributed to each person participating in the inventory process. The instructions should describe:

- How and where to record each item,
- What information to record,
- What to do when they have a question,
- What procedures to follow when they finish their assignments,
- What procedures to follow when equipment is located but not listed,
- The procedure by which the person counting the assets attests to the accuracy of the count, such as by signing his or her name at the bottom of each inventory page, or signing a cover page for a group of pages sorted by another method (batches, location, equipment type, etc.), and
- How to record assets not being used or in an obviously unserviceable condition.

30.45.40 Physical inventory reconciliation

After the physical inventory count is completed, the department inventory officer is to conduct the reconciliation process. When all differences have been identified and explained, the inventory is considered reconciled.

Departments should conduct the following steps during the reconciliation process:

- Search the inventory lists to determine whether inventory noted during the count as unrecorded is, in fact, listed on another portion of the inventory.
- Enter unrecorded assets into the Fixed Asset Sub System as soon as possible after discovery.
- If a significant number of unrecorded assets are located, indicating a major problem with the asset recording procedures, the department property officer is to determine why the problem is occurring and correct it.
- Conduct a search in an effort to locate missing assets. For those assets not located, inventory officers are to follow procedures outlined in Subsection 30.40.80.

After the inventory is reconciled, the department inventory officer is to certify the reconciliation with a statement and signature that it is correct and report this to the supervisor. If the certification cannot be made, the inventory officer is to disclose that fact and the supervisor is to determine the appropriate course of action.

30.45.50 Retaining physical inventory records

The certification, together with the reconciliation and the inventory listing, serves as the support for the inventory balance and for accounting adjustments, if any, and must be retained by the department. The department should retain this documentation in accordance with the approved department records retention schedules.

Chapter 30 – Fixed Assets

30.50 Fixed Asset Types

30.50
Fixed Asset Types

30.50.10 B – Buildings and Fixtures

Buildings are any structure permanently affixed to land. Fixtures are any attachment permanently affixed to buildings.

Buildings that are an ancillary part of a network of infrastructure assets should be recorded as infrastructure asset. Examples include a toll plaza or rest area building.

The State acquires ownership rights in buildings through purchase, construction, donation, bargain purchase, or tax foreclosure.

When buildings are purchased, the cost should include the purchase or contract price of all permanent building structures plus any ancillary costs of acquisition such as attorney fees, appraisers, and financial advisors, and other expenditures necessary to put a building into its intended state of operation.

If a building is being constructed, the 'Construction in Progress' account will contain the current value of construction costs. See 'Construction in Progress' section for more information. After the building is constructed, the building asset is created and the 'Construction in Progress' asset is deleted.

If a building is acquired by gift or bargain purchase, the building account should reflect the fair market value at the date of acquisition. Note: a *bargain purchase* is a purchase priced significantly lower than the accepted fair market value.

If land has existing structures and these structures are demolished (razing), it is management's intent, at the time of acquisition that will determine how to record the demolition cost.

1. The intent, at the time of acquisition, is *to demolish* the building – capitalize the demolition cost as part of the land. (See Land section)

2. The intent, at the time of acquisition, is *to keep* the building and a future decision is made to demolish the building – if constructing a new building, then the demolition cost is capitalized as a component of the new building; otherwise, it is an indirect expense and considered a period cost (expensed immediately).

During the construction period of the new building, interest is considered part of the cost of the building and should be capitalized as part of the building cost for proprietary accounts (business-type activities).

Improvements to buildings are generally absorbed into the value of the building and, unlike land, are not carried in separate asset accounts. The valuation of improvements to the asset includes all costs incurred to complete the improvement.

30.50.20 C – Construction in progress

This account represents temporary capitalization of *labor, materials, and direct overhead* costs of a construction project.

When constructing an asset, the following costs are appropriate to record as Construction In Progress (CIP) until this constructed asset is place into use:

1. All *direct costs* are included in the total cost of the asset.

2. *Interest costs* may be capitalized as part of construction cost of the Fixed Assets for proprietary funds.

As construction progresses, the cumulative expenditures are capitalized as Construction in Progress. Upon completion of the Fixed Asset, the balance in this specific CIP account is manually transferred to an appropriate asset type such as "Buildings." After the creation of this new asset type, the related CIP is deleted from the fixed asset subsystem.

Tracking of these costs is made easier with the ‘Project’ subsystem within Advantage. The ‘Project’ subsystem is a tool to post and monitor expenditures directly relating to a specific construction project. As the payment is made within Advantage and a Project name/number is referenced, the cost is accumulated with other costs of the same Project name/number. A query on this Project name/number would give the total charged to the Project.

Self-constructed assets *should not* be recorded at a cost higher than what an outright purchase of a similar asset would cost. The portion of cost that is higher than the purchase price of a similar asset should be recorded as a period expense.

Interest costs are *not* capitalized in the governmental funds.

Interest costs on debt used *during* Fixed construction for enterprise funds are to be capitalized. The capitalization starts from the date of the borrowing through the date the asset is ready for its intended use.

Interest earned on unspent money, borrowed for this same period, reduces the amount to be capitalized. The basic, private-sector guidance on interest capitalization can be found in FASB Statement No. 34, *Capitalization of Interest Cost* and FASB Statement No. 62, *Capitalization of Interest Cost in Situations Involving Certain Tax-Exempt Borrowings and Certain Gifts and Grants.*

30.50.25 D – Equipment, Heavy Duty

Includes Trucks, either medium or heavy duty. Plows, Loaders, tractors, trailers, bulldozers, graders, etc.

30.50.30 E – Equipment and furniture

This account includes tangible property of a more or less permanent nature, which is useful in carrying on operations, except for land, buildings, improvements other than buildings, vehicles, and construction in progress. Some examples are machinery, furniture and furnishings, heavy tools, laboratory equipment, photographic equipment, and copiers.

Equipment with an original acquisition cost of $5,000 or more should be recorded as a Fixed asset. Software that is included with a new PC (already installed) is considered part of the PC.

When equipment is purchased, the cost should include the amount of money ultimately paid, including ancillary charges such as transportation, installation, and any other expenditure required to place the asset in its intended location and condition for use.

Judgment should be used in capitalizing ancillary charges; it is not desirable to allocate immaterial amounts, such as freight charges. These costs should be expensed when they are not material or not efficient to allocate.

30.50.40 H – Historical Treasures, Art, and Library Collections

Historical Treasures, Works of Arts, Library Collections, and similar assets should be capitalized at their historical cost or fair market value at the date of donation/purchase. However, governments are encouraged, *but not required*, to capitalize these items if all the following conditions are met. The collection is:

1. Held for public exhibition, education, or research in furtherance of public service, rather than financial gain.

2. Protected, kept unencumbered, cared for, and preserved.

3. Subject to an organizational policy that requires the proceeds from sales of collection items to be used to acquire other items for collections.

30.50.50 I – Improvements, other than Buildings

This account reflects acquisition value of depreciable improvements, other than buildings, which adds value to land. Examples of such improvements are:

1. Fences;
2. Retaining walls;
3. Pavement, such as parking lots and airport runways;
4. Picnic equipment; and,
5. Monuments.

Cost includes purchase price, contract price, or job order cost, professional fees of architects, site preparation costs and any other expenditure necessary to place the improvement into its intended state of operation.

This type of Fixed Asset is also used for leasehold improvements. If an improvement greater than $5,000 is made to a leased Fixed Asset (leasehold improvement), depreciate the improvement over the lesser of the life of the improvement *or* the remaining life of the original asset.

30.50.60 L – Land

Land is real property, excluding buildings, for which title is held by the State. Certain types of assets relating to land are not real property but are considered permanent and therefore not depreciable. These include easements, rights of way, and water rights. They are treated and capitalized as land assets.

There is no minimum threshold for capitalizing land. *<u>All land must be recorded.</u>*

The recorded cost of land includes purchase price, FMV if the land was donated, or FMV if the land was purchased at a bargain purchase option, *plus* any ancillary costs at the time of acquisition. Ancillary costs include, but are not limited to:

1. Legal and title fees;
2. Closing costs;
3. Appraisal and negotiation fees;
4. Surveying fees;
5. Damage payments; and,
6. Site-preparation costs (clearing, filling, leveling, landscaping and grading).

If management's intent, at the time of acquisition of land containing a building, is to demolish the building (razing), then the cost of demolition would be included in the capitalized value of the land. See Building Section for other types of razing.

"Land Held for Resale," either purchased or obtained through tax foreclosure, is considered inventory for accounting purposes. Land, either purchased or obtained through tax foreclosure, intended to be retained for government use, is capitalized as Land.

If land is acquired by exercise of the right of eminent domain, the award to the landholders becomes the equivalent of the purchase price and is treated similarly to land purchased.

30.50.65 Q – Equipment, Shop

Includes vehicle lifts, fuel tanks, compressors, Etc.

30.50.70 S – Infrastructure

Infrastructure assets are long-lived, Fixed assets that normally are stationary in nature and can be preserved for a significantly greater number of years than most Fixed assets. The following items are examples of infrastructure assets (this list is not meant to be exhaustive):

- Highways
- Bridges
- Tunnels
- Drainage systems
- Water and sewer systems
- Dams
- Lighting systems
- Piers
- Wharves/docks
- Weirs
- Marinas
- Boat ramps
- Outdoor swimming pools

- Radar and radio towers
- Incinerators
- Recreation structures

Certain assets may be an ancillary part of the infrastructure network or subsystem and recorded as infrastructure. Networks/subsystems are comprised of all assets that provide a particular type of service/function for the State. The following are some examples of infrastructure networks/subsystems:

1. Roadway curbs, sidewalks, signal lights, guard rails, etc.;
2. Rest area facilities associated with a turnpike/interstate;
3. Road maintenance structures such as shops and garages associated with a highway system; and,
4. Water pumping buildings associated with water systems.

30.50.80 T – Intangible Assets

Intangibles are assets that are not physical in nature but convey rights to the State. Intangibles include; patents, copyrights, and franchises.

Purchased software and software considered internally generated are also intangible assets. GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets,* is effective beginning fiscal year 2010, but must be applied retroactively. The Office of the State Controller will be providing more guidance on this in fiscal year 2009.

Easements, rights of way, and water rights are considered **land** assets, and are not amortized.

Intangibles, like tangible assets, are recorded at cost. Cost includes all costs of acquisition and expenditures necessary to make the intangible asset ready for its intended use; such as purchase price, legal fees, and other incidental expenses.

Intangible assets should be amortized over their estimated useful lives.

Legal, regulatory, or contractual provisions.

1. Provisions for renewal or extension.
2. Effects of obsolescence.
3. A useful life may parallel the service life expectancies of individuals or groups of employees.

30.50.90 V – Vehicles and Vessels (air/land/water)

This category includes light trucks, cars, boats (vessels) and other rolling stock. The cost includes the purchase cost, expenditures for significant improvements and any other necessary expenditure required to place the asset into its intended state of operation. Working equipment, such as bulldozers, are considered equipment, not vehicles.

30.50.100 X – Controllable – Below Capital, but depreciable

The departments may own other depreciable assets that fall below the capitalization threshold. These lower value assets benefit more than one fiscal year, and therefore need to be depreciated. Examples of X type assets include; computers, servers, etc.

Chapter 30 – Fixed Assets

30.60 Fixed Asset Impairment and Insurance Recoveries

30.60
Fixed Asset Impairment and Insurance Recoveries

30.60.10 Fixed Asset Impairment

Please notify the OSC liaison for your department as soon as you suspect the possibility of a Fixed Asset impairment.

GASB-42 defines fixed Asset impairment as “a significant unexpected decline in the service utility of a Fixed Asset.”

1. Evidence of physical damage to the degree that restoration efforts are needed to restore service utility.

2. Change in legal or environmental factors.

3. Technological developments or evidence of obsolescence.

4. A change in the manner or expected duration of usage of a fixed asset.

5. Construction stoppage due to a lack of funding.

This list is not all inclusive. Professional judgment must be used to identify other events or changes that give rise to fixed asset impairments.

GASB -42 provides for the testing of fixed asset impairment by determining whether both of the following factors are present:

1. The magnitude of the decline in service utility is significant
2. The decline in service utility is unexpected

30.60.20 Insurance Recoveries

Insurance recoveries related to impairment of fixed assets should be presented as follows.

In the governmental funds financial statements

- Restoration or replacement costs should be reported as an expenditure.

- Insurance recovery (if any) should be reported as either an other financing source or an extraordinary item.

In the government-wide and proprietary fund financial statements

- Restoration or replacement costs should be reported separately from the impairment loss and associated insurance recovery, if any.

If the loss and recovery occur in the same year.

- The impairment loss should be reported net of any insurance recovery, when the recovery is realized or realizable in the same year as the impairment loss.

If the loss and recovery occur in different years.

- Insurance recovery proceeds that are realized or realizable in a period subsequent to the recognition of the impairment loss, should be reported as program revenue, non-operating revenue, or an extraordinary item.

Chapter 30 – Fixed Assets

30.70 Fixed Asset Definitions

30.70
Fixed Asset Definitions

30.70.10 Definitions

Amortization:

The gradual reduction or liquidation of an amount over a period of time according to a specified schedule either by a direct credit, or debit; or through the use of a valuation account.

Ancillary Costs:

Costs that are directly attributable to asset acquisition, such as freight and transportation costs, site preparation costs, and professional fees that are necessary to place a Fixed Asset into its intended state of operation. Ancillary costs are capitalized as part of the cost of a Fixed Asset; however, minor ancillary costs may be expensed.

Examples of ancillary costs include:

1. Buildings and Improvements - Professional fees of architects, attorneys, appraisers, financial advisors, etc.; damage claims; costs of fixtures permanently attached to a building or structure; insurance premiums, interest, and related costs incurred during construction; other expenditures necessary to place a building or structure into its intended state of operation.

2. Equipment - Transportation charges, installation costs, and any other normal and necessary expenditures required to place the asset into its intended state of operation.

3. Land - Legal and title fees, surveying fees, appraisal and negotiation fees, damage payments, site preparation costs, and costs related to demolition of unwanted structures.

Art Collections:

An individual work of art or group of items of original artwork such as paintings, sculptures, craftwork or other materials commonly identified as a work of art. Art collections that are considered inexhaustible and meet certain criteria are not required to be capitalized. Departments meeting the criteria for not capitalizing a collection have the option of capitalizing art collections as non-depreciable Fixed Assets. Art collections that are exhaustible (such as those whose useful lives are diminished by display or educational/research applications) are to be capitalized and depreciated.

Betterment:

An addition made to, or change made in, a Fixed Asset, other than maintenance, that is anticipated to prolong its expected useful life or to increase its capacity, efficiency, or quality of output. Betterment's include extraordinary repairs or improvements to an existing Fixed Asset.

Book Value:

The net amount at which an asset or asset group appears on the books of account, as distinguished from its market or intrinsic value. In the case of assets subject to reduction by valuation allowances, book value refers to cost or stated value less the appropriate allowance.

Building Improvements:

Improvements pertain not only to structures, but also associated items, such as loading docks, heating and air-conditioning systems, and all other property permanently attached to, or an integral part of, the structure.

Buildings:

A Fixed Asset reflecting the acquisition costs of a permanent structure, *excluding land*; any roofed structure used for permanent or temporary shelter of persons, animals, vegetation, or equipment.

Capital Leases:

A lease of an asset that treats the assets as being owned. A lease of this nature must be capitalized if it meets the criteria detailed in *FASB-13***.**

Composite Method:

A method used to calculate depreciation expense that groups similar assets (such as library resources) or dissimilar assets of the same class (such as all roads and bridges in a park) using the same depreciation rate.

Computers:

- *Personal computer* - The standard desktop configuration, CPU, monitor, keyboard, mouse. This asset is desktop resident and not portable.

- *Laptop computer* - The portable type of computer.
- *Server* - The computer used to perform system functions such as mail handling, file and data base management, and LAN management.

Construction:

All associated cumulative costs (i.e. design, survey, fixtures, etc.) related to a capital project that results in a Fixed Asset of the State. Upon completion of the capital project, that is, the point at which the asset is placed in service for its intended use, the balance in the construction in progress account is transferred to an appropriate asset account such as buildings.

Construction in Progress:

A Fixed Asset reflecting the cost of construction work undertaken but not completed at the end of the accounting period.

Cost:

The amount of money or other consideration exchanged for property or services; or the historical cost of an asset/investment at the time of acquisition, including any ancillary costs (e.g., legal fees and commissions) but excluding any purchased accrued interest, unless a new cost has been assigned based upon a permanent decline in value.

Department:

Unless otherwise provided by Statute, operational units of State government consisting of every department; office; institution, whether educational, correctional or other; department, division; board; or commission.

Depreciable Fixed Assets:

Fixed Assets that are depreciated because they are exhaustible (i.e., their useful lives diminish over time). Exceptions include infrastructure assets reported using the modified approach.

Depreciation:

Expiration of the useful life of Fixed Assets, other than depletable assets, attributable to wear and tear, deterioration, action of the physical elements, inadequacy and obsolescence, which is charged off during a particular period. In accounting for depreciation, the cost of a Fixed Asset, less any salvage value, is prorated over the estimated useful life of such an asset.

Distributed Assets:

Substantial number of assets that are geographically dispersed.

Donated Assets:

Assets acquired by gift, donation, or payment of a nominal sum that is not reflective of the asset's true market value. The cost assigned to donated assets is the fair market value at time of acquisition plus all appropriate ancillary costs. If the fair market value is not practicably determinable (e.g. due to lack of sufficient records) estimated costs must be used.

Eminent Domain:

The power of a government to acquire private property for public purposes. It is frequently used to obtain real property that cannot be purchased from owners in a voluntary transaction. Where the power of eminent domain is exercised, owners are compensated by the State in an amount determined by the courts.

Equipment:

Tangible property other than land, buildings, improvements other than buildings, or infrastructure, which is used in operations and with a useful life of more than one year. Examples are machinery, vehicles, tools, computers and electronic devices, and furnishings. Equipment may be attached to a structure for purposes of securing the item, but unless it is permanently attached to, or an integral part of, the building or structure, it is to be classified as equipment and not buildings.

Executory Costs:

Costs associated with leased tangible assets such as insurance, maintenance, or tax expenses.

FA Document:

Event Type **FA01 -** A Fixed Asset document used to create a new Fixed asset on the Advantage Fixed Assets Subsystem.

Event Type **FA02 -** A Fixed Asset document used to create a betterment to an existing asset on the Advantage Fixed Assets Subsystem.

Event Type **FA10 -** A Fixed Asset document used to increase asset value for shell on the Advantage Fixed Assets Subsystem.

Event Type **FA14 -** A Fixed Asset document used to unpend an asset shell and pending asset balance when the asset should not be setup on the Advantage Fixed Assets Subsystem.

Event Type **FAM2 -** A Fixed Asset document used to setup an asset that was transferred or sold from another department on the Advantage Fixed Assets Subsystem. (Used with FAM1, see FD document).

Event Type **FA28 -** A Fixed Asset document used to create a betterment to an internal sale asset on the Advantage Fixed Assets Subsystem.

FC Document:

Event Type **FA11 -** A Fixed Asset document used to cancel an asset on the Advantage Fixed Assets Subsystem. (Used when other adjusting documents cannot correct the error).

FD Document:

Event Type **FA04** - A Fixed Asset document used to dispose of an asset on the Advantage Fixed Assets Subsystem.

Event Type **FAM1** - A Fixed Asset document used to internally sell or transfer to another state department on the Advantage Fixed Assets Subsystem. (FD document workflows to Surplus for approval. Surplus copies forward to FA document with Event type FAM2 to new department).

FE Document:

Event Type **FA03 -** A Fixed Asset document used to manually record depreciation for an asset on the Advantage Fixed Assets Subsystem. (Used when other adjusting document cannot correct the error).

FP Document:

Event Type **FA11 -** A Fixed Asset document used to cancel an asset on the Advantage Fixed Assets Subsystem. (Used when other adjusting documents cannot correct the error).

FI Document:

Event Type **FA07 -** A Fixed Asset document used to adjust asset value for existing asset on the Advantage Fixed Assets Subsystem.

FM Document:

Event Type **FA05** - A Fixed Asset document used to modify the non accounting asset information (description, serial number, dates, etc.) on the Advantage Fixed Assets Subsystem. This is also used to transfer assets to Surplus Property using Location 0000 or 9999.

FP Document:

Event Type **FA12 -** A Fixed Asset document used to change the sales prices for an asset that has been disposed of on the Advantage Fixed Assets Subsystem.

FX Document:

Event Type **FA08 -** A Fixed Asset document used to change the asset type for an asset that has been disposed of on the Advantage Fixed Assets Subsystem. (Can only be used for non-memo assets that have not been previously depreciated).

ME Document:

Event Type **FA13 -** A System Fixed Asset document used to calculate monthly depreciation for assets setup with Straight Line depreciation on the Advantage Fixed Assets Subsystem

Fair Value:

The amount that could reasonably be expected to be received for an asset/investment in a current sale between a willing buyer and a willing seller.

Financial Accounting Standards Board (FASB):

Establishes standards of financial accounting and reporting for private enterprise (applicable to proprietary funds).

Fixed Assets:

Assets that meet the State's capitalization policy such as land, improvements to land, easements, buildings, leasehold improvements, vehicles, machinery, equipment, works of art and historical treasures, infrastructure, and all other tangible or intangible assets that are used in State operations and that have initial useful lives extending beyond one year, and original acquisition values above specified thresholds. Fixed Assets do not include depletable resources such as minerals or timber.

Fixtures:

Attachments to buildings that are not intended to be removed and which cannot be removed without damage to the buildings. Those fixtures with a useful life presumed to be as long as that of the building itself are considered a part of the building; all others are classified as equipment.

Furniture:

Movable articles in a room or establishment that render it fit for working or living. It includes items such as chairs, tables, cabinets, bookcases, etc.

General Fixed Assets:

Fixed Assets that are not assets of any fund, but of the government as a whole. Most often, general fixed assets are acquired through the expenditure of the financial resources of governmental funds. General fixed assets include all fixed assets not accounted for in proprietary funds or trust funds.

Generally Accepted Accounting Principles (GAAP):

Uniform minimum standards and guidelines for financial accounting and reporting. They govern the form and content of the financial statements of an entity. GAAP encompass the conventions, rules and procedures necessary to define accepted accounting practice at a particular time. They include not only broad guidelines of general application, but also detailed practices and procedures. GAAP provide a standard by which to measure financial presentations. The primary authoritative body on the application of GAAP to State and local governments is the Governmental Accounting Standards Board (GASB).

Governmental Accounting Standards Board (GASB):

The authoritative accounting and financial reporting standard-setting body for government entities.

Historical Cost:

Original acquisition cost of an asset, including all ancillary costs involved in putting that asset into its intended use.

Improvement:

An addition, alteration, betterment or structured change to an asset that results in its greater durability or extended useful life or to comply with current code of regulations.

Improvements Other Than Buildings:

Fixed Assets that reflect the cost of permanent improvements other than buildings and infrastructure that do not relate to the State highway system, which add value to land such as parking lots, fences and retaining walls.

Infrastructure:

Long-lived, Fixed Assets that are stationary in nature and can be preserved for a significantly greater number of years than most Fixed Assets. Examples of infrastructure assets include roads, sidewalks, bridges, tunnels, drainage systems, water and sewer systems, dams, and lighting systems. With the exception of the State highway system operated by the Department of Transportation, which uses the modified approach to depreciation, infrastructure assets are to be depreciated.

Intangible Assets:

Assets that are not physical in nature. Examples are water rights, air rights, rights of ways (if material), easements. Also, purchased computer software and internally generated software are intangible assets.

Inventorial Assets:

Assets required to be recorded, either because they meet the criteria of a fixed asset or because they are items considered to be particularly vulnerable to loss.

Inventory:

The process of preparing an itemized list recording land, buildings, equipment and other tangible property.

Land:

A fixed asset that reflects the value of land properties, including rights of way, owned by the State. If land is purchased, its capitalized value is to include the purchase price plus costs such as legal fees, and filling and excavation costs incurred to put the land in condition for its intended use. If land is acquired by gift, its capitalized value is to reflect its fair market value at time of acquisition. Land does not include depletable resources.

Leasehold:

The right to the use of real estate by virtue of a lease, usually for a specified term of years, for which consideration is paid.

Lease Purchase Agreements:

Contractual agreements which are termed "leases," but in substance they are purchase contracts.

Library Collections:

Items of historical or literary significance, such as documents, maps, photos, and original books. Library collections that are considered inexhaustible and meet certain criteria are not required to be capitalized. Departments meeting the criteria for not capitalizing library reserves have the option of capitalizing them as non-depreciable Fixed Assets. Library reserve collections that are exhaustible (such as those whose useful lives are diminished by display or educational/research applications) are to be capitalized and depreciated

Machinery:

See Equipment.

Maintenance:

Day-to-day, routine, normally recurring repair and upkeep. Maintenance activities keep an asset in good working condition throughout its estimated useful life.

Minimum Lease Payment:

These are the minimum present value payments the lessee is obligated to pay or expected to pay in connection with the property, excluding executory costs.

Museum and Historical Collections:

An individual item or group of items of historical or natural history significance. These items could be located in State museums or in any State department. They include items such as photographs, negatives, letters, blueprints, antique furniture, historical documents, miscellaneous artifacts, and other similar items. Museum and historical collections that are considered inexhaustible and meet certain criteria are not required to be capitalized. Departments meeting the criteria for not capitalizing a collection have the option of capitalizing museum and historical collections as non-depreciable Fixed Assets. Museum and historical collections that are exhaustible (such as those whose useful lives are diminished by display or educational/research applications) are to be capitalized and depreciated.

Property Officer:

Individual at each department/service center who is responsible for fixed assets including, and not limited to, asset training, records retention, inventory, reconciliation, and certification.

Razing:

To level (structures) to the ground.

Reconciliation:

The process of correlating one set of records with another set of records and/or a physical inventory count that involves identifying, explaining, and resolving differences.

Repair:

Expenditures made to maintain assets in operating condition; they are recorded as expenditure in the accounting period in which they are incurred on the basis that it is the only period benefited.

Replacement Cost:

The amount of cash or other consideration that would be required at a certain date to obtain an asset, or its equivalent, that can render similar service (but which need not be of the same structural form) as the property to be replaced.

Salvage Value:

An estimate of the amount that will be realized at the end of the useful life of a depreciable asset.

Small and Attractive Assets:

Assets that do not meet the State's capitalization threshold but that an department considers particularly vulnerable to loss, thus subject to special property control.

Straight-line Method:

Under the straight-line method, amortization is prorated in equal dollar amounts to interim periods throughout the life of an asset. The straight-line method of depreciation allocates the cost of a Fixed asset systematically over the useful life of the asset by way of the following formula: (cost less salvage value) divided by estimated useful life in years.

Useful Life:

An estimate of the total time that an asset will be usable and in service.

Chapter 30 – Fixed Assets

30.80 Appendices

30.80 Appendices

30.80.10 Appendix I – IRS table of Class Lives and Recovery Periods

Publication 946 on the IRS website.

30.80.20 Appendix II – Surplus Property Fixed Asset Guidelines

SURPLUS PROPERTY
FIXED ASSET GUIDELINES

TO: ALL SURPLUS PROPERTY STAFF

SUBJECT: FIXED ASSET PROCEDURES

DATE: 5-15-03

The following procedures are effective immediately and will clarify Surplus Property's role in the reception and disposal of the State's fixed assets. This will provide accountability by the turn in department and Surplus Property through this part of the asset cycle. This will also address issues related to sales and reimbursement of funds to departments.

RECEIVING:

1. Surplus Property will receive an FC report from the Controller's Office. This report indicates what assets have been recently transferred to Surplus Property via Advantage. Once the report is received, Surplus will contact the department to schedule a pick up or arrange for a delivery from the department. Once physically received by Surplus, an FC is performed accepting the asset. Receiving staff must provide administrative staff with the FA # in order to accomplish an FC.

2. If an department delivers assets to Surplus, these need to be scheduled whenever possible. However, it is inevitable that departments will show up unannounced. If this occurs and fixed assets are contained in the delivery, receiving staff must verify that

an FC Report was received for the assets. If not, this must be brought to the attention of the supervisor or manager.

3. When picking up at departments, Surplus staff must have the FC Report and verify the assets are present. Surplus will pick up only the assets which have been transferred on the FC Report.

4. When pick-ups or deliveries are being scheduled, staff must ask whether there are any fixed assets and if so, whether an FC has been done. Staff must also inform the department that the assets must be segregated from all other property for ease of verification.

5. If an department claims an asset has already been sent to Surplus, this claim needs to be supported with a BP- 84 (Surplus Property Transfer Document). If there is no supporting documentation, the department must be informed that the asset will be considered lost and an FD will be performed.

6. In all instances of pick-ups or deliveries, whether or not fixed assets are involved, the department MUST submit a BP - 84 with verification by Surplus staff of all items.

7. Upon verification of assets, the FA # and serial # of the asset must be provided to administrative staff who will maintain a database indicating when the asset was received, department, contact name and phone #, description, FA #, serial #, department account #s, disposal date and sold price, if sold. On occasion, assets may be transferred from one State department to another and must be duly recorded on Advantage.

SALES/DISPOSAL:

1. When an asset is sold, the FA # must be recorded on the sales slip. If it is an obvious asset and the FA # is not present, the serial # must be recorded, with the department name and account numbers, if available. This should only apply to property currently in our inventory and would exclude future inventory provided the process is followed.

2. The Office of Information Technology (OIT) has a lease program for computer equipment. The equipment is capitalized and is considered a fixed asset and must be managed accordingly. If, within existing inventory, the FA # is not provided, the serial # and department name must be recorded on the sales slip for OIT equipment. Equipment from other departments; such as, PCs, monitors, printers, fax machines, etc. are not supposed to be on the Advantage Fixed Asset system. These should have been purged

from the system.

3. When a sales slip is greater than $50.00 for a single item, the department account numbers must be recorded on the slip. Property sold as a combination such as computer packages must be noted on the sales slip that only the sale of the CPU is to be reimbursed at 88% to the department.

4. Once a sale is completed or an asset is destroyed, the FA # needs to be provided to Surplus administrative staff in order to perform an FD on the Fixed Asset system which is the final step in the process.

30.80.30 Appendix III – Authoritative Sources

Fixed assets in general - Governmental Accounting Standards Board's Codification of Governmental Accounting and Reporting (COD) 1100.106 and 1100.107; 1400 (all); Audits of State and Local Governmental Units, (AICPA), 10.19 and 13.12.

Internal Control - AICPA Audit and Accounting Manual (as of June 1, 1996, section 12,010; National Council on Governmental Accounting (NCGA) Statement 1.

Capital Leases - Generally Accepted Accounting Principles, FAS-13, *Accounting for Leases*.

Intangible Assets – Governmental Accounting Standards Board Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*

FASBS 34 *Capitalization of Interest Cost*

FASBS 62, *Capitalization of Interest Cost in Situations Involving Certain Tax-Exempt Borrowings and Certain Gifts and Grants.*

Recommended Practices for State and Local Governments, approved by Government Finance Officers Association, March 1997

Surplus Property Procedures - 5 MRSA, section 1811.

Intermediate Accounting 8th ed. Dr. Donald Kieso and Dr. Jerry Weygandt, 1995

Governmental Accounting, Auditing, and Financial Reporting (Using the GASB 34 model), Stephen J. Gauthier with the Government Finance Officers Association, 2001

GASBS 34 - Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments

GASBS 34 – Implementation Guide, 2000

Governmental GAAP Guide - For State and Local Governments, Michael A. Crawford and D. Scot Loyd, 2007

Excerpts from Massachusetts' Fixed Asset Subsystem Policy Manual and User Guide – Part 1, April 2003

5 MRSA Ch 143 1541 § 10-A, Internal control standards

5 MRSA Ch 143 1541 § 14, Fixed Assets