SECTION 5 – CAPITAL ASSETS

Overview

Capital assets typically represent one of the largest asset categories for local governments. They include tangible and intangible assets acquired for operational use that provide benefits beyond a single fiscal year. Common examples include land, land improvements, construction-in-progress, infrastructure, buildings, furniture, motor vehicles, audiovisual equipment, and software. Governments generally report capital assets they own or control in accordance with applicable accounting standards. Financed purchases and right-to-use arrangements should be evaluated under the applicable Government Accounting Standards Board (GASB) standards rather than solely by legal title.

Statutory Requirements

Chapter 274, Florida Statutes, governs the administration of tangible personal property owned by certain local governments. Section 274.01, Florida Statutes, defines "governmental units" for purposes of the requirements as the governing board, commission or authority of a county or taxing district of the state or the sheriff of the county. Section 274.02, Florida Statutes, defines "property" as fixtures and other tangible personal property of a non-consumable nature and requires the State's Chief Financial Officer to establish, by rule, the requirements for the recording of property. Department of Financial Services (DFS) Rule 69I-73, Florida Administrative Code, prescribes requirements for recording and inventorying tangible personal property, marking of property items, and disposing of property items.

Capital Asset Valuation

Capital assets should be reported at historical cost, which may include: (1) costs necessary to place the asset in its intended location, such as freight; (2) costs necessary to prepare the asset for its intended use, such as installation or site preparation; and (3) subsequent additions or improvements that enhance the asset's functionality or extend its expected useful life. Routine repair and maintenance costs are typically excluded. If historical cost information is unavailable, estimated historical cost may be used. Donated capital assets should be reported at acquisition value as of the donation date.

Capital Asset Capitalization and Accountability

Any asset that benefits more than one fiscal year potentially could be classified as a capital asset. As a practical matter, not all items that meet the definition of a capital asset should be capitalized for reporting purposes. Local government officials should establish a dollar value or capitalization threshold that capital assets must exceed if they are to be capitalized. Other considerations, as recommended by the Government Finance Officers Association (GFOA), include:

- Items capitalized should have an estimated useful life of at least two years from the date of acquisition.
- Capitalization thresholds are best applied to individual items rather than to groups of similar items unless the effect of doing so would be to eliminate a significant portion of total capital assets (e.g., books of a library district).
- GFOA recommends that capitalization thresholds generally not be set below $5,000 for an individual item. For federal award purposes, 2 Code of Federal Regulations (CFR) Section 200.1 defines equipment using the lesser of the recipient's capitalization level or $10,000. Florida's separate property-record threshold under Rule 69I-73.002, Florida Administrative Code, remains $5,000 for covered governmental units. Governments should separately document their

financial-reporting capitalization policy, Florida property-record requirements, and federal award property-management requirements.

When capital assets are not capitalized, governments should still ensure that adequate control and accountability is maintained, especially in certain circumstances, such as:

- For governmental units subject to Chapter 274, Florida Statutes, and Rule Chapter 69I-73, Florida Administrative Code, property with a value or cost of $5,000 or more and a projected useful life of one year or more must be recorded for inventory purposes.
- Items below $5,000 are not automatically required by Rule 69I-73.002 to be recorded solely because they are attractive. Governments should establish local policies for identifying and controlling sensitive or attractive items below the statutory property-record threshold.
- Sensitive or attractive items may require special attention because they:
    - Pose a risk to public safety and could be the source of potential liability.
    - Are assets that must be accounted for pursuant to a legal or contractual provision.
    - Are assets that are easily transportable and readily marketable or easily diverted to personal use.

Many governments use a perpetual inventory system that is updated for additions and deletions. Periodic physical verification remains necessary to confirm accountability and the accuracy of the inventory. GFOA recommends that governments inventory their tangible capital assets, at least on a test basis, no less often than every five years. Governmental units subject to Chapter 274, Florida Statutes, and Rule Chapter 69I-73, Florida Administrative Code, must conduct the inventories required by those provisions, including annual inventory and inventory when custody changes.

Capital Asset Maintenance and Replacement

Local governments should establish a system for assessing the condition of capital assets and develop a plan and budget for capital asset maintenance and replacement. Assessing the condition of capital assets can be done in conjunction with the inventory process. GFOA issued best practice recommendations for this process in its Capital Asset Assessment, Maintenance and Replacement Policy.

Depreciation

Depreciation is the systematic and rational allocation of the cost of a capital asset over its estimated useful life. Land and construction-in-progress are typically not depreciated. Local government officials need to establish a useful life and depreciation method for each class of capital asset. Straight-line depreciation is the most common method. The composite depreciation method is applied to a certain type of capital asset rather than to an individual capital asset.

Past experience should be used to determine the estimated useful life of an asset. When the government has no past experience to rely upon, the experiences of other governments can be useful. However, when depending on others' experiences, the government should take into consideration differences in quality of materials that comprise the asset, differences in the extent of use or the intended uses of the asset, and environmental differences between assets held by others and those acquired by the government. Once established, estimated useful lives should be periodically compared to actual experiences to make adjustments as necessary.

Capital Assets Reporting

GASB Statement No. 34

GASB Statement No. 34 requires capital assets to be reported on the government-wide Statement of Net Position and in the Notes to Financial Statements. Each local government must make four distinctions:

- Capital assets related to governmental activities that must be reported separately from those related to business-type activities.
- Different major classes of capital assets.
- Capital assets that are not being depreciated.
- Accumulated depreciation that must be reported separately for each major class of depreciable capital assets.

In addition, the following must also be reported

- The historical cost of capital assets (or their fair value at the time of donation).
- Accumulated depreciation.
- Additions during the period.
- Deletions during the period.

The format of the disclosure must demonstrate the change between the beginning and ending book values.

GASB Statement No. 104

For fiscal years beginning after June 15, 2025, GASB Statement No. 104 requires specified lease assets, subscription assets, right-to-use assets, and other intangible assets to be disclosed separately and establishes additional disclosure requirements for capital assets held for sale.

GASB Statement No. 87 and No. 96

Require governments to recognize right-to-use assets and related liabilities for leases and subscription-based IT arrangements (SBITAs) on the Statement of Net Position. Both standards apply to agreements longer than 12 months and require amortization of the asset over the lease or subscription term, with note disclosures summarizing key terms and future payment schedules. Short-term agreements are expensed as incurred.

References

- Chapter 274, Florida Statutes - Tangible personal property owned by local governments. Official link
- Rule Chapter 69I-73, Florida Administrative Code - Tangible personal property owned by local governments. Official link
- 2 CFR Section 200.1 - Federal definition of equipment and capitalization threshold. Official link
- GASB Statement No. 34 – Basic Financial Statements. Official link
- GASB Statement No. 87 – Leases. Official link
- GASB Statement No. 96 – SBITAs. Official link
- GASB Statement No. 104 - Disclosure of Certain Capital Assets. Official link
- Florida Department of Financial Services - Local Government Financial Reporting. Official link
- Government Finance Officers Association – Capital Asset Management Resources. Official link