Memorandum

TO: Mayor and Village Council Members

FROM: *Lisa G. Pace, CPA*
Finance Director

DATE: October 5, 2015

RE: Capitalization Threshold for Financial Reporting Retroactive to Inception of Village

The Village should establish a benchmark that is in accordance with Generally Accepted Accounting Principles (GAAP) to identify what the minimum cost of an asset should be (i.e., its significant value) to justify the time and expense of maintaining the information required for reporting it in the Village's financial statements. For practical reasons, governments capitalize only their higher cost assets.

The Government Finance Officers' Association (GFOA) recommends that capitalization thresholds never be less than $5,000 and provides for different capitalization thresholds by type (class) of capital assets. In determining the minimum cost of an asset that should be recorded and depreciated on the Village's financial statements one must determine if the asset's value is significant enough to justify the time and expense of maintaining the information required for reporting.

Intangible assets of a local government are typically easements and software. Capital improvement project assets include land acquisition, buildings, building improvements, improvement other than buildings and infrastructure assets that are typically reported in a capital project fund. Infrastructure assets are defined as public domain fixed assets such as roads, bridges, curbs and gutters, streets and sidewalks, drainage systems, lighting systems, and similar assets that are immovable and of value only to the government unit. Intangible, capital improvement project and infrastructure assets involve higher cost values, but the tracking mechanisms that are necessary to ensure items are not stolen, are obviously not an inherent factor in capitalization of these assets.

Our auditors from CliftonLarsonAllen, LLP, have assisted staff in developing the following recommendation. The new capitalization thresholds will be in line with policies that are being adhered to by other governmental entities. Staff requests approval of the above capitalization threshold effective retroactively to the inception of the Village.

Asset Class	Capitalization Threshold
Furnishings and Equipment	$ 5,000
Intangible	$25,000
Capital improvement project assets	$50,000
Infrastructure	$50,000

The Village currently maintains an asset inventory listing as a means to ensure control over lower-cost assets as required by State Statute Chapter 274.02.

GFOA Best Practice

Establishing Capitalization Thresholds for Capital Assets

Background. The term *capital assets* is used to describe assets that are used in operations and that have initial lives extending beyond a single reporting period. Capital assets may be either intangible (e.g., easements, water (rights) or tangible (e.g., land, buildings, building improvements, vehicles, machinery, equipment and infrastructure). It is incumbent upon public-sector managers to maintain adequate control over all of a government's resources, including capital assets, to minimize the risk of loss or misuse.

As a practical application of the materiality principle, not all tangible capital-type items with useful lives extending beyond a single reporting period are required to be reported in a government's statement of position. Items with extremely short useful lives (e.g., less than 2 years) or of small monetary value are properly reported as an "expense" or "expenditure" in the period in which they are acquired.

When outlays for capital-type items are, in fact, reported on the statement of position, they are said to be *capitalized.* The monetary criterion used to determine whether a given capital asset should be reported on the balance sheet is known as the *capitalization threshold.* A government may establish a single capitalization threshold for all of its capital assets, or it may establish different capitalization thresholds for different classes of capital assets.

Capitalization is, of its nature, primarily a financial reporting issue. That is, a government's principal concern in establishing specific capitalization thresholds ought to be the anticipated information needs of the users of the government's external financial reports. While it is essential to maintain control over all potentially capitalizable items, there exist much more efficient means than capitalization for accomplishing this objective in the case of a government's smaller tangible capital-type items.[1] Furthermore, practice has demonstrated that capital asset management systems that attempt to incorporate data on numerous smaller items are often costly and difficult to maintain and operate.

Recommendation. GFOA recommends that state and local governments consider the following guidelines in establishing capitalization thresholds:

- Potentially capitalizable items should only be capitalized only if they have an estimated useful life of at least two years following the date of acquisition;
- Capitalization thresholds are best applied to individual items rather than to groups of similar items (e.g., desks and tables), unless the effect of doing so

would be to eliminate a significant portion of total capital assets (e.g., books of a library district);

- In no case should a government establish a capitalization threshold of less than $5,000 for any individual item;
- In establishing capitalization thresholds, governments that are recipients of federal awards should be aware of federal requirements that prevent the use of capitalization thresholds in excess of certain specified maximum amounts (i.e., currently $5,000) for purposes of federal reimbursement; and
- Governments should exercise control over potentially capitalizable items that fall under the operative capitalization threshold.[2]

References.

1 See GFOA's best practice on "Maintaining Control over Items that Are Not Capitalized" (2006).

2 See GFOA's best practice on "Maintaining Control over Items that Are Not Capitalized" (2006).

Approved by the GFOA's Executive Board, February, 2006.

Select Year: 2015 Go

The 2015 Florida Statutes

Title XVIII
PUBLIC LANDS AND PROPERTY

Chapter 274
TANGIBLE PERSONAL PROPERTY OWNED BY LOCAL GOVERNMENTS

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CHAPTER 274
TANGIBLE PERSONAL PROPERTY OWNED BY LOCAL GOVERNMENTS

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274.01 Definitions.—The following words as used in this act have the meanings set forth in the below subsections, unless a different meaning is required by the context:

(1) "Governmental unit" means the governing board, commission or authority of a county or taxing district of the state or the sheriff of the county.

(2) "Custodian" means the person to whom the custody of county or district property has been delegated by the governmental unit.

(3) "Property" means all tangible personal property, owned by a governmental unit, of a nonconsumable nature.

(4) "Fiscal year" means the governmental unit's fiscal year established pursuant to law; otherwise, it means the calendar year.

History.—s. 1, ch. 59-163; s. 1, ch. 61-102.

274.02 Record and inventory of certain property.—

(1) The word "property" as used in this section means fixtures and other tangible personal property of a nonconsumable nature.

(2) The Chief Financial Officer shall establish by rule the requirements for the recording of property and for the periodic review of property for inventory purposes.

History.—s. 2, ch. 59-163; s. 8, ch. 69-82; s. 1, ch. 73-87; s. 5, ch. 82-104; s. 1, ch. 88-53; s. 5, ch. 96-209; s. 2, ch. 2004-296; s. 41, ch. 2006-122.

274.03 Property supervision and control.—A governmental unit shall be primarily responsible for the supervision and control of its property but may delegate to a custodian its use and immediate control and may require custody receipts. A governmental unit may assign to or withdraw from a custodian the custody of any of its property at any time; provided, that if the custodian is an officer elected by the people or appointed by the Governor, the property may not be withdrawn from the officer's custody without his or her consent. Each custodian shall be responsible to the governmental unit for the safekeeping and proper use of the property entrusted to his or her care. If the custodian is not a bonded officer, the governmental unit may require from the custodian a bond conditioned upon such safekeeping and proper use. In each county the sheriff shall be the custodian of the property of the office of sheriff.

History.—s. 3, ch. 59-163; s. 2, ch. 61-102; s. 186, ch. 95-148.

274.04 Property acquisition.—Whenever acquiring property, the governmental unit may pay the purchase price in full or may exchange property with the seller as a trade-in and apply the exchange allowance to the cost of the property acquired. If, whenever acquiring property, the governmental unit may best serve the interests of the county or district by outright sale of the property to be replaced, rather than by exchange as a trade-in, it may make the sale in a manner otherwise prescribed in this act for the disposal of property. The receipts from the sale may be treated as a current refund if the property to be acquired shall be contracted for within the same fiscal year of the governmental unit in which the property sold is disposed of.

History.—s. 4, ch. 59-163.

274.05 Surplus property.—A governmental unit shall have discretion to classify as surplus any of its property, which property is not otherwise lawfully disposed of, that is obsolete or the continued use of which is uneconomical or inefficient, or which serves no useful function. Within the reasonable exercise of its discretion and having consideration for the best interests of the county or district, the value and condition of property classified as surplus, and the probability of such property's being desired by the prospective bidder or donee to whom offered, the governmental unit may offer surplus property to other governmental units in the county or district for sale or donation or may offer the property to private nonprofit agencies as defined in s. 273.01(3) by sale or donation. If the surplus property is offered for sale and no acceptable bid is received within a reasonable time, the governmental unit shall offer such property to such other governmental units or private nonprofit agencies as determined by the governmental units on the basis of the foregoing criteria. Such offer shall disclose the value and condition of the property. The best bid shall be accepted by the governmental unit offering such surplus property. The cost of transferring the property shall be paid by the governmental unit or the private nonprofit agency purchasing or receiving the donation of the surplus property.

History.—s. 5, ch. 59-163; s. 21, ch. 94-226; s. 6, ch. 96-209; s. 1, ch. 96-236.

274.06 Alternative procedure.—Having consideration for the best interests of the county or district, a governmental unit's property that is obsolete or the continued use of which is uneconomical or inefficient, or which serves no useful function, which property is not otherwise lawfully disposed of, may be disposed of for value to any person, or may be disposed of for value without bids to the state, to any governmental unit, or to any political subdivision as defined in s. 1.01, or if the property is without commercial value it may be donated, destroyed, or abandoned. The determination of property to be disposed of by a governmental unit pursuant to this section instead of pursuant to other provisions of law shall be at the election of such governmental unit in the reasonable exercise of its discretion.

Property, the value of which the governmental unit estimates to be under $5,000, may be disposed of in the most efficient and cost-effective means as determined by the governmental unit. Any sale of property the value of which the governmental unit estimates to be $5,000 or more shall be sold only to the highest responsible bidder, or by public auction, after publication of notice not less than 1 week nor more than 2 weeks prior to sale in a newspaper having a general circulation in the county or district in which is located the official office of the governmental unit, and in additional newspapers if in the judgment of the governmental unit the best interests of the county or district will better be served by the additional notices; provided that nothing herein contained shall be construed to require the sheriff of a county to advertise the sale of miscellaneous contraband of an estimated value of less than $5,000.

History.—s. 6, ch. 59-163; s. 22, ch. 94-226; s. 7, ch. 96-209.

274.07 Authorizing and recording the disposal of property.—Authority for the disposal of property shall be recorded in the minutes of the governmental unit. The disposal of property within the purview of s. 274.02 shall be recorded in the records required by that section.

History.—s. 7, ch. 59-163.

274.08 Penalty.—Any person who violates any provision of this act or any rule prescribed pursuant to its authority shall be guilty of a misdemeanor of the second degree, punishable as provided in s. 775.082 or s. 775.083.

History.—s. 8, ch. 59-163; s. 158, ch. 71-136.

274.09 Construction.—The provisions of this act shall be liberally interpreted to be cumulative and supplementary to any general, special or local law, heretofore or hereafter enacted.

History.—s. 10, ch. 59-163.

274.10 Initiation of act.—This act shall govern the administration of the property of each governmental unit from the beginning of such governmental unit's fiscal year next succeeding May 28, 1959.

History.—s. 11, ch. 59-163.

274.11 County health department property.—Title to property purchased by county health departments established pursuant to the provisions of chapter 154, whether purchased with federal, state or county funds, or any combination thereof, shall be vested in the board of county commissioners of the county where said county health department is located and shall be accounted for in accordance with the provisions of this chapter.

History.—s. 1, ch. 61-46.

274.12 Special districts subject to chapter.—Every special district governed by the provisions of this act shall comply with the provisions of this chapter.

History.—s. 12, ch. 79-183; s. 3, ch. 2004-296.

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