

OFFICE OF ACCOUNTS AND CONTROL

OAC- CAPITALIZATION POLICY

CAPITALIZATION POLICY

REVISED JANUARY 2025

Division Contact:

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1. Purpose

This policy governs State agencies and employees regarding capital asset capitalization and valuation. The policy conforms with Government Accounting Standards Board (GASB) policy and the Federal Uniform Grant Guidance (2 CFR Part 200). These capital asset standards are important because they are building blocks for our annual financial reporting and ensure we are compliant in our use of federal grant funds.

2. Applicability

Capital assets are defined as tangible or intangible property with a useful life of more than one year and a certain cost or value. Another important characteristic of a capital asset is its intended use. These assets are not intentionally acquired for resale, nor are they readily convertible to cash. Capital assets are capitalized and included in the Accounts and Control Fixed Asset Control and Tracking System (FACTS) for management control and/or financial reporting purposes.

In general, assets included in FACTS are either owned by the State, acquired using State or Federal funds with the possibility of specific restrictions in the case of the latter source, or leased with the various characteristics of ownership present. Frequently, the State purchases or constructs assets meeting the criteria described in the above paragraph, but the State is not the owner of the asset.

The State assigns capitalization thresholds, valuation and useful lives to capital assets based on category.

3. Capitalization and Valuation by Category

Buildings, Building Renovations, and Improvements

All buildings and other structures owned by the State shall be recorded in the FACTS, regardless of cost.

Building Renovations shall be recorded in FACTS if the criteria established is met: 1) the cost of the asset is \$1,000,000 or more, and 2) the useful life of the asset is more than one year.

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A renovation enhances an already existing asset to a condition beyond that which results from normal maintenance or 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.

Improvements are defined as the addition of a new building component or section where one did not previously exist. Improvements costing \$1,000,000 or more and with a useful life of more than one year are capitalized. Examples of building improvements would include installation of an air conditioning system in a building or the addition of floor space to an existing building.

Computer Software

The State of Rhode Island considers computer software that exceeds a cost of \$2,000,000 and has an estimated useful life greater than one year to be an intangible asset. This policy shall apply both to software that is internally developed and to software purchased from a vendor. Computer software that is developed internally shall be recorded in FACTS as one asset if the cost of labor and material to develop the asset equals or exceeds the capitalization threshold. Computer software maintenance fees paid annually to the same vendor from whom the original application software was purchased shall not be capitalized.

Cloud-based computer software that meets the \$2,000,000 threshold but is not internally developed and no licensed software for use on State servers is purchased will be considered Software-as-a-Service (SaaS). Pre-implementation costs for SaaS will be accumulated as a deferred outflow of resources and will not be included in FACTS.

Computer User Licenses

Computer software vendors may sell users a license to use their software; they do not sell users their software per se. Therefore, it shall be the policy of the State of Rhode Island to account for computer software user licenses for “major” computer applications, i.e., those computer systems capitalized under the above policy, as an intangible asset.

SBITAs

In fiscal year 2023, the State implemented GASB Statement No. 96, Subscription-Based Information Technology Arrangements (SBITA). The objective of this Statement was to provide guidance on the accounting and financial reporting for SBITAs for

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governments. This standard defines a SBITA; establishes that a SBITA results in a right to use subscription asset (an intangible asset) and a corresponding subscription liability; and provides capitalization criteria.

The capitalization threshold established by Accounts and Control related to SBITAs applicable under GASB 96 was \$5,000 for fiscal years 2023 and 2024, and \$10,000 for fiscal year 2025 and thereafter.

The requirements of this standard are effective for fiscal years beginning after June 15, 2022.

Custodial Assets

Capital assets acquired with funds held in custody for an inmate, patient, client, or ward will not be recorded in FACTS and will not be assigned a barcode label. This policy also applies to a capital asset(s) donated for use only by a specific inmate, patient, client, or ward.

Donations

All donations, gifts, or bequests shall comply with the applicable State Statutes before the State can claim title and the receiving agency can deem it as a capital asset. When an agency receives a capital asset that has been donated, the agency receiving the asset should first determine the fair market value of the capital asset and its remaining useful life. Donated assets are capitalized if the asset value 1) equals or exceeds the capitalization threshold and 2) the asset has a useful life of more than one year.

Forfeiture

“Forfeited property” consists of (1) monetary instruments, real property, and tangible personal property acquired through forfeiture proceedings; (2) property acquired by the government to satisfy a tax liability; and (3) unclaimed and abandoned merchandise.

The property shall be valued at its fair market value at the time of forfeiture. A valuation allowance shall be established for liens or claims from a third party. This allowance shall be credited for the amount of any expected payments to third-party claimants.

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Property acquired by the government in satisfaction of a taxpayer's liability shall be recorded when title to the property passes to the State. The property shall be valued at its fair value less any third-party liens.

Unclaimed and abandoned merchandise shall be valued at its fair value.

An agency receiving a forfeited asset should first determine the fair market value of the capital asset and its remaining useful life. Capitalize if the asset value 1) equals or exceeds the capitalization threshold and 2) the asset has a useful life of more than one year.

Furniture and Equipment

Equipment is defined as any vehicle, piece of machinery, or other device that meets the capital asset criteria. Examples of equipment and furniture include, but are not limited to, appliances and household furniture; autos; buses; computers; construction machinery; landscaping equipment; office equipment and furniture; telecommunications equipment; tractors; and trucks.

Capitalization Threshold Increase

The US Office of Management and Budget issued the Uniform Grants Guidance 2024 Revision in April 2024, which provided revised guidance regarding government wide policies, including the reduction of burden for recipients of federal funds. The Burden Reduction section includes an increase to the threshold from \$5,000 to \$10,000 for the value of equipment that at the end of the grant period "may be retained, sold, or otherwise disposed of with no further responsibility to the Federal agency".

To comply with this new guidance, effective July 1st, 2024, the thresholds for the Furniture and Equipment category have been updated as follows: The \$5,000 capitalization threshold has been increased to \$10,000 and the tracked only threshold of \$500 has been increased to \$1,000.

All machinery, equipment, and furniture that costs \$10,000 or more, and has a useful life of more than one year, will be capitalized. Any computer equipment or lawn, landscape, and grounds maintenance equipment items costing between \$1,000 and \$9,999 and has a useful life of more than one year, will be tracked in FACTS, but **not capitalized**. Note, the \$1,000 threshold should not include the cost of the following items, if they are sold separately (i.e., unbundled): license agreements, maintenance contracts, training manuals, and software.

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For modular furniture, the total purchase price must equal or exceed \$10,000 to be capitalized.

Internally constructed assets, also known as fabricated assets, are those constructed by a State department or agency using its own labor and purchasing the components. The asset shall be capitalized, as one asset, if the cost of labor and material meets or exceeds the capitalization threshold.

Any repairs to furniture and equipment that cost \$10,000 or more, and that will increase the useful life of the asset by one year or more, will be capitalized.

Capitalization of Bulk Purchases

Assets which are purchased as a component group, such as a personal computer system (including a central processing unit, monitor and keyboard, and any pre-installed software), shall be recorded in FACTS as one asset. Additionally, any type of "kit" classified as furniture and equipment, that costs between \$1,000 and \$9,999, should be treated as one asset.

If several components of a group are lost, stolen, destroyed, or sold and the disposition of these components causes the asset's useful life to cease, report the disposition of the total asset. If these components are replaced and all of the replacement components cost more than \$10,000 (\$1,000 for computer equipment or lawn, landscape, and ground maintenance equipment) and will increase the asset's useful life to more than one year, then a new asset group will be recorded in FACTS.

GASB issued Implementation Guide No. 2021-1 in May 2021, which provided revised guidance for the capitalization of a group of assets with individual values less than a capitalization threshold, but assets that were acquired together. The revised guidance is effective for fiscal years beginning after June 15, 2023 (FY2024).

To comply with the new GASB guidance, effective July 1st, 2023, any asset that is individually less than the capital asset threshold, but when purchased together form a significant amount, should be capitalized. A significant amount is equal to or more than \$100,000. For example, the total of a bulk purchase of 250 laptops for \$500 each, would be \$125,000. Historically, these items would be tracked as expensed

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assets. As of July 1st, 2023, this purchase should be capitalized since it exceeds the \$100,000 threshold established.

Infrastructure

Assets in this category will be included in FACTS if they exceed the capitalization threshold; a cost of \$1,000,000 or more and a useful life of more than one year. These include roads, bridges, curbs and gutters, streets and sidewalks, water, sewage and drainage systems, lighting systems, dams and levees, telecommunications systems, water distribution, gas and electric utilities, solid waste disposal, waste water treatment, and similar assets that are immovable. Any real property that becomes part of infrastructure will be entered into FACTS but will retain its identity.

Land and Land Improvements

All land owned by the State shall be recorded in FACTS, regardless of cost.

Each parcel of land owned by the State is initially recorded as a separate asset.

Land improvements made to each parcel, such as parking lots, sidewalks, retaining walls, yard lighting, fencing, etc., are also recorded as separate assets in FACTS. For example, a parking lot would be recorded as a separate asset from the land underneath. It should be noted that although land assets are included in FACTS regardless of cost, land improvements are only included if they cost \$1,000,000 or more and have a useful life of more than one year.

Leases

In fiscal year 2022, the State implemented GASB Statement No. 87, Leases. The objective of this Statement was to enhance transparency through the recognition of lease-related assets and liabilities on the balance sheet.

This standard requires the recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and as inflows or outflows of resources recognized based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of a right to use an underlying asset. Under this standard, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources.

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The requirements of this standard are effective for fiscal years beginning after June 15, 2021.

The capitalization threshold established by Accounts and Control related to leases applicable under GASB 87 was \$100,000.

Leasehold Improvements

Leasehold improvements made to buildings leased by the State shall be included in FACTS if they meet the criteria established; a cost of \$1,000,000 or more, have a useful life of more than one year, and the remaining term of the lease is more than one year.

Seizure

Seized property includes monetary instruments, real property, and tangible personal property of others in the actual or constructive possession of the seizing agency.

Seized property shall be accounted for in an agency's property management records when an agency has gained actual or constructive possession of it under statutory and/or regulatory authority.

The value of the seized property shall be accounted for in an agency's property management records until the property is forfeited, returned, or otherwise liquidated. No record of any capital assets acquired through seizure shall be maintained in FACTS until legal title passes to a State agency through administrative or judicial proceedings.

Seized property shall be valued at its fair value when seized or, if fair value cannot be readily determined, as soon thereafter as reasonably possible. Fair value shall be based on the value of the property assuming an active market exists for the property. If no active market exists for the property in the general area in which it was seized, a value in the principal market nearest the place of seizure shall be used. Seized monetary instruments shall be valued at their market value.

Agency accounting policies, procedures, and records shall contain the following minimum requirements:

- A. Explanation of what constitutes a seizure and a general description of the composition of seized property.
- B. Method(s) of valuing seizures.

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- C. Changes from prior year's accounting methods, if any.
- D. Analysis of change in seizures, including the dollar value and number of seizures that are:
- i. on hand at the beginning of the year,
 - ii. made during the year,
 - iii. disposed during the year, and
 - iv. on hand at the end of the year, as well as known liens or other claims

against the property. This information should be presented by type of seizure and method of disposition.

Works of Art, Historical Treasures, and Memorabilia

Works of art, historical treasures, and memorabilia are defined as one or more items 1) on public display, 2) used in furtherance of historical education, or 3) involved in advancement of artistic or historical research. These assets will be included in FACTS, regardless of cost, whether they are held as individual items or in a collection if the conditions of ownership are as follows:

- Held for public exhibition, education, or research in furtherance of public service, rather than financial gain.
- Protected, kept unencumbered, cared for, and preserved.

Restorations of works of art, memorabilia, and historic treasures, the cost of which equal or exceed \$10,000, will be included in FACTS as a separate asset.

Administrative type buildings not considered part of a collection of historic buildings (for example, a visitor's center or a storage facility at a historical site) will be capitalized using the FACTS general policies as guidance.

4. References

This section provides a list of the resources used to update this capitalization policy, such as guidance and updates from GASB for previously issued Statements, and the US Office of Management and Budget related to government wide policies.

- US Office of Management and Budget (OMB). *Uniform Grants Guidance 2024*

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Revision, Burden Reduction Section. Retrieved from: [Uniform Guidance Reference Guides FINAL 4-2024.pdf](#)

- Governmental Accounting Standards Board (GASB), *GASB Implementation Guide No. 2021-1*, Implementation Guidance Update 2021, Amendments to Previously Issued Questions and Answers, section 5.1. Retrieved from: [Implementation Guide No. 2021-1, Implementation Guidance Update—2021](#)
- Governmental Accounting Standards Board (GASB), *GASB Statement No. 87 - Leases*. Retrieved from: [GASB STATEMENT NO. 87, LEASES](#)
- Governmental Accounting Standards Board (GASB), *GASB Statement No. 96 - Subscription-Based Information Technology Arrangements (SBITAs)*. Retrieved from: [GASB STATEMENT NO. 96, SUBSCRIPTION-BASED INFORMATION TECHNOLOGY ARRANGEMENTS](#)

5. Signatures:



**Office of Accounts and Control
State Controller**

4/30/2025

Date



Director of Administration

4/30/2025

Date