



State of Arizona Accounting Manual

Topic 25 Long-lived Resources

Issued 07/01/15

Section 10 **Land, Buildings,
Improvements and Infrastructure**

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INTRODUCTION

Land, buildings and infrastructure are always capitalized. Their acquisition—whether by purchase or construction—is subject to policies and procedures that, in some respects, may differ from the acquisition of other long-lived resources.

This policy statement does not replace a thorough reading and understanding of the manuals and training materials relating to the State's accounting and procurement systems, through which appropriate entries to record long-lived resources must be made. The reader is referred to the Glossary for a definition of any term that may not be familiar.

POLICY & PROCEDURES

1. Land.

- 1.1. All land must be capitalized, irrespective of cost.
- 1.2. Land is an inexhaustible asset and is not depreciated.

2. Land improvements.

- 2.1. Land improvements must always be capitalized, irrespective of cost.
- 2.2. Land improvements are to be depreciated.

3. Buildings.

- 3.1. All buildings, additions to, improvements of, or betterments of buildings must be capitalized, irrespective of cost.
- 3.2. Buildings and additions or improvements to building should be depreciated.
 - 3.2.1. If a building improvement extends the useful life of the building onto which it is affixed, then the useful life of the building should be extended to reflect its new life. The useful life of the improvement will be equal to the extended useful life of the building.
 - 3.2.2. If a building improvement does not extend the useful life of the building onto which it is affixed, the useful life of the improvement is the shorter of:

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3.2.2.1. The estimated useful life of the improvement itself, or

3.2.2.2. The remaining useful life of the building onto which it is affixed.

4. Infrastructure.

4.1. Infrastructure components that are part of a network or subsystem of a network need not be depreciated if the modified approach is adopted.

4.2. The modified approach may be adopted if both of the following conditions are satisfied:

4.2.1. A comprehensive asset management system is employed that accomplishes all of the following:

4.2.1.1. Maintains an up-to-date inventory of eligible infrastructure assets.

4.2.1.2. Performs regular, periodic and complete condition assessments of the assets and summarizes the results using a measurable scale.

4.2.1.3. Estimates, on an annual basis, the amount needed to maintain and preserve the eligible infrastructure assets at the condition level established and disclosed by the agency.

4.2.2. The agency documents that the eligible infrastructure assets are being preserved at or above the condition level established and disclosed by the agency.

4.3. Using the modified approach, costs for both maintenance and preservation of eligible assets should be expensed when incurred.

4.4. If the modified approach is used, it should be applied to all of the assets within the selected network or subsystem. The selection of the modified approach may be made independently for each network or subsystem.

4.5. Should an agency that had adopted the modified approach determine that for any reason it is no longer possible or desirable to maintain and preserve the eligible infrastructure assets for that network or subsystem at the condition level established and disclosed, the agency must, for the given network or subsystem, discontinue its use of the modified approach.

4.5.1. When an agency discontinues use of the modified approach, it must depreciate the affected infrastructure assets.

4.5.2. Depreciation is to begin in the fiscal year following that in which the modified approach was discontinued.

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- 4.5.3. Depreciation should not be retroactively applied.
- 4.5.4. Discontinuation of the modified approach is, in effect, a change in the estimated useful life and should be reported as a change in accounting estimate.
- 4.6. Because of the stringent requirements related to the adoption of the modified approach, agencies considering its implementation should contact the GAO for additional information.
- 4.7. If an agency may not or decides not to use the modified approach, infrastructure assets are to be depreciated using the prescribed useful life.
- 4.8. A betterment to an infrastructure asset is to be treated in the same way, i.e., subject to the modified approach or depreciated, as the asset to which it appertains.

5. Leasehold improvements.

- 5.1. A leasehold improvement is one that is acquired, installed or constructed at the direct cost of the lessee agency in a facility that is not owned by the State of Arizona or one of its agencies. Direct cost here means that the improvements are paid for separately rather than being remitted by way of an increase in the periodic lease rate.
- 5.2. Leasehold improvements are to be amortized over the shorter of the asset's useful life or the remaining term of the lease. The remaining term of the lease includes the balance of the original term plus any quantified renewal periods. A quantified renewal period is one in which the lessee has an explicit option to renew for a finite amount of time at a definite and stated price that the lessee intends to exercise. If the leasehold and, hence, the leasehold improvements are abandoned before the expiration of the originally estimated useful life, the unamortized balance of the leasehold improvements should be expensed in the period when the abandonment occurs.

Example: An agency, with funds appropriated to it for the purpose, has had several offices constructed at its own expense in a building it leases from a non-governmental entity. The total cost of construction was \$40,000. The construction is estimated to have a useful life of 40 years. The original term of the lease, which commenced one year ago, is five years; the lease contains a three-year option to renew, which the agency intends to exercise.

The remaining term of the lease is 84 months (60 – 12 + 36); the estimated useful life of the construction is 480 months. The construction should be amortized over 84 months.

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- 5.3. Buildings or improvements made or constructed under the terms of a special use permit on lands not owned by the State should be treated as leasehold improvements.
- 5.4. Properties owned by municipalities in or political subdivisions of the State of Arizona are deemed not to be owned by the State or one of its agencies.