

# CAPITAL ASSETS

## MVECA

Presented by:

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# Capital Assets

Overarching theory of MATERIALITY – GAAP need not be applied to immaterial amounts.

# GASB Codification – Section 1400

## Reporting Capital Assets

A clear distinction should be made between general capital assets and capital assets of proprietary and fiduciary funds. Capital assets of proprietary funds should be reported in both the government-wide and fund financial statements. Capital assets of fiduciary funds (and similar component units) should be reported only in the statement of fiduciary net position. All other capital assets of the governmental unit are general capital assets. They should not be reported as assets in governmental funds but should be reported in the governmental activities column in the government-wide statement of net position. [NCGAS 1, ¶32, as amended by GASBS 34, ¶6 and ¶69 and GASBS 63, ¶8; GASBS 34, ¶30, ¶80, ¶92, and ¶108, as amended by GASBS 63, ¶8]

# GASB Codification – Section 1400

## Valuation of Capital Assets

Capital assets should be reported at historical cost. The cost of a capital asset should include ancillary charges necessary to place the asset into its intended location and condition for use. Donated capital assets should be reported at their **acquisition value** at the time of acquisition plus ancillary charges, if any.

[**GASBS 34, ¶18**; as amended by **GASBS 72, ¶79**; **GASBS 37, ¶6**]

# GASB Codification – Section 1400

## Depreciation of Capital Assets

Capital assets should be depreciated over their estimated useful lives unless they are inexhaustible, are intangible assets with indefinite useful lives, or are infrastructure assets using the modified approach as set forth in this section. Inexhaustible assets such as land and land improvements should not be depreciated. Unless otherwise required, depreciation should be reported in the government-wide statement of activities; the proprietary fund statement of revenues, expenses, and changes in fund net position; and the statement of changes in fiduciary net position. Capital assets should be evaluated for impairment when events or changes in circumstances suggest that the service utility of a capital asset may have significantly and unexpectedly declined as set forth in this section. [GASBS 34, ¶21; GASBS 34, ¶22 and ¶107; as amended by GASBS 81, ¶27; GASBS 34, ¶92, as amended by GASBS 63, ¶8 and GASBS 81, ¶27; GASBS 42, ¶9; GASBS 51, ¶17]

# GASB Codification – Section 1400

## Reporting Capital Assets

.102 Capital assets should be reported at historical cost. The cost of a capital asset should include ancillary charges necessary to place the asset into its intended location and condition for use. **Ancillary charges include costs that are directly attributable to asset acquisition—such as freight and transportation charges, site preparation costs, and professional fees.**

Donated capital assets should be reported at their acquisition value plus ancillary charges, if any. [GASBS 34, ¶18; as amended by GASBS 72, ¶79; GASBS 37, ¶6; GASBS 72, ¶68]

# GASB Codification – Section 1400

## Reporting Capital Assets (cont)

.103 PPCAs used in this section, the term capital assets includes land, improvements to land, easements, buildings, building improvements, vehicles, machinery, equipment, works of art and historical treasures, infrastructure, and all other tangible or intangible assets that are used in operations 3 and that have initial useful lives extending beyond a single reporting period. 4

Infrastructure assets are long-lived capital assets that normally are stationary in nature and normally can be preserved for a significantly greater number of years than most capital assets. Examples of infrastructure assets include roads, bridges, tunnels, drainage systems, water and sewer systems, dams, and lighting systems. Buildings, except those that are an ancillary part of a network of infrastructure assets, should not be considered infrastructure assets for purposes of this section. [GASBS 34, ¶19]

# GASB Codification – Section 1400

## Reporting Capital Assets (Cont)

.104 Capital assets should be depreciated over their estimated useful lives unless they are inexhaustible, are intangible assets with indefinite useful lives as described in paragraph .152, or are infrastructure assets reported using the modified approach in paragraphs .105–.107. Inexhaustible capital assets such as land and land improvements should not be depreciated. Capital assets should be evaluated for impairment when events or changes in circumstances suggest that the service utility of a capital asset may have significantly and unexpectedly declined, as set forth in paragraphs .181–.197. [GASBS 34, ¶21; GASBS 42, ¶9, GASBS 51, ¶17]



# GASB Codification – Section 2300

## Required Note Disclosures about Capital

.117 Governments should provide detail in the notes to the financial statements about capital assets and long-term liabilities of the primary government reported in the statement of net assets. The information disclosed should be divided into major classes of capital assets and long-term liabilities as well as between those associated with governmental activities and those associated with business-type activities. Capital assets that are not being depreciated should be disclosed separately from those that are being depreciated. (See Section 1400, paragraph .112.) [GASBS 34, ¶116, as amended by GASBS 63, ¶8]

# GASB Codification – Section 2300

## Required Note Disclosures about Capital (cont)

.118 Information presented about major classes of capital assets should include:

- a. Beginning-and end-of-year balances (regardless of whether beginning-of-year balances are presented on the face of the government-wide financial statements), with accumulated depreciation presented separately from historical cost
- b. Capital acquisitions
- c. Sales or other dispositions
- d. Current-period depreciation expense, with disclosure of the amounts charged to each of the functions in the statement of activities.

# GFOA – Best Practices

GFOA recommends the following related to capitalization thresholds:

- Asset should have a useful life of **at least two years** to capitalize.
- Capitalization thresholds are best **applied to individual items** rather than groups of items (i.e., computers, desks, tables, etc.).
- In no case should a government establish a threshold of less than **\$5,000 for any individual item**.
- Capital assets purchased with federal awards should be tracked at the level at which sale of such asset must be returned.
- Control should be exercised over potentially capitalizable items that fund under the operative capitalization threshold (**annual inventory**).

# GFOA – Best Practices

GFOA recommends the following related to establishment of useful lives of capital assets:

- Best source of relevant information on useful lives is the government's own past experience with similar assets.
- When using industry standards or other experience related to useful lives of capital assets, potential effects of following should be considered:
  - Quality (concrete vs asphalt lot)
  - Application (play turf with only 1 sport vs numerous)
  - Environment (storm prone areas would affect useful life of roofs)

# GASB Question and Answers

.702-2 Q—Are library books depreciable capital assets?

A—If library books are considered to have a useful life of greater than one year, they are capital assets and are depreciable. Because most library collections consist of a large number of books with modest values, group or composite depreciation methods (as discussed in [paragraphs .177–.180](#) of this section) may be appropriate. (See Question .705-14 in this section.) In certain situations, library books may be considered works of art or historical treasures and could be reported using the provisions in [paragraphs .109–.111](#) of this section.

[GASBIG 2015-1, Q7.9.2]

# GASB Question and Answers

.702-5 Q—Does this section prescribe a minimum level for the capitalization of assets?

A—No. Different types of assets, subsystems, or networks may have different capitalization thresholds, the dollar value above which asset acquisitions are added to the capital asset accounts. Additionally, qualitative characteristics may also affect capitalization policies. Different thresholds may be established and used for purposes other than financial reporting—for example, for management control purposes or for compliance with laws and regulations. Paragraph .106 of Section 2300 requires disclosure of capitalization policies, which include capitalization thresholds. (See also Question .702-4 in this section.)

[GASBIG 2015-1, Q7.9.5]

# GASB Question and Answers

.702-6 Q—Should a government's capitalization policy be applied only to individual assets or can it be applied to a group of assets acquired together? Consider a government that has established a capitalization threshold of \$5,000 for equipment. If the government purchases 100 computers costing \$1,500 each, should the computers be capitalized?

A—Authoritative pronouncements do not address the manner in which a capitalization policy should be established and applied. Capitalization policies adopted by governments include many considerations such as finding an appropriate balance between ensuring that all significant capital assets, collectively, are capitalized and minimizing the cost of recordkeeping for capital assets. It may be appropriate for a government to establish a capitalization policy that would require capitalization of certain types of assets whose individual acquisition costs are less than the threshold for an individual asset. Computers, classroom furniture, and library books are assets that may not meet the capitalization policy on an individual basis, yet might be considered material collectively.

[GASBIG 2015-1, Q7.9.8]

# GASB Question and Answers

.702-20 Q—Are land improvements depreciable?

A—Improvements that produce permanent benefits—for example, fill and grading costs that ready land for the erection of structures and certain landscaping—are not depreciable. Alternatively, improvements that are considered part of a structure or that deteriorate with use or the passage of time, such as parking lots and fencing, should be considered depreciable. (See Question .702-1 in this section.)

[GASBIG 2015-1, Q7.13.4]



# GASB Question and Answers

.702-21 Q—How is estimated useful life calculated?

A—In determining estimated useful life, a government should consider an asset's present condition, use of the asset, construction type, maintenance policy, and how long it is expected to meet service and technology demands. For an intangible asset, a government also should consider any legal, regulatory, or contractual provisions that may limit the length of the asset's useful life. Useful lives should be based upon the government's own experience and plans for the assets. Although comparison with other governments or other organizations may provide some guidance, property management practices, asset usage, and other variables (such as weather) may vary significantly between governments.

[GASBIG 2015-1, Q7.14.1]

# GASB Question and Answers

.705-10 Q—Should capital assets be written off when they become fully depreciated?

A—No. Capital assets should be written off when they are disposed of. As a result of differences between estimated useful lives used for depreciation computations and actual useful lives, governments may, in limited cases, have capital assets that are fully depreciated but have not been disposed of. (See also Question .705-13 in this section.) Such capital assets should continue to be reported by the government. Fully depreciated capital assets do not affect the net balance of capital assets. However, the balances of historical cost and accumulated depreciation, which are disclosed separately in the notes to the financial statements and may be displayed separately in the statement of net position, are affected by and should include fully depreciated capital assets that have not been disposed of.

[GASBIG 2015-1, Q7.13.5]

# GASB Question and Answers

.705-11 Q—Is there a recommended schedule of useful lives?

A—No. A specific schedule is not recommended. Schedules of useful lives recommended by professional organizations may be a helpful starting point. However, schedules of depreciable lives established by federal or state tax regulations are generally not intended to represent useful lives.

[GASBIG 2015-1, Q7.14.2]

# GASB Question and Answers

.705-12 Q—What are sources of useful life information?

A—For estimated useful lives, governments can use (a) general guidelines obtained from professional or industry organizations, (b) information for comparable assets of other governments, or (c) internal information. Examples of internal information include property replacement policies for equipment or vehicles, property disposal records, and budget documents.

[GASBIG 2015-1, Q7.14.3]

# GASB Question and Answers

.705-13 Q—Once a depreciable asset's useful life is estimated, is it ever necessary to review the estimate in later years?

A—Yes. Because depreciation is a method of allocating an asset's cost over its useful life, a periodic review of this useful life is necessary for depreciation to reflect that allocation. Any change in useful life is applied prospectively in accordance with [paragraph .132 of Section 2250](#), “Additional Financial Reporting Considerations.” As many factors may affect the useful life of an asset, periodic reassessment of estimated useful lives may be appropriate. For example, equipment may not be replaced according to property management policies if appropriations for the replacement costs are not made. Planned preventative maintenance may not be performed, resulting in a reduction in the useful life of an asset. The use of the asset may have changed, or the asset may have been damaged or impaired by weather or other circumstances. (See also Question .705-10 in this section.)

# GASB Question and Answers

.739-1 Q—What are examples of "any established depreciation method"?

A—Any rational and systematic method may be used. Some of the common categories of depreciation methods include:

- ❖ The straight-line method
- ❖ Decreasing-charge methods, which include declining balance, double-declining balance, and sum-of-the-years'-digits, among others
- ❖ Increasing-charge methods
- ❖ Unit-of-production/service methods, which allocate the depreciable cost of an asset over its expected output.

# QUESTIONS?



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