State of Minnesota

Office of the State Auditor

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Minnesota Guide to Local Government Capital Assets

Updated July 2025

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I. Introduction

This guide is intended to provide guidance to local governments in understanding the accounting and financial reporting requirements for capital assets, including infrastructure, and depreciation/amortization with Governmental Accounting Standards Board[1] (GASB) 34 *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, GASB 42 *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, GASB 51 *Accounting and Financial Reporting for Intangible Assets*, GASB 72 *Fair Value Measurement and Application*, GASB 87 *Leases*, GASB 91 *Conduit Debt Obligations*, GASB 94 *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, *and* GASB 96 *Subscription-Based Information Technology Arrangements*. This guide should provide general guidance; however, each local government entity may face different issues/situations that should be resolved based on the particular facts, circumstances, and materiality levels of that entity.

Capital assets are included on the Statement of Net Position. Depreciation and amortization are required to be recorded as an expense at the government-wide level in the Statement of Activities.

While this document is not all encompassing, it is intended to provide useful information about capital asset information that may be relevant to Minnesota local governments. Therefore, it is a document that can be updated on a periodic basis. If there is additional information that the reader would like added to the document, please contact this office. If you have specific examples or information, please provide copies.

II. Information Needed for An Inventory/Capital Asset Record

Governmental entities should develop strategies to ensure they have an accurate, complete, and up-to-date record of capital assets. Completeness and accuracy should be ensured through physical counts, review of purchase records, regular inventory count records, and other methods deemed necessary.

Each governmental entity should have an inventory of all capital assets. Each inventory record should include: description, year of acquisition, method of acquisition (e.g., purchase, donation, etc.), funding source, cost or estimated cost/acquisition value, salvage value, and estimated useful life. The inventory record will also need to identify the function(s)/activities and/or department(s) that use the asset.

Capital asset acquisitions generally require budgetary authorization and governing board approval. There are often legal provisions and procedures for bidding and awarding contracts or for selling or donating assets no longer used. If capital assets were funded from intergovernmental sources, there may be compliance requirements related to the acquisition, disposition, maintenance, and recordkeeping of the asset.

The following example form summarizes the information needed to record capital assets.

[1] The authoritative accounting and financial reporting standard-setting body for state and local governments.

Capital Asset Record				
Asset type:		General description:		
Governmental Activity	Business-Type Activity			
ID No.:		Serial No.:		
Asset/expenditure account name:		Account number:		
Department:		Custodian/Assigned to:		
Source:		Location:		
Acquisition Date	Disposal Date	Total Cost:	Transaction #	Amount
		Original cost	_____	_____
		Additional costs	_____	_____
			_____	_____
			_____	_____
Special insurance, maintenance, repair, etc., instructions :		Total cost	_____	_____
		Depreciation/Amortization:		
		Annual_____		
Estimated Useful Life:		Monthly_____		
		Accumulated depreciation/amortization__		
_____Years	_____Months	Salvage Value_____		

III. Capital Asset Basics

Capital Asset Definition

Capital assets include 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 and that have initial useful lives extending beyond a single reporting period.[2]

Items acquired for the purpose of sale or investment, rather than for use in operations, would not qualify as a capital asset. Common examples include foreclosure and redevelopment properties. Similarly, buildings and equipment permanently taken out of service are no longer accounted for as capital assets.

Ownership is considered a collection of rights to "use and enjoy" property, including the right to transmit it to others. For assets held for public benefit, such as roads, the right-to-use and enjoy property includes the right to determine how the property is used. All rights may not be vested in a single entity. The term *title* is used to refer to the right to or ownership of an asset and is also used to refer to the evidence of ownership. Title may be evidence of legal ownership; however, that ownership may be held for the entity's own benefit or for the benefit of another entity. Generally, holding title to an asset equates to ownership, and the entity that holds title to an asset should report the asset in its financial statements. When ownership is unclear, the government with the primary responsibility for managing the asset should report the asset. Some capital assets should be recorded without evidence of ownership if they have a right-to-use the underlying asset.

Capital Asset Types

Tangible

A capital asset with a physical form (land, buildings, equipment, infrastructure). These assets, other than those with an indefinite useful life, are depreciated.

Intangible

A capital asset with an initial useful life that extends beyond a single reporting period that lack physical substance and that are neither financial in nature (neither a monetary asset nor a claim to a monetary asset) nor primarily held for the purpose of directly obtaining income or profit. It must be identifiable, meaning it can be separated or divided from the government (by sale, transfer, license, rental, or exchange) or arise from contractual or other legal rights. Examples of intangible assets include easements, water rights, timber rights, patents, trademarks, and computer software. Right-to-use assets (arising from leases, public-private and public-public partnerships, and subscription-based information technology arrangements) are also intangible capital assets. Excluded from intangible assets are items that are financial in nature (cash, investments, receivables, securities), as well as prepayments for goods and services (insurance paid in advance). Intangible assets are amortized.

Capitalization Theory – Applicable Accounting Principles

Generally accepted accounting principles (GAAP) related to tangible and intangible assets as they apply to governmental entities involve:

- the determination of the most appropriate value at which to record the asset in the accounts;
- the most suitable method to be used to spread the recorded value over the periods benefitted;

[2] GASB 34, Paragraph 19.

- the concept of useful life, which is the estimated future time span that will be benefitted by the employment of the asset;
- the measurement of impairment losses;
- the applicable accounting for the disposal of such assets.

Major Asset Classes

GAAP does not allow capital assets that are being depreciated or amortized to be displayed on the same line in the financial statements as capital assets that are not being depreciated or amortized in the government-wide financial statements.[3]

Land

Land should be treated separately from any closely related asset. The cost should include not only its acquisition price, but costs of initially preparing the land for its intended use provided they have an indefinite useful life. This may include costs such as excavation, fill, or grading.

Buildings

All permanent structures are included in this category. The cost of an improvement to these structures would be added to the cost of the related structure if the costs meet the requirements to capitalize. Use of subclasses may be used for different components of the structure if they have different useful lives.

Improvements Other Than Buildings (Land Improvements)

Used for permanent non-moveable improvements, other than buildings, that meet the requirements to capitalize but do not have an indefinite useful life. Examples include fences, retaining walls, parking lots, and site preparation or improvements (other than buildings) that ready land for its intended use. Moveable items (picnic tables in a park) should be classified as furnishings and equipment.

Furnishings and Equipment

Used for vehicles, furnishings, and similar moveable items. Could also be used for collections that do not have an indefinite useful life and so must be depreciated (such as general library collections).

Infrastructure

Long-lived capital assets that normally are stationary in nature and 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, piers and bulkheads, and lighting systems.[4] A network or subsystem of infrastructure would include rest area facilities associated with a turnpike, road maintenance structures such as shops and garages associated with a highway system, and water quality testing stations associated with water systems.

[3] GASB Cod. Sec. 1400.112 and GASB Cod. Sec. 1400.705-4.
[4] GASB 34, Paragraph 19.

Construction (or Development) In Progress

Used for costs incurred to construct a tangible asset or develop an intangible asset before it is substantially ready to be placed into service. Once complete it would be reclassified out of construction in progress and into the appropriate major class.

Internally Generated Intangible Asset (GASB 51)

Internally generated intangible assets can be software, patents, or copyrights. Intangible assets that are either: (1) created or produced by the government or an entity contracted by the government, or (2) acquired from a third party but requiring more than minimal incremental effort on the part of the government to begin to achieve their expected level of service capacity are considered internally generated. Costs should only be capitalized if they meet all of the following milestones:

(1) the specific objective of the project and the nature of the service capacity that it expects the project to provide once completed is determined;

(2) can demonstrate the technical or technological feasibility of completing the project with the capacity planned in item 1 and;

(3) demonstrates the current intention, ability, and presence of effort to complete (committing resources for the project in budgets, discussing the project in strategic planning documents, committing with external parties to assist in creating the asset, hiring or assigning specific personnel to work on the project, or seeking to secure legal rights to results of the project such as copyright or trademark) or, for larger or multi-year projects, continue developing the intangible asset.

Any costs that are incurred before all three of these milestones should be expensed when incurred. No costs associated with the preliminary project stage of software development should be capitalized. This includes: conceptual formulation, evaluation of alternatives, determination of existence of needed technology, and final selection for development. The costs associated with the application development stage (design of chosen path; coding; installation to hardware; testing, including parallel processing phase; and data conversion needed to make software operational) should be capitalized, if incurred subsequent to the completion of the preliminary project stage and if management authorizes and commits to funding through at least the current period. Costs incurred as part of the post-implementation/operations stage (application training and software maintenance) should never be capitalized.

Lease Assets (Right-to-Use) (GASB 87)

A government can be either the lessee (the user of the asset) or a lessor (allowing another entity to use their asset) in a lease transaction. A lease is "a contract that conveys control of the right-to-use another entity's nonfinancial asset (the underlying asset) as specified in the contract for a period of time in an exchange or exchange-like transaction."[5] Some contracts that meet the definition of a lease are excluded from lease accounting. The following items are excluded: leases that are financed purchases; lease of intangible assets (mineral rights, patents, copyrights, software), except for the sublease of an intangible right-to-use asset; biological assets (plants, animals, trees); inventory; conduit-debt associated arrangements; and supply contracts. In a lease, the lessee records both a lease liability and an intangible right-to-use capital asset at the beginning of the lease term. The lessor continues to report, and depreciate, the underlying asset as a capital asset during the lease term.

[5] GASB Cod. Sec. L20.102.

Subscription-Based Information Technology Arrangements (SBITA) (Right-to-Use) (GASB 96)

Similar to leases, an SBITA is an arrangement in which a government contracts with another party, known as an SBITA vendor, to convey to the government the right-to-use the SBITA vendor's IT software. To be considered an SBITA, a contract must be for a defined period of time and be an exchange or exchange-like transaction. An intangible right-to-use subscription asset would be recorded at the beginning of the SBITA term. If an SBITA meets the requirements as a lease or a public-private and public-public partnership, then it should be recorded as a lease or a public-private and public-public partnership instead of an SBITA.

Public-Private and Public-Public Partnerships (PPP) and Availability Payment Arrangements (Right-to-Use) (GASB 94)

A PPP "is an arrangement in which a government, known as the transferor, contracts with another party, known as an operator, to provide public services by conveying to the operator control of the right to operate or use a nonfinancial asset, such as infrastructure or another capital asset (the underlying PPP asset)."[6] In order to be a PPP, the contract must be for a defined period of time and be an exchange or exchange-like transaction. The transferor is always a government, but the operator may be another government or a private party.[7] If a PPP also meets the definition of a lease, lease requirements should be applied if the underlying PPP assets are existing assets of the transferor, the operator does not have to make improvements to the assets, and the PPP is not an service concession arrangement.

A PPP that meets certain conditions is known as a service concession arrangement (SCA). An SCA consists of the operation of one (or more) of a government's capital assets transferred to an operator in exchange for consideration and that meets the following criteria:

1. The transferor conveys both the right and the obligation to provide public services through operation of an underlying PPP asset to an operator in exchange for significant consideration.
2. The operator is compensated by collecting fees from third parties.
3. The transferor determines, or has the authority to modify or approve, the services provided, to whom, and at what prices.
4. The transferor receives significant residual interest in the underlying PPP asset at the end of the arrangement.[8]

PPP's generally fall into one of three types, which determine the accounting:

Type 1 – The underlying PPP asset is an existing asset of the transferor, whether or not the operator is required to make improvements to that asset,

Type 2 – The underlying PPP asset is a new asset that is acquired or constructed by the operator in an SCA, or

Type 3 – The underlying PPP asset is a new asset that is acquired or constructed by the operator in a PPP that is not an SCA.

Availability payment arrangements (APA) are when a government enters into an arrangement for an operator to provide services that may include designing, constructing, financing, maintaining, or operating an underlying nonfinancial asset. The government pays the operator for providing services to the government or other third parties (such as members of the public), and the amount of that payment is not based on the amount of usage or

[6] GASB 94, Paragraph 5.
[7] GASB 94, Paragraph 5.
[8] GASB 94, Paragraph 6.

revenue generated by that asset, but rather on the operator's making or keeping the underlying asset available for use. APAs related to construction of an asset where the ownership of the asset transfers to the government at the end of the contract should be accounted for as a financed purchase of the underlying asset.[9]

Other Capital Assets

Financial reporting allows for additional categories if assets do not belong in the major categories described above. Examples of other categories include land-use-rights and right-of-way, or depreciable land. These assets would need to be reported separately for depreciable and non-depreciable.

Conduit Debt Associated Arrangements (GASB 91)

At times a government issues debt for a third party (the obligor), which is another government or a nongovernmental entity not in a government's financial reporting entity, to help with a third party's capital acquisition or construction, and the third party assumes primary responsibility for repayment of the debt. When certain criteria[10] are met, the transaction qualifies to be reported as conduit debt. When capital assets are financed with conduit debt, they are referred to as conduit debt associated arrangements. To qualify as an associated arrangement, all of the following criteria must be met:

1. Conduit debt proceeds are used to finance the acquisition or construction of a capital asset;
2. The issuer retains legal title to the capital asset from the beginning of the arrangement;
3. Payments from the third-party obligor (for use of the capital asset during the term of the arrangement) are used to cover the debt service payments;
4. The payment schedule of the arrangement corresponds with the debt service repayment schedule.[11]

If the arrangement also meets the definition of an SCA, SCA guidance should be followed.[12] If not an SCA, the issuer government's recognition of a capital asset is determined by which of the following three categories the arrangement falls into:

Category A: The issuer relinquishes title to the capital asset at the end of the arrangement. In this case there is no recognition of a capital asset by the issuer.[13]

Category B: The issuer retains title to the asset at the end of the arrangement, and the obligor will have exclusive use of the entire asset during the term of the arrangement. In this case, the issuer government should recognize a capital asset at its acquisition value at the end of the arrangement.[14]

Category C: The issuer retains title to the capital asset at the end of the arrangement, and the obligor will have exclusive use of only portions of the capital asset during the term of the arrangement. Due to the issuer only having part of the asset, the issuer should recognize the full amount of the capital asset at its acquisition value at the inception of the arrangement. The issuer will also

[9] GASB 94, Paragraph 77. In contrast, components of APAs that are for maintenance or operation of a capital asset should be accounted for as expenses in the periods in which the services are provided.
[10] GASB 91, Paragraph 6.
[11] GASB 91, Paragraph 18.
[12] GASB 91, Paragraph 19.
[13] GASB 91, Paragraphs 19a and 20.
[14] GASB 91, Paragraphs 19b and 21.

recognize a deferred inflow of resources that will be amortized over the life of the associated arrangement.[15]

IV. Capital Asset Valuation

This section provides general guidance on valuing capital assets, as well as special considerations for certain types of capital assets. In general, capital assets should be recorded and reported at their historical costs, which include the vendor's invoice (plus the value of any trade-in or educational allowance, if reflected on the invoice or contract), plus sales tax, initial installation cost (excluding in-house labor), modifications, attachments, accessories, or apparatus necessary to make the asset usable and render it into service. Historical costs also include ancillary charges such as freight and transportation charges, site preparation costs, and professional fees.

When a local government cannot practicably determine the historical cost of a capital asset, it should use appropriate methods to determine and record estimated historical cost of the asset. Estimated historical costs should be so identified in the records and the basis of determination established in the responsible entity's public records. The basis of valuation for capital assets constructed by entity personnel should be the costs of material, direct labor, and overhead costs identifiable to the project.

See **Appendix A** for examples of costs a local government could capitalize as part of capital assets.

Capital Asset Donations

Donated capital assets should be reported at their acquisition value[16] at the time of donation plus ancillary charges, if any. The determination of the acquisition value at the date of donation should be retained for support of value. The donation of a capital asset is a non-exchange transaction. The value is determined by the recipient government and is accounted for as an increase in capital assets and revenue in the government-wide, proprietary, and fiduciary fund financial statements.

In some cases, donated capital assets are given with the stipulation (time requirement) that the assets cannot be sold, disbursed, or consumed until a specified number of years have passed or a specific event has occurred. For such cases, the net position attributable to the capital asset should be reported in the Statement of Net Position as restricted for as long as the restrictions or time requirements remain in effect.[17]

Acquisition by Financed Purchase

Assets sometimes may be acquired by financed purchase, rather than purchase. "Lease" contracts that transfer ownership and there is no provision for termination options are generally recognized as financed purchases of capital assets and are generally recognized using the same principles as other capital asset acquisitions. Fiscal funding and cancellation clauses will not change the character of a contract to transfer ownership unless it is reasonably certain that the government will exercise that option to cancel the contract. For contracts that specify the sales price, fair value of the underlying asset, principal, and interest payments, recognition should reflect the contract provisions. In the absence of guidance, it is believed that measurement should be based on the net present value of the minimum payments, net of any executory costs to be paid by the transferor. However, the amount should not exceed the fair value of the underlying asset that will be transferred. If the amount exceeds the fair value, the transferor should recognize the fair value for both the acquired asset and the contract liability. Discount rates used for net present value calculations should reflect the interest rate that is specified or implicit in

[15] GASB 91, Paragraphs 19c and 22.
[16] GASB 72, Paragraph 79.
[17] GASB 33, Paragraph 22.

the contract. Other terms in the contract should be reviewed and determination made on how they affect the sales price or contract liability. Each payment should be allocated between principal and interest.

Interest

In financial statements prepared using the economic measurement focus, interest costs incurred before the end of a construction period should be recognized as an expense in the period in which the costs are incurred. Such interest costs should not be capitalized.

In financial statements prepared using both the current financial resources measurement focus and the economic measurement focus, interest costs incurred before the end of a construction period should be recognized as expenditures.[18]

Modified Approach for Infrastructure Assets

GASB 34 offers an exception to depreciation reporting for infrastructure assets (modified approach for reporting infrastructure assets) that are part of a network or subsystem of a network as long as two requirements are met.

First, the government must manage the eligible infrastructure assets using an asset management system as follows:

1. Have an up-to-date inventory of eligible infrastructure assets.
2. Perform condition assessments (should be documented in such a manner that they can be replicated) of the eligible infrastructure assets and summarize the results using a measurement scale.
3. Estimate each year the annual amount to maintain and preserve the eligible infrastructure assets at the condition level established and disclosed by the government.

Second, the government must document that the eligible infrastructure assets are being preserved approximately at (or above) a condition level established and disclosed by the government.

If any of the conditions are not met, reporting must revert back to the depreciation method. Using the modified approach, expenditures that increase the capacity or efficiency of an infrastructure asset are capitalized, while all other expenditures that preserve the useful life of the assets are expensed.

Works of Art and Historical Treasures

Works of art and historical treasures should be capitalized at their historical cost or acquisition value at the date of donation (if donated) unless they belong to a collection that meets the following criteria:

1. The collection is held for public exhibition, education, or research in furtherance of public service, rather than financial gain.
2. The collection is protected, kept unencumbered, cared for, and preserved.
3. The collection is subject to an organization policy that requires the proceeds from sales of collection items to be used to acquire other items for collections.

Collections already capitalized as of June 30, 1999,[19] will remain capitalized, and all additions to those collections will be capitalized, even if they meet the criteria listed above for exemption from capitalization. For collections

[18] GASB 89, Paragraphs 4 and 5; prior to this, GASB interest costs incurred during the period of construction of a proprietary fund were capitalized.
[19] GASB 34, Footnote 22.

not capitalized, a description of the collection and the reasons these assets are not capitalized should be documented.

Idle Assets

Capital assets that are not being used should be evaluated for impairment. See Impairments section of this guide. If there is no impairment, idle capital assets should continue to be reported at historical cost. Depreciation expense, if material, should not be reported on idle capital assets, so long as their total service capacity is not affected. Depreciation expense should be recognized each year if an asset's total service utility is limited, whether idle or in active use.

Improvements vs. Repairs or Maintenance

The determination of whether to capitalize costs associated with an asset already placed into service are whether the additional costs significantly extend the useful life, increase capacity, or improve the efficiency of capital assets. An entity will need to analyze material expenditures as incurred as to whether they meet the tests for capitalization.

The Office of the State Auditor recommends establishing a policy for when capital-related costs will be capitalized which include the capitalization thresholds for recording capital assets. In addition, the policy should define the criteria for "significantly" extending useful life, "increased capacity", and "improving efficiency".

A documented increase in useful life of 25 percent for a given asset could be deemed significant.

Costs that result in a significant or substantial increase in capacity for a given asset should be capitalized. While not always quantifiable in terms of percentages (as in the extension of useful life above), it generally is clear when a project increases the capacity of an asset. Road or utility systems are examples of assets that improvements may increase capacity.

Improving the efficiency of an asset could be documented through analysis of operating costs before and after the improvement, or through other assessment of the asset and its designed use. It is assumed that any improvement in efficiency should be significant or substantial in order to qualify as a capitalized cost, meaning that the improvement should be quantified. An arbitrary figure of ten percent may be used as a floor value when determining whether or not to capitalize a cost related to an improvement in efficiency.

If a road project is considered maintenance (a recurring cost that does not extend the road's original useful life or expand its capacity or efficiency) the cost of the project should be expensed. If costs associated with an asset already placed into service meet the criteria to be capitalized, the cost of the replaced asset, such as a roadway surface, and its associated accumulated depreciation should be removed.

The following guidance could be used as suggested policy for capitalizing costs as improvements.

Capital asset improvement costs should be capitalized if:

1. The costs exceed the capitalization thresholds, and
2. One of the following criteria is met:
    a. The estimated life of the asset is extended by more than 25 percent, or
    b. The cost results in an increase in the capacity of the asset, or
    c. The efficiency of the asset is increased by more than ten percent.

Otherwise, the cost should be recorded as a repair and maintenance expense within the appropriate expense function in the government-wide, proprietary, or fiduciary financial statements.

The following are examples of expenditures not to capitalize as improvements to buildings:

- adding, removing and/or moving of walls relating to renovation projects that are not considered major rehabilitation projects;
- improvement projects of minimal or no added life expectancy;
- plumbing or electrical repairs;
- cleaning, pest extermination, or other periodic maintenance;
- interior decoration, such as draperies, blinds, curtain rods, or wallpaper;
- exterior decoration, such as detachable awnings, uncovered porches, decorative fences, etc.;
- maintenance-type interior renovation, such as repainting, touch-up plastering, replacement of carpet, tile, or panel sections; sink and fixture refinishing, etc.;
- maintenance-type exterior renovation such as repainting, replacement of deteriorated siding, roof, or masonry sections;
- replacement of a part or component of a building with a new part of the same type and performance capabilities, such as replacement of an old boiler with a new one of the same type and performance capabilities; and
- any other maintenance-related expenditure.

Immaterial Items

As a general rule, accounting standards do not have to be applied to items that are of only minimal interest to financial statement users. Accountants describe such items as being immaterial. In the particular case of capital assets, potentially capitalizable costs are reported as assets in financial statements only if they exceed the entity's capitalization threshold.

V. Establishing and Setting the Threshold Levels for Recording Capital Assets

One criterion for determining depreciable capital assets is cost. Governmental entities do not need to capitalize every asset with a useful life greater than one year. To do so is an unnecessary burden and will not materially affect financial results. Governmental entities may wish to establish a dollar threshold as a basis for considering an asset for capitalization. Care should be taken when determining the threshold. A threshold that is too low may result in a burdensome recordkeeping system. A threshold that is too high could cause material misstatement of the governmental entity's financial condition. An entity may also set different thresholds for the different objectives in maintaining capital assets records. An entity may set different thresholds for different types of capital assets; however, numerous thresholds may be cumbersome for your accounting system. The primary guidance discussed in this guide is directed towards meeting the objectives of financial reporting. Another objective is a means of tracking capital assets in order to maintain those assets. The following tables are a guide for various capitalization thresholds for small and larger governmental entities. Entities that do not have land, buildings, or infrastructure capital assets should consider using the table for small governments.

Capitalization Thresholds – Small Governments		
Capital Asset Type	**Tracking and Inventory**	**Capitalize and Depreciate for Financial Reporting**
Land	$1	Capitalize only
Land Improvements	$1	$5,000
Building and Building Improvements	$1	$5,000
Construction in Progress	$1	Capitalize only
Machinery Equipment and Vehicles	$500	$5,000
Leased Assets	$500	$5,000
Infrastructure	$1,000	$5,000

Capitalization Thresholds – Larger Governments		
Capital Asset Type	**Tracking and Inventory**	**Capitalize and Depreciate for Financial Reporting**
Land	$1	Capitalize only
Land Improvements	$1	$10,000
Building and Building Improvements	$1	$10,000
Building Improvements	$1	$10,000
Construction in Progress	$1	Capitalize only
Machinery Equipment and Vehicles	$2,000	$5,000
Leased Assets	$2,000	$5,000
Infrastructure	$25,000	$50,000

Exceptions – The capitalization policy should address any exceptions. For example:

- Unique items that you want to track and inventory regardless of the cost (e.g., weapons for police).
- Groups/classes of assets where individual asset items are less than the capitalization limit, but when all assets of that group are added together the dollar amount exceeds the capitalization limit. These groups/classes of assets should be capitalized and depreciated. (e.g., library books in a public library, computer laptops). An entity is more likely to capitalized groups/classes of capital assets if the assets are acquired at the same time.

VI. Depreciation and Amortization

Depreciation is the process of allocating the cost of an asset over the period that asset is used for its intended purpose. This section will provide guidance on which capital assets to depreciate, depreciation methods allowed, how to calculate depreciation in the year of purchase or year retired, and the information needed to calculate depreciation.

Amortization is the systematic and rational distribution of costs of an intangible capital asset or deferred outflow of resources or a deferred inflow of resources over its estimated useful life or the length of the related arrangement, as appropriate.

Depreciable/Amortizable Capital Assets

The table below identifies whether the different types of capital assets would typically be depreciated/amortized.

Type of Capital Asset	Depreciate/Amortize? Yes	No
Land		X
Land improvements – inexhaustible		X
Land improvements – exhaustible	X	
Infrastructure and infrastructure improvements	X[20]	
Buildings and building improvements	X	
Furniture, vehicles, equipment, and machinery	X	
Works of art and historical treasures – exhaustible[21]	X	
Works of art and historical treasures – inexhaustible		X
Leasehold improvements	X	
Lease asset[22]	X	
SBITA asset[23]	X	
PPP as operator[24]	X	
PPP as transferor[25]	X	X
Easements[26]	X	X
Construction in progress[27]		X

Information Needed to Calculate Depreciation

Depreciation is calculated using mathematical formulas. The formula used is dependent on the method used. However, to calculate for a capital asset, the following five factors must be known:

- the date the asset was placed in service,
- the asset's cost or acquisition value,
- the asset's salvage value,
- the asset's estimated useful life, and
- the depreciation method.

Depreciation Methods

There are many different methods used to calculate depreciation. Some methods allow more depreciation in early years than in later years. Some apply the same percentage each year while the basis declines. Others apply different percentages each year while the basis remains the same. Straight-line, sum-of-the-years'-digits, and some other depreciation methods require that the salvage value be subtracted from an asset's acquired value to determine its depreciable basis. Other methods, such as declining balance, do not subtract the salvage value to determine the basis. However, the asset will not be depreciated below its salvage value.

[20] Unless modified approach used.
[21] The cost of capitalized works of art and historical treasures should be depreciated over the estimated useful lives unless the works of art and historical treasures are inexhaustible. An inexhaustible capital asset is one whose economic benefit or service potential is used up so slowly that its estimated useful life is extraordinarily long.
[22] Lease assets are amortized over the shorter of the estimated life or the lease term.
[23] SBITA assets are amortized over the shorter of the estimated life or the arrangement term.
[24] PPP assets are amortized over the shorter of the asset's estimated useful life or the arrangement term, unless PPP Type 3, then depreciated over the longer of PPP term or underlying asset's useful life.
[25] PPP assets are depreciated over the asset's estimated useful life, unless PPP Type 3, then no asset is recorded until the asset is transferred from the operator to the transferor.
[26] Easements that have a defined useful life could be depreciated.
[27] Construction in progress assets are not depreciated until the asset is placed into service for its intended purpose.

The same depreciation method is not required for all capital assets. Further, depreciation may be calculated for a class of assets, a group of assets, or individual assets. Once a method for a particular asset is chosen; however, it must generally be used for the life of the asset. **It is recommended that governmental entities use the straight-line depreciation method.** However, any established method of depreciation is acceptable by GASB 34. The straight-line depreciation method is described in greater detail below.

The straight-line method is the simplest and most commonly used method for calculating depreciation. It can be used for any depreciable property. Under the straight-line depreciation method, the basis of the asset is written off evenly over the useful life of the asset. The same amount of depreciation is taken each year. In general, the amount of annual depreciation is determined by dividing an asset's depreciable cost by its estimated life. The total amount depreciated can never exceed the asset's historic cost, less salvage value. At the end of the asset's estimated life, the salvage value will remain. Some types of capital assets are more likely to have salvage values, such as vehicles or construction equipment that tend to have trade-in values.

In the example, a truck with an original cost (OC) of $27,000 is purchased. It has an estimated life (EL) of four years and a salvage value (SV) of $3,000.

Example of Depreciation Calculation – Straight Line

Year	Beginning Net Book Value	Accumulated Depreciation	Calculation (OC-SV)/EL	Depreciation	
				Annual	Monthly
0	$ 27,000	$ -	-	$ -	$ -
1	21,000	$6,000	($27,000-$3,000)/4	6,000	500
2	15,000	$12,000	($27,000-$3,000)/4	6,000	500
3	9,000	$18,000	($27,000-$3,000)/4	6,000	500
4	3,000	$24,000	($27,000-$3,000)/4	6,000	500

Depreciating/Amortizing an Asset That Was Not Purchased at the Beginning of a Fiscal Year

Computer applications generally can depreciate/amortize capital assets from date of purchase. If your capital assets application is capable of depreciating from the specific date of purchase or when the asset was placed in service, then you should use those capabilities to determine depreciation. However, if calculating depreciation manually, or your application does not have those capabilities, it can be complicated to calculate from a specific date. To avoid the complications of depreciating each asset from the specific date on which it was placed in service, GAAP supports guidelines that assume various assets are placed in service or disposed of at designated dates throughout the year. These guidelines are called averaging conventions. There are five averaging conventions: (1) Full-Month convention, (2) Half-Year convention, (3) Modified Half-Year convention, (4) Mid-Month convention, and (5) Mid-Quarter convention. **It is generally recommended that governmental entities use the full-month convention.**

1. Full-Month Convention

   Under a full-month convention, property placed in service at any time during a given month is treated as if it had been placed in service on the first day of that month. This allows depreciation to be taken for the entire month in which the asset is placed in service. If the property is disposed of before the end of the estimated useful life, no depreciation is allowed for the month of disposition.

2. Half-Year Convention

   Under the half-year convention, an asset is treated as though it were placed in service or disposed of on the first day of the seventh month of the fiscal year. One-half of a full year's depreciation is allowed for the asset

in its first year placed in service, regardless of when it was actually placed in service during that year. The half-year convention may be most appropriate for grouped assets such as library books or computers purchased throughout the year.

3. Modified Half-Year Convention

   Under the modified half-year convention, assets placed in service during the first half of the year are considered to have been placed in service on the first day of the year. Therefore, they receive a full year's depreciation in the acquisition year. Assets placed in service during the second half of the year are considered to have been placed in service on the first day of the following year. Therefore, they receive no depreciation in the acquisition year, but receive a full year's depreciation in the subsequent year.

   Caution should be taken with adopting this averaging convention for large capital assets due to the possibility that misstatement of asset values and depreciation could occur.

   Applying the modified half-year convention in the disposal year is slightly more complicated because the disposal-year allowance depends on the acquisition year allowance. The following table summarizes the relationships:

Depreciation Allowed Using Modified Half-Year Convention Method		
If Asset was Placed in Service in the	And Disposed of in the	Depreciation Allowed in the Disposal Year
First half of the year	First half of the year	No depreciation
First half of the year	Second half of the year	50% of a full year's depreciation
Second half of the year	First half of the next year	50% of a full year's depreciation
Second half of the year	Second half of the next year	Full year of depreciation

4. Mid-Month Convention

   Under the mid-month convention, property is treated as though it were placed in service or disposed of in the middle of the month. A half-month's depreciation is allowed both in the month of acquisition and in the month of disposition. Generally, this means that if the asset is placed in service after the 15th of the month, no depreciation is taken for that month. If the asset is placed in service on or before the 15th of the month, a full month's depreciation is allowed. Similarly, if the asset is disposed of on or before the 15th of the month, no depreciation is taken for that month. If the asset is disposed of after the 15th of the month, a full month's depreciation is allowed.

5. Mid-Quarter Convention

   The mid-quarter convention treats property as though it was placed in service in the middle of the quarter in which it was purchased.

VII. Estimated Useful Life

Estimated useful life means the estimated number of months or years that an asset will be able to be used for the purpose for which it was purchased. Capital assets should be depreciated over their estimated useful lives and based on (1) Suggested Useful Lives tables [**Appendix C**]; (2) general guidelines from some professional or industry organizations such as GFOA, ASBO, etc.; (3) information for comparable assets of other governments; (4) internal experience or information (property replacement policies, property disposal records, or budget documents); or (5) professionals such as engineers, architects, etc.

Estimated useful lives for capital assets depend on factors such as condition and usage. For roads, weather and traffic have significant impact on useful lives. A high traffic road would be expected to have a shorter useful life

compared to a road that has little usage. For equipment, internal policy, usage, and even geography can have an impact. For example, a squad car in a large county may have to cover larger territory. One entity may replace cars after 75,000 miles, while another replaces them after 100,000 miles. A diesel school bus is expected to last 250,000 miles. One school board could put 250,000 on that bus in seven years, while another school board will take ten years. Therefore, it is recommended that each government entity develop such a list from the five methods shown above. These useful lives should be based on government's experience and plans for using assets, which include:

- Present condition. What is the current condition of the capital asset?
- Construction type. What is the quality and expense of the construction type?
- Maintenance policy. What is the entity's maintenance policy?
- Service and technology demand. How long is the asset expected to meet service and technology demands? What are the legal or regulatory requirements? What are the contract terms?
- Climatic conditions. What effect does the local climate have on capital assets?
- Historical information about similar assets. What timeframe have similar assets been disposed at? What is the replacement policy for these assets?

A local government should consider these factors when determining the estimated useful life of an individual or class of capital assets. They should be based on the government's own experience and plans for the assets.

VIII. Impairments

Asset impairment is a significant, unexpected decline in the service utility of a capital asset. Service utility of a capital asset is the usable capacity that, at acquisition, was expected to be used to provide service. The events or changes in circumstances that lead to impairments are not considered normal and ordinary. At the time the capital asset was acquired, the government did not expect the event or change in circumstance to occur during the useful life of the capital asset. A temporary decline in service utility is not considered an impairment; an impairment should be considered permanent. Determining whether a capital asset is impaired involves a two-step process of, a) identifying potential impairments and b) testing for impairment.

Five common indicators of impairment:

- Evidence of physical damage that is of such a level that restoration efforts are needed to restore service utility
- Enactment or approval of laws or regulations or other changes in environmental factors
- Technological development or evidence of obsolescence
- A change in the manner or expected duration of use of a capital asset
- Construction stoppage or development stoppage

Impairment tests:

- Whether the magnitude of the decline in service utility is significant and
- The decline in service utility is unexpected

If the asset meets both impairment tests and the government will continue to use the asset, the government should measure the amount of the impairment, and the amount of impairment should be written off. One of

three methods that most appropriately reflects the decline in service utility of the asset should be used to measure the amount of impairment.

Three methods:

- Restoration cost approach – derives the amount of the impairment from the estimated costs to restore the utility of the capital asset. Generally used in physical damages.
- Service units approach – isolates the historical cost of the service utility of the capital asset that cannot be used due to the impairment event of change in circumstances. Generally used in enactment or approval of laws or regulations or other changes in environmental factors or from technological development or obsolescence.
- Deflated depreciated replacement cost approach – replicates the historical cost of the service produced. Generally used in a change of manner or duration of use.

For impaired capital assets that a government will not continue to use and for capital assets impaired from construction or development stoppage, the government should report the assets at the lower of carrying value or fair value.

IX. Disposals

Governments should have policies and procedures in place to ensure that disposals are authorized, recorded, in compliance with state and federal requirements as applicable, and in the government's best interest. Those responsible for disposals should not take ownership of such property or otherwise personally profit from the disposal.

X. Intra-Entity Sales and Transfers

Intra-Entity Sales

The value of a capital asset does not change as long as it remains within the same financial reporting entity (i.e., there are no gains or losses on sales of capital assets within the reporting entity). For a capital asset sale between a discretely presented component unit and the primary government, the difference between the sales price and the book value of the asset would be recorded as either a revenue or expense. If the sale is between a blended component unit and the primary government, then the difference between the sales price and the book value of the asset would be recorded as a transfer.

Transfers Between Funds That Differ in Measurement Focus

A government may move capital assets from one fund to another (one proprietary or fiduciary fund to another, or general capital assets to a proprietary or fiduciary fund, or vice versa). These movements are accounted for at the asset's book value (original cost, less accumulated depreciation, if any) at the time of the movement. No gain or loss will be recognized. The government-wide financial statements should report internal activity for such movements between the governmental and business-type activities. The asset's book value should be moved from one column to the other and equal offsetting internal activity should be reported and then eliminated in the total primary government column. It should also be reported as a reconciling item between governmental funds and government-wide financial statements. See additional information in the section below titled *Reporting Transfers in the Financial Statements*.

Transfers Involving Different Capitalization Thresholds

For transfers within the same reporting entity, the capital asset value remains the same and should be recorded, even if the receiving entity has a different capitalization thresholds that would not have initially recorded the asset (or conversely would have recorded an asset that was not capitalized).

XI. Financial Reporting Requirements

Reporting Capital Assets in Government-Wide Financial Statements

Capital assets and the associated accumulated depreciation/amortization are reported in the Statement of Net Position. Accumulated depreciation/amortization may be reported separately, or capital assets may be presented net of accumulated depreciation/amortization on the statement. Capital assets that are not being depreciated (such as land or infrastructure assets reported using the modified approach) are reported separately. Capital assets also may be reported in greater detail, such as by major class of asset (for example, infrastructure, buildings and improvements, vehicles, machinery and equipment). It is recommended that all governmental entities report both the historical cost and accumulated depreciation/amortization on the face of the statement.

Reporting Net Investment in Capital Assets in the Financial Statements

The government-wide and proprietary fund statements of net position categorize net position in up to three categories: net investment in capital assets, restricted, and unrestricted. The calculation for net investment in capital assets should include all net capital assets (land, buildings, equipment, right-to-use lease asset, mineral rights, easements, etc.) of the reporting unit and exclude non-capital assets. The assets should be reduced by all capital-related debt of the reporting unit (bonds, notes, leases, PPPs, SBITAs), but should exclude internal borrowings, unexpended bond proceeds, and accrued interest. The assets are further reduced by debt used to refund capital-related debt, other capital-related liabilities (retainage and accounts payable), and deferred inflows of resources arising directly from the acquisition of assets. The amount of debt used for the calculation should also be adjusted for any unamortized premiums, discounts, or deferred amounts on refunding.

The GFOA has a calculation template that can be used for your calculation: Net Investment in Capital Assets Calculation Template

Reporting Depreciation/Amortization Expense in the Financial Statements

For general capital assets, depreciation is reported only on government-wide financial statements. Depreciation/amortization expense is reported within the Statement of Activities. GASB 34 requires that depreciation for assets specifically identified with specific functions are to be included in the direct expense of those functions and for a ratable portion of the depreciation expense for shared capital assets.

Capital assets that serve essentially all functions are reported as part of the general government (or its counterpart) function or reported on a separate line (unallocated depreciation expense). If depreciation is reported as a separate line item, the face of the statement must clearly indicate that this line item excludes depreciation expense charged to functions. It is recommended that a government entity follow one of these two methods and not allocate the depreciation of a building that serves multiple (that is, more than just a few) functions or departments. However, if the government entity chooses to allocate, it is recommended that the allocation be based on square footage for the time used.

Depreciation expense for general infrastructure assets should be reported as a direct expense of the function (highways and streets) that the reporting government normally associates with capital outlays for, and maintenance of, infrastructure assets.

Reporting Capital Asset Impairments in the Financial Statements

A government should report an impairment loss (or gain, which could result from an associated insurance recovery that is realized or realizable in the same year) in the Statement of Activities and Statement of Revenues, Expenses, and Changes in Net Position, if appropriate, as a program or operating expense (revenue, if gain), special item, or extraordinary item.

Reporting Disposals in the Financial Statements

For government-wide financial reporting, a material difference between the amount received on a disposal and the book value of the asset of would be reported as follows:

- Governmental activities: Losses should be included in the government functional expense line and gains should be included as part of general revenues.
- Business-type activities: Loss should be recorded as a program cost and gains should be included as part of general revenues. In the enterprise fund financial statements, both losses and gains are classified as nonoperating revenues and expenses.

Reporting Transfers in the Financial Statements

Transfers between the governmental activities and business-type activities, which are both reported on the economic resources measurement focus, would be reported as a transfer in and transfer out. For fund financial statements, a transfer to (or from) the General Fund from (or to) an enterprise fund cannot be recorded in the General Fund, as capital assets are not shown in fund financial statements, which use the current financial resources measurement focus.

A propriety fund would record a capital asset and a capital contribution for a transfer from a governmental fund. No entry would be made in the governmental fund. For a transfer from a proprietary fund, the fund financial statements would again not make a transfer entry, and the enterprise fund would report a nonoperating expense (loss on disposal) and a reduction in capital assets. Both the capital contribution and the nonoperating expense in the proprietary fund would be reclassified as a transfer in and transfer out in the Statement of Activities. Governmental activities would also record a corresponding transfer out and transfer in for the transfer.

Appendices

Appendix A – Examples of Capital Asset Types

Type of Capital Assets	Examples
Land and Land Improvements	• Purchase price or acquisition value at time of gift • Commissions • Professional fees (title searches, architect, legal, engineering, appraisal, surveying, environmental assessments, etc.) • Land excavation, fill, grading, drainage • Demolition of existing buildings and improvements (less salvage) • Removal, relocation, or reconstruction of property of others (railroad, telephone, and power lines) • Interest on mortgages accrued at date of purchase • Accrued and unpaid taxes at date of purchase • Other costs incurred in acquiring the land • Water wells (includes initial cost for drilling, the pump, and its casing) • Right-of-way (permanent)

Type of Capital Assets	Examples
Other Land Improvements	• Fencing and gates • Landscaping • Parking lots/driveways/parking barriers • Outside sprinkler systems • Recreation areas and athletic fields (including bleachers) • Golf courses • Paths and trails • Septic systems • Stadiums • Swimming pools, tennis courts, basketball courts • Fountains • Plazas and pavilions • Retaining walls
Infrastructure (Preliminary costs should not be capitalized if it is not known whether the project is probable of being approved. Once probable that a project will be approved, costs incurred from that point should be capitalized.)	• Highway and rest areas • Roads, streets, curbs, gutters, sidewalks, fire hydrants • Bridges, railroads, trestles • Canals, waterways, wharfs, docks, sea walls, bulkheads, boardwalks • Dam, drainage facility • Radio or television transmitting tower • Electric, water, and gas (main lines and distribution lines, tunnels) • Fiber optic and telephone distribution systems (between buildings) • Light system (traffic, outdoor, street, etc.) • Signage • Airport runway/strip/taxiway/apron
Purchased Buildings	• Original purchase price • Expenses for remodeling, reconditioning, or altering a purchased building to make it ready to use for the purpose for which it was acquired • Environmental compliance (e.g., asbestos abatement) • Professional fees (legal, architect, inspections, title searches, etc.) • Payment of unpaid or accrued taxes on the building to date of purchase • Cancellation or buyout of existing leases • Other costs required to place or render the asset into operation
Constructed Buildings	• Completed project costs • Cost of excavation or grading or filling of land for a specific building • Expenses incurred for the preparation of plans, specifications, blueprints, etc. • Cost of building permits • Professional fees (architect, engineer, management fees for design and supervision, legal) • Costs of temporary buildings used during construction • Unanticipated costs such as rock blasting, piling, or relocation of the channel of an underground stream • Permanently attached fixtures or machinery that cannot be removed without impairing the use of the building • Additions to buildings (expansions, extensions, or enlargements)

Type of Capital Assets	Examples
Improvements to Buildings[28]	• Conversion of attics, basements, etc., to usable office, clinic, research or classroom space • Structures attached to the building such as covered patios, sunrooms, garages, carports, enclosed stairwells, etc. • Installation or upgrade of heating and cooling systems, including ceiling fans and attic vents • Original installation/upgrade of wall or ceiling covering such as carpeting, tiles, paneling, or parquet • Structural changes such as reinforcement of floors or walls, installation or replacement of beams, rafters, joists, steel grids, or other interior framing • Installation or upgrade of window or door frame, upgrading of windows or doors, built-in closet and cabinets • Interior renovation associated with casings, baseboards, light fixtures, ceiling trim, etc. • Exterior renovation such as installation or replacement of siding, roofing, masonry, etc. • Installation or upgrade of plumbing and electrical wiring • Installation or upgrade of phone or closed-circuit television systems, networks, fiber optic cable, wiring required in the installation of equipment (that will remain in the building) • Other costs associated with the above improvements
Equipment, Machinery, Vehicles, and Furniture	• Original contract or invoice price • Freight charges • Import duties • Handling and storage charges • In-transit insurance charges • Sales, use, and other taxes imposed on the acquisition • Installation charges • Charges for testing and preparation for use • Costs of reconditioning used items when purchased • Parts and labor associated with the construction of equipment
Library Books and Materials	• Invoice price • Freight charges • Handling • In-transit insurance charges • Binding • Electronic access charges • Reproduction and like costs required to place assets in service, with the exception of library salaries
Works of Art and Historical Treasures	• Collection of rare books, manuscripts • Maps, documents, and recordings • Works of art such as paintings, sculptures, and designs • Artifacts, memorabilia, exhibits • Unique or significant structures
Capitalized Software	• External direct costs of materials and services (third-party fees for services) • Costs to obtain software from third parties • Travel costs incurred by employees in their duties directly associated with development • Payroll and payroll-related costs of employees directly associated with or devoting time in coding, installing, or testing

[28] For a replacement to be capitalized, it must be a part of a major repair or rehabilitation project, which increases useful life, efficiency, or capacity of the building. Replacement or restoration to original utility level would not. Determinations must be made on a case-by-case basis.

Type of Capital Assets	Examples
Internally Generated Software (Costs connected with the application development stage where management authorizes and commits to funding; but only if incurred subsequent to the completion of the preliminary project stage)	• Design of the chosen path • Coding • Installation to hardware • Testing • Parallel processing phase • Data conversion needed to make software operational • Commercially available software that needs to be modified (more than minimal incremental effort) before being put into operation
Leases (> than one year, specified in the contract for a period of time, measured at the present value of all the expected payments)	• Copier lease • Vehicle lease • Equipment lease • Building lease • Infrastructure lease
SBITAs (> than one-year, defined period of time, measured at the present value of all the expected payments)	Subscription payments for items such as: • Capital asset software • Electronic filing software • DocuSign software • Reporting software Payments for SBITA's other than subscription payments are expended or capitalized as follows: • Preliminary project stage – expense as they are incurred • Initial implementation stage – design of the chosen path including configuration, coding, installation association with the access to the asset, minimum data conversion to make asset operational, and testing. These costs can only be capitalized after all of the following criteria have been met: 1) the specific objective of the project has been determined, 2) the nature of the service capacity to be provided by the underlying SBITA asset has been determined, 3) the government has demonstrated that its chosen path has technical or technological feasibility, and 4) the government has demonstrated that it intends, is able to, and is making an effort to enter into an SBITA contract. These four items are considered to be completed when the government completes the activities in the preliminary project stage and the government authorizes and commits funding for at least the first year for the SBITA. • Operation and additional implementation stage – expense as they are incurred Note: Training costs are not capitalizable regardless of the stage

Appendix B – Summary Table of Capital Assets Accounting and Reporting

The following table provides an overview of capital asset accounting and reporting:

Activity	Government-Wide Financial Statements	Governmental Fund Financial Statements	Proprietary Fund Financial Statements	Fiduciary Fund Financial Statements (Excluding Agency Funds)
Capital assets purchased or received through donations (except non-capitalized works of art and historical treasures)	Capitalize assets Report donations as revenue or contribution to term or permanent endowment	Report assets purchased as an expenditure Do not report donations as an asset or a financial resource inflow	Capitalize assets Report donations as capital contribution or contribution to term or permanent endowment	Capitalize assets Report donations as addition
Non-capitalized works of art and historical treasures purchased or donated	Report assets purchased and donated as an expense Report donations as revenue or contribution to term or permanent endowment	Report assets purchased as an expenditure Do not report donations as an asset or a financial resource inflow or outflow, may depend on whether the assets are held for sale	Report assets purchased and donated as an expense Report donations as capital contribution or addition to term or permanent endowment	Report assets purchased and donated as a deduction Report donations as addition
Capital assets accounted for using the depreciation method:				
Use of exhaustible capital assets or intangible assets with definite useful lives	Charge depreciation/ amortization expense and increase accumulated depreciation/ amortization	Not applicable	Charge depreciation/ amortization expense and increase accumulated depreciation/ amortization	Charge depreciation/ amortization expense and increase accumulated depreciation/ amortization
Use of inexhaustible capital assets or intangible assets with indefinite useful lives	No charge for depreciation/ amortization	Not applicable	No charge for depreciation/ amortization	No charge for depreciation/ amortization
Outlays that extend the estimated useful lives of the assets (preservation costs) or improve their efficiency (improvements) or capacity (additions)	Capitalize and depreciate	Report as expenditures	Capitalize and depreciate	Capitalize and depreciate
Outlays for repairs and maintenance	Report as expenses	Report as expenditures	Report as expenses	Report as deductions

Appendix C – Estimated Useful Life Tables

Office of the State Auditor General Guidance

The purpose of useful life tables is to provide preparers some guidance in establishing an estimate of the useful life of their capital assets. Another purpose is to provide some uniformity between similar entities. However, each local government should consider the different factors that could impact the useful life of their capital assets. Even local governments located near each other may have policies, environmental conditions, technology changes, legal requirements, and financial issues that could result in significant differences in useful lives.

Depreciation is an allocation of costs over the expected useful life of an asset. It is rare that an asset's actual life will match the estimated useful life. Therefore, it is important to remember that depreciation is an estimate of the annual expense and actual results can differ from those estimates. Also important to consider is that estimates can change over time due to changes in condition and experience. The broad ranges provided here are meant for general guidance. An individual entity may have assets with estimated useful lives outside these ranges.

- Buildings – 20 to 100 years. Major buildings will probably have a longer life because they are expected to last much longer. Historic buildings like courthouses and city halls may have even longer lives, because of their importance to the local community. These building will end up having more repairs and improvements over their useful lives. Small buildings (storage sheds, etc.) may be assigned a lower expected life. Type of construction will have an impact on useful lives. Higher quality materials should result in a longer useful life.
- Equipment – 2 to 20 years. In many situations, the vendor or the department head can make a fairly accurate estimate of how long these items will last. Equipment that is heavily used may have a shorter useful life than other equipment. Technology improvements can impact how long an entity uses certain equipment and can impact salvage values.
- Vehicles – 3 to 20 years. Police cars may be traded around 3 to 4 years due to the cost of maintenance. Buses tend to last longer than most other vehicles. Automobiles will probably last 5 to 7 years under normal situations.
- Infrastructure – 15 to 75 years. Streets can have a life expectancy anywhere in the 20-50 year life range. The type of construction, the amount of traffic, weather, and even location can have significant impacts on the useful lives. Bridges will be around 50 years or greater. Sidewalks and street lights will have a lower life expectancy of 20 to 25 years.
- Land Improvements (depreciable) – 5 to 35 years. Some improvements, such as paved parking lots, are more susceptible to the effects of weather and would have shorter lives than other improvements that are less impacted by normal weather conditions, such as ball fields or golf courses.
- Software (internally generated) – 2 to 20 years. Consider factors such as technological obsolescence, technological advancements, changes in market demands and competition, past experience with similar software projects or contracts, the cost and effort to maintain and upgrade, changes in laws and regulations, and how the entity intends to use the software and its expected usage patterns.
- Leased assets – based on lease term. Right-to-use assets are amortized over the shorter of the underlying assets' estimated useful life or the lease term. Each agreement such be reviewed on an individual basis in order to determine if it meets the requirements to be reported as a leased asset.
- Subscription Based IT Arrangements – based on arrangement term. Right-to-use assets are amortized over the shorter of the underlying assets' estimated useful life or the agreement term. Each agreement such be reviewed on an individual basis in order to determine if it meets the requirements to be reported as an SBITA.

- PPPs – based on arrangement term. These intangible right-to-use assets are amortized or depreciated based on the PPP type. PPP Type 1: Existing asset of transferor and Type 2: New asset – purchased or constructed by operator government – SCA is amortized over the shorter of PPP term or underlying asset's useful life. PPP Type 3: New asset – purchased or constructed by operator government – not an SCA would depreciate depreciable underlying asset over the longer of PPP term or underlying asset's useful life.

Appendix D – Definitions

Accumulated depreciation/amortization. The total depreciation/amortization expense aggregated since a capital asset was acquired or placed in service through the current reporting period.

Acquisition costs. Costs incurred to purchase, construct, develop or improve a capital asset (e.g., payments to vendors and suppliers of the assets or materials and labor, legal and title fees; closing costs; appraisal and negotiation fees; surveying fees; land preparation costs; demolition costs; audit and accounting fees; testing costs; and transportation charges).

Acquisition value. The price that would be paid to acquire an asset with equivalent service potential in an orderly market transaction at the acquisition date, or the amount at which a liability could be liquidated with the counterparty at the acquisition date (an entry price).

Amortization. The systematic and rational distribution cost of an intangible capital asset or deferred outflow of resources or a deferred inflow of resources over its estimated useful life or the length of the related arrangement, as appropriate.

Amortization expense. The portion of the cost of an intangible capital asset or a deferred outflow of resources allocated to the current period.

Ancillary costs. Costs, in addition to purchase of construction costs, related to placing a capital asset into its intended use or state of operation. Normally, ancillary costs are to be included in the capitalized cost of a capital asset.

Application development stage. In the context of internally generated computer software, the stage of development that includes the design of the chosen path, including software configuration and software interfaces, coding, installation to hardware, and testing, including the parallel processing phase.

Assets held for sale. Assets acquired with the intention of sale rather than use in operations (e.g., foreclosure property) or for investment purposes, and thus not treated as capital assets, regardless of form.

Book value. The recorded value of a capital asset, less accumulated depreciation or amortization (if any). Also known as carrying value.

Buildings. The major class of capital assets used for permanent (i.e., non-moveable) structures that do not have an indefinite life.

Building improvements. Capitalized costs that materially extend the useful life of a building, increase capacity, or increase efficiency. Building improvements should not include maintenance and repairs done in the normal course of business.

Capital assets. Capital assets include 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 and that have initial useful lives extending beyond a single reporting period.[29] Governments use capitalization thresholds to avoid capitalizing insignificant items.

Capital contributions. The classification used in a proprietary fund's financial statements to account for the receipt of a capital asset from the outside parties or from governmental activities.

Capital outlay. A functional category used, generally in capital project funds, to account for expenditures related to the acquisition of capital facilities.

Capitalization threshold. Dollar value at which a government elects to capitalize tangible or intangible assets that are used in operations and that have initial useful lives extending beyond a single reporting period. Generally, capitalization thresholds are applied to individual items rather than groups of items, unless the result would be to exclude items that in the aggregate would be material to the financial statements.

Capitalize. To record a cost as a long-term asset. The amount recorded is the costs to acquire or construct the asset, plus all costs necessary to get the asset ready for its intended use (see ancillary costs).

Collection. In the context of potential capital assets that do not have to be capitalized, a group of works of art, historical treasures, or similar items whose purpose is public exhibition, education, or research.

Composite depreciation methods. Depreciation methods applied to groups of assets rather than to individual assets.

Construction in progress. Capitalized costs related to a tangible capital asset that is not yet substantially ready to be placed in service.

Deflated depreciated replacement cost. Method of measuring a capital asset impairment resulting from a change in the manner or duration of use of the asset. The method compares the book value of the asset with what would have been the book value of a different asset acquired at the same time for use in the manner the asset is used after the impairment has occurred.

Depreciable capital assets. Capital assets that are being depreciated or amortized, as opposed to those that are exempt from depreciation (e.g., capital assets not yet substantially ready to be placed into service and capital assets with an indefinite useful life).

Depreciation. The systematic and rational distribution of the cost of a tangible capital asset (less salvage value) over its estimated useful life.

Depreciation expense. The portion of the cost of a tangible capital asset allocated to the current period.

Depreciation method. The method used to calculate the allocation (depreciation) of the cost of a capital asset over its estimated useful life. The most commonly used method is straight-line depreciation, which allocates the cost evenly over the life of the asset. Other methods are double-declining balance, sum-of-the-year's-digits, and activity-based depreciation.

Development-in-progress. Capitalized costs related to an internally generated intangible capital asset that is not yet substantially ready to be placed in service.

Disposal. The permanent termination of a government's control (and often ownership) of a capital asset.

Easements. An interest in land owned by another that entitles its holder to a specific limited use or enjoyment (right-to-use the land). Easements that would not be considered capital assets are temporary easements, which are the right-to-use land for a short time period, such as during a construction project.

[29] GASB 34, Paragraph 19.

Estimated useful life. An accounting estimate of the time period (number of months or years) that an asset will be able to be used for the purpose for which it was purchased or constructed. In determining estimated useful life, a government should consider an asset's present condition and how long it is expected to meet service demands.

Furniture (Furnishings) and equipment. Furniture and equipment include fixed or movable tangible assets to be used for operations, the benefits of which extend beyond one year from date of receipt and when placed into service. Example of furniture and equipment are machinery, computers, printers, radios, and vehicles, etc. Also included in furniture and equipment are books and other reference materials that are not circulated to students or the general public (not contained in a publicly supported library). Books and other reference materials that are circulated to students or the general public are considered library resources. The major asset class used for vehicles, furnishings, technology assets (e.g., computer hardware and infrastructure) and similar moveable items (e.g., depreciable collections). Also known as machinery and equipment.

Fully depreciated capital assets. Capital assets whose cost has been fully depreciated, that still remain in service.

Identifiable. An essential characteristic of an intangible capital asset that requires either that it can be separated or divided from the government (e.g., by sale, transfer, license, rental, or exchange) or that it arises from contractual or other legal rights.

Impairment. Significant, unexpected decline in the service utility of a capital asset that will remain in use, excluding infrastructure assets accounting for using the modified approach.

Impairment test. The determination of whether the decline in service utility resulting from a potential impairment is both significant and unexpected.

Improvement. Addition made to, or change made in, a capital asset, other than maintenance, to prolong its life or to increase its efficiency or capacity. The cost of the addition or change normally is added to the book value of the asset (the term betterment is sometimes used instead).

Improvements other than buildings. The major asset class used for permanent (i.e., non-moveable) improvements, other than buildings, that add value to land, but do not have an indefinite useful life (e.g., fences, retaining walls, parking lots, and most landscaping). Also known as land improvements.

Indefinite useful life. A situation in which there is no foreseeable limit to the period over which a capital asset is expected to provide service capacity to the government (e.g., land). An intangible asset should be considered to have an indefinite useful life if there are no legal, contractual, regulatory, technological, or other factors that limit the useful life of the asset.

Infrastructure. Long-lived capital assets that normally are stationary in nature and 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, piers and bulkheads, and lighting systems.

Infrastructure improvements. Infrastructure improvements are capital costs that materially extend the useful life, increase capacity, or increase efficiency. Infrastructure improvements should be capitalized and recorded as an addition of value to the infrastructure if the improvement or addition of value is at the capitalization threshold and increases the life or capacity of the asset.

Initial implementation stage. In the context of subscription-based information technology arrangements (SBITAs), the stage of development that includes ancillary charges related to designing the chosen path, such as configuration, coding, testing, and installation associated with the government's access to the underlying IT assets. Other ancillary charges necessary to place the subscription asset into service also should be included in

this stage. The initial implementation stage for the SBITA is completed when the subscription asset is placed into service.

Intangible capital assets. A capital asset with an initial useful life that extends beyond a single reporting period that lacks physical substance and that is neither financial in nature (neither a monetary asset nor a claim to a monetary asset) nor primarily held for the purpose of directly obtaining income or profit. Examples of intangible assets include easements, water rights, timber rights, patents, trademarks, and computer software.

Internally generated intangible assets. Intangible assets that are either (1) created or produced by the government or an entity contracted by the government, or (2) acquired from a third party but requiring more than minimal incremental effort on the part of the government to begin to achieve their expected level of service capacity.

Land. Land is the surface or crust of the earth, which can be used to support structures, and may be used to grow crops, grass, shrubs, and trees. Land is characterized as having an unlimited life (indefinite). The major asset class used for all non-depreciable land, regardless of how closely it is associated with other capital assets.

Land improvements. Land improvements consist of betterments, site preparation, and site improvements (other than buildings) that ready land for its intended use. The costs associated with improvements to land are added to the cost of the land. Land improvements can be further categorized as inexhaustible and exhaustible.

- **Inexhaustible** – Expenditures for improvements that do not require maintenance or replacement, expenditures to bring land into condition to commence erection of structures, expenditures for improvements not identified with structures, and expenditures for land improvements that do not deteriorate with use or passage of time are additions to the cost of land and are generally not exhaustible and, therefore, not depreciable.
- **Exhaustible** – Other improvements that are part of a site, such as parking lots, landscaping and fencing, are usually exhaustible and are, therefore, depreciable. Depreciation of site improvements is necessary if the improvement is exhaustible.

Lease. A contract that conveys control of the right-to-use another entity's nonfinancial asset (the underlying asset) as specified in the contract for a period of time in an exchange or exchange-like transaction.

Leasehold improvements. A leasehold improvement is an improvement made to a leased building or infrastructure asset by an agency that has the right-to-use this leasehold improvement over the term of the lease. This improvement will revert to the lessor at the expiration of the lease. Leasehold improvements should not include maintenance and repairs done in the normal course of business. Further, moveable equipment or office furniture that is not attached to the leased property is not considered a leasehold improvement. Capital assets based on costs incurred to increase the service capacity of a leased asset (e.g., build-out and configuration of leased space to provide for offices, workstations, and meeting rooms).

Lessee. The party to a lease contract who acquires the right-to-use another entity's nonfinancial asset(s) (i.e., tenant).

Lessor. The party to a lease contract who conveys the right-to-use its nonfinancial asset(s) (i.e., landlord).

Library books and materials. A library book is generally a literary composition bound into a separate volume and identifiable as a separate copyrighted unit. Library reference materials are information sources other than books which include journals, periodicals, microforms, audio/visual media, computer-based information, manuscripts, maps, documents, and similar items which provide information essential to the learning process or which enhance the quality of academic, professional or research libraries. Changes in value for professional, academic or research libraries may be reported on an aggregated net basis. GASB Implementation Guide No. 2018-1, question

5.5, indicates that library books, depending on their nature, may be depreciable capital assets, or works of art or historical treasures.

Maintenance. Activities that ensure that the capital asset remains, as nearly as practical, in its original condition or its subsequent improved condition, subject to normal depreciation. Costs incurred to keep the capital asset in service for its original intended purpose over its normal expected useful life.

Modified approach. Election not to depreciate infrastructure assets that are part of a network or subsystem of a network that meets two requirements. First, the government manages the eligible infrastructure assets using an asset management system that has certain specified characteristics; second, the government documents that the eligible infrastructure assets are being preserved approximately at (or above) a condition level established and disclosed by the government.

Network of assets. All assets that provide a particular type of service for a government. A network of infrastructure assets may be only one infrastructure asset that is composed of many components. For example, a network of infrastructure assets may be a dam composed of a concrete dam, a concrete spillway, and a series of locks.[30]

Nondepreciable capital assets. Capital assets that are not depreciated or amortized because (1) they are not yet substantially ready to be placed into service, or (2) they have an indefinite useful life.

Operation and additional implementation stage. In the context of subscription-based information technology arrangements (SBITAs), the stage of development that includes maintenance, troubleshooting, and other activities associated with the government's ongoing access to the underlying IT assets. Activities in this stage also may include additional implementation activities, such as those related to additional modules, which occur after the subscription asset is placed into service.

Operator government. In context of public-private and public-public partnership arrangements (PPPs) including SCAs, the part to a PPP that has contracted with a transferor government (transferor) to provide public services and has received the right-to-use or operate a nonfinancial asset for that purpose.

Ownership. Ultimate control over an asset's use or disposition, normally evidenced by title.

Post-implementation/operation stage. In the context of internally generated computer software, that stage of development that includes application training and software maintenance.

Preliminary project stage. In the context of internally generated computer software and subscription-based information technology arrangements (SBITAs), the stage of development that includes the conceptual formulation and evaluation of alternatives, the determination of the existence of needed technology, and the final selection of alternatives for the development of the software.

Preservation costs. Costs that are infrastructure-related outlays that extend the useful life of an asset beyond its original estimated useful life, but do not increase the capacity or efficiency of the asset. Preservation costs should be expensed under the modified approach and capitalized under the depreciation approach (improvements).

Public-private and public-public partnership (PPP). An arrangement in which a government, known as a transferor, contracts with another party, known as an operator, to provide public services by conveying to the operator control of the right to operate or use a nonfinancial asset, such as infrastructure or another capital asset (the underlying PPP asset). To be a PPP, the contract must be for a defined period of time and be entered into in an exchange or exchange-like transaction. The transferor in a PPP is always a government, and the operator may be either another government or a private party.

[30] GASB 34, Footnote 14.

Restoration cost approach. In the context of a capital asset impairment, a method for measuring a capital asset as a result of physical damage that uses estimated restoration costs to establish a ratio (restoration cost/ replacement cost or deflated restoration costs/original cost) for determining the portion of the book value of the asset that should be written off.

Salvage value. The proceeds from the eventual disposal of a capital asset which are estimated in the calculation of depreciable asset value.

Service concession arrangement. An arrangement whereby a government (transferor) transfers the operation of a capital asset to another party (operator) in an arrangement (1) in exchange for significant consideration from the operator; (2) with the operator then being compensated from the fees and charges it collects from third-parties in connection with the operation of that asset; and (3) with the transferor retaining (a) control over the services being provided and prices charged, and (b) a significant residual interest in the capital asset. An SCA is one kind of a public-private or public-public partnership (PPP).

Service units approach. In the context of a capital asset impairment, a method of measuring capital asset impairments resulting from either (1) changes in environmental factors (e.g., laws, regulations); (2) technological developments and obsolescence; or (3) a change in manner or expected duration of use of the asset. The method is based on a comparison of the estimated units of service of the asset before and after an impairment occurs.

Subscription-based information technology arrangement (SBITA). An arrangement in which a government contracts with another party, known as an SBITA vendor, to convey to the government the right-to-use the SBITA vendor's IT software, either alone or in combination with tangible capital assets (the underlying IT assets). To be an SBITA, the contract must be for a defined period of time and be entered into in an exchange or exchange-like transaction.

Subsystem. In the context of infrastructure, all assets that make up a similar portion or segment of a network of assets. For example, all the roads of a government could be considered a network of infrastructure assets. Interstate highways, state highways, and rural roads could each be considered a subsystem of that network.[31]

Tangible capital assets. A capital asset with a physical form.

Transferor government. In context of PPPs including SCAs, the government in a PPP arrangement that contracts with an operator to provide public services and grant the operator the right-to-use or operation a nonfinancial asset.

Useful life. The period during which a capital asset provides service, which is estimated in the calculation of periodic depreciation or amortization expense.

Works of art and historical treasures. Collections or individual items of significance that are owned by a local government that are not held for financial gain, but rather for public exhibition, education, or research in furtherance of public service. Collections or individual items that are protected and cared for or preserved and subject to an organizational policy that requires the proceeds from sales of collection items to be used to acquire other items for collections.

- **Exhaustible collections or items** – items whose useful lives are diminished by display or educational or research applications.
- **Inexhaustible collection or items** – where the economic benefit or service potential is used up so slowly that the estimated useful lives are extraordinarily long. Because of their cultural, aesthetic, or historical value, the

[31] GASB 34, Footnote 15.

holder of the asset applies efforts to protect and preserve the asset in a manner greater than that for similar assets without such cultural, aesthetic, or historical value.

Statutory Definitions

The following capital-asset related definitions are from Minnesota Statutes or Constitution:

Trunk highways. "Trunk highways" includes all roads established or to be established under the provisions of article 14, section 2 of the Constitution of the state of Minnesota.

County state-aid highways. "County state-aid highways" includes all roads established in accordance with law as county state-aid highways[32]

County highways. "County highways" includes those roads which have heretofore been or which hereafter may be established, constructed, or improved under authority of the several county boards, including all roads lying within the county or on the line between counties established by judicial proceedings, except those roads established, constructed, or improved by the counties that have been maintained by the towns for a period of at least one year prior to July 1, 1957. All roads heretofore designated prior to July 1, 1957, as county-aid highways shall be county highways until abandoned or changed in accordance with law.[33]

Municipal state-aid streets. "Municipal state-aid streets" includes all streets within the cities having a population of 5,000 or more, established in accordance with law as municipal state-aid streets.[34]

Town roads. "Town roads" includes those roads and cartways which have heretofore been or which hereafter may be established, constructed, or improved under the authority of the several town boards, roads established, constructed, or improved by counties that have been maintained by the towns for a period of at least one year prior to July 1, 1957.[35]

Road or highway. "Road" or "highway" includes, unless otherwise specified, the several kinds of highways as defined in this section, including roads designated as minimum-maintenance roads, and also cartways, together with all bridges or other structures thereon which form a part of the same.[36]

Road authority. "Road authority" means the state commissioner of transportation, as to trunk highways; the county board, as to county state-aid highways and county highways; the town board, as to town roads; and the governing bodies of cities when the governing bodies or city streets are specifically mentioned.[37]

Interstate bridge. "Interstate bridge" means all bridges now existing or which shall be hereafter constructed across boundary waters between the state of Minnesota and any adjoining state thereby connecting highways of this state with the highway system of any adjoining state.[38]

Controlled access highway. "Controlled access highway" means any highway, street, or road, including streets within cities, over, from, or to which owners or occupants of abutting land or other persons have or are to have no right of access, or only a controlled right of the easement of access, light, air, or view.[39]

Public property. "Public property" means any property except streets, roads, or bridges owned by any subdivision of government, including but not limited to, the property of school districts however organized, towns, cities,

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[32] Article 14, section 3 of the Constitution of the State of Minnesota.
[33] Minnesota Statutes 160.02 subdivision 17.
[34] Article 14, section 4 of the Constitution of the State of Minnesota.
[35] Minnesota Statutes 160.02 subdivision 28.
[36] Minnesota Statutes 160.02 subdivision 26.
[37] Minnesota Statutes 160.02 subdivision 25.
[38] Minnesota Statutes 160.02 subdivision 20.
[39] Minnesota Statutes 160.02 subdivision 12.

municipalities, counties, and any board or commission of any thereof, and public corporations created by the laws of this state.[40]

Roadway; bicycle lane; bicycle route; bicycle path; bikeway. The terms "roadway," "bicycle lane," "bicycle route," "bicycle path," and "bikeway" have the meanings given in section 169.011.[41]

Freeway. "Freeway" means a divided, controlled-access highway.[42]

Park road. "Park road" means that portion of a street or highway located entirely within the park boundaries of a city, county, regional, or state park.[43]

Appendix E – Capital Asset Resources

GFOA Best Practices and Resources

Capitalization Thresholds for Capital Assets Board approved February 6, 2006

GFOA recommends that state and local governments adhere to the following guidelines for capitalization thresholds:

- Establish minimum cost and useful-life based thresholds to avoid the cost of capitalizing immaterial items;
- Establish a minimum capitalization threshold of $5,000 for any individual item;
- Establish a minimum capitalization threshold of at least a two-year useful life for any individual item;
- Consider establishing different dollar capitalization thresholds for different classes of capital assets (i.e., land, infrastructure, buildings and improvements, and equipment);
- 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);
- Governments should perform a periodic review of their capitalization thresholds;
- In establishing capitalization thresholds, governments that are recipients of federal awards should be aware of federal capitalization threshold requirements; and
- Governments should exercise control over potentially capitalizable items that fall under the operative capitalization threshold but require special attention.

Inventories Tangible Capital Assets Board approved February 28, 2006

GFOA recommends that every state and local government periodically inventory its tangible capital assets so that all such assets are accounted for, at least on a test basis, no less often than once every five years.

Estimated Useful Lives of Capital Assets Published January 2019

Accounting for leases Board approved September 28, 2018

GASB 87 and 96 Resource Center

[40] Minnesota Statutes 160.02 subdivision 24.
[41] Minnesota Statutes 160.02 subdivision 27.
[42] Minnesota Statutes 160.02 subdivision 19.
[43] Minnesota Statutes 160.82 subdivision 1.

Appendix F – Sample Journal Entries

Capital Asset Additions and Disposals	Debit	Credit
To record the purchase of equipment (capital asset)		
Governmental Fund		
Expenditure – capital outlay – public safety	$ 30,000	
Cash		$ 30,000
Entry to convert Governmental Fund entry above to Governmental Activities		
Equipment	$ 30,000	
Expenditure – capital outlay – public safety		$ 30,000
Proprietary Fund		
Equipment	$ 30,000	
Cash		$ 30,000
To record financed purchase		
The government executes a contract for a new vehicle. The contract requires monthly payments of $449.56 for 36 months and then the government will own the vehicle at the end of contract period. There are no optionsto terminate the contract.		
Governmental Fund		
Expenditures – capital outlay – public safety	$ 15,000	
Other financing source – Financed purchase issued		$ 15,000
When payment arises		
Principal	$ 4,753	
Interest	$ 642	
Cash		$ 5,395
Governmental Fund to Governmental Activities		
Financed purchase issued	$ 15,000	
Financed purchase payable – noncurrent		$ 15,000
Vehicles	$ 15,000	
Expenditures – capital outlay – public safety		$ 15,000
Financed purchase payable – noncurrent	$ 4,753	
Finance purchase payable – current		$ 4,753
Depreciation and amortization – public safety	$ 5,000	
Accumulated depreciation – vehicles		$ 5,000
Payments made		
Financed purchase payable – current	$ 4,753	
Principal		$ 4,753
Depreciation and amortization expense – public safety	$ 5,000	
Accumulated depreciation – vehicles		$ 5,000
Enterprise Fund		
Vehicles	$ 15,000	
Financed purchase payable		$ 15,000
Depreciation and amortization expense – public safety	$ 5,000	
Accumulated depreciation – vehicles		$ 5,000
Payments made		
Financed purchase payable	$ 4,753	
Interest expense	$ 642	
Cash		$ 5,395
To record CIP		
Governmental Fund		
Expenditure – capital outlay – highways and streets	$ 15,000	
Cash		$ 15,000

Governmental Fund to Governmental Activities				
Construction in progress	$	75,000		
Expenditure – capital outlay – highways and streets			$	75,000
To record CIP completion (removal of completed project)				
Governmental Activities				
Infrastructure	$	1,500,000		
Construction in progress			$	1,500,000
To record payable on construction work accrued but not paid at year-end				
Governmental Fund				
Expenditure – capital outlay – highways and streets	$	20,000		
Contracts payable			$	19,000
Retainage payable			$	1,000
To record depreciation of a capital asset				
No entries are made in the Governmental Funds				
Governmental Activities/Proprietary Fund				
Depreciation and amortization – general government	$	8,000		
Depreciation and amortization – public safety	$	12,000		
Depreciation and amortization – highways and streets	$	92,000		
Depreciation and amortization – culture and recreation	$	3,000		
Accumulated depreciation – buildings			$	25,000
Accumulated depreciation – equipment			$	5,000
Accumulated depreciation – infrastructure			$	85,000
To record the sale/disposal of a capital asset				
Governmental Fund				
Cash	$	1,000		
Other financing source – sales of capital assets			$	1,000
Governmental Fund to Governmental Activities				
Other financing source – proceeds from sale of capital assets	$	1,000		
Accumulated depreciation – equipment	$	16,000		
Loss on sale of capital assets	$	1,000		
Equipment			$	18,000
Proprietary Fund				
Cash	$	1,000		
Accumulated depreciation – equipment	$	16,000		
Loss on sale of capital assets	$	1,000		
Equipment			$	18,000
To capitalize new equipment and remove equipment traded in				
A squad car was traded in for $5,000. The original cost was $18,000 and accumulated depreciation was $12,000. A new squad car was purchased for $45,000 in cash and the $5,000 trade-in.				
Governmental Fund				
Capital outlay expenditures – public safety	$	45,000		
Cash			$	45,000
Governmental Fund to Governmental Activities				
Equipment	$	50,000		
Accumulated depreciation – equipment	$	12,000		
Loss on trade-in	$	1,000		
Equipment			$	18,000
Capital outlay expenditures – public safety			$	45,000
Proprietary Fund				
Equipment	$	50,000		
Accumulated depreciation – equipment	$	12,000		
Loss on trade-in	$	1,000		
Equipment			$	18,000
Cash			$	45,000

Donations

To record a donation from a third party

No entries are made in the Governmental Funds

Proprietary Fund and Governmental Activities

Land	$	1,000,000		
Land improvements	$	2,500,000		
Buildings	$	500,000		
Program revenue – capital contribution – highways and streets			$	4,000,000

To record a donation from a discretely presented component unit (DCU)

Original cost was $30,000 and accumulated depreciation was $15,000 at time of donation.
The acquisition value is estimated to be $20,000.

No entries are made in the Governmental Funds

Governmental Activities

Equipment	$	30,000		
Accumulated depreciation – equipment			$	15,000
Program revenue – capital contribution – highways and streets			$	15,000

Enterprise Fund

Equipment	$	30,000		
Accumulated depreciation – equipment			$	15,000
Capital contribution			$	15,000

Enterprise Fund to Business-Type Activities

Capital contribution	$	15,000		
Program revenue – capital contribution			$	15,000

The DCU is part of the primary government financial reporting entity; therefore, the carrying value of the asset cannot change. The acquisition value is not used.

To record a donation from a Governmental Fund to a discretely presented component unit (DCU)

Original cost was $30,000 and accumulated depreciation was $15,000 at time of donation. The acquisition value is estimated to be $20,000.

No entries are made in the Governmental Funds

Governmental Activities

Accumulated depreciation – equipment	$	15,000		
Loss on disposal	$	15,000		
Equipment			$	30,000

Enterprise Fund

Accumulated depreciation – equipment	$	15,000		
Loss on disposal	$	15,000		
Equipment			$	30,000

Intra-Entity Sales and Transfers

To record purchase from discretely presented component unit (DCU)

The government purchases a piece of equipment from a DCU for its estimated fair value of $25,600. The original cost of the equipment was $35,000, and the accumulated depreciation at the time of the purchase was $28,000.

Governmental Fund

Expenditures – capital outlay	$	25,600		
Cash			$	25,600

Governmental Fund to Governmental Activities

Equipment	$	35,000		
Expense – general government (contribution)	$	18,600		
Accumulated depreciation – expense			$	28,000
Expenditures – capital outlay			$	25,600

Proprietary Fund				
Equipment	$	35,000		
Expense	$	18,600		
Cash			$	25,600
Accumulated depreciation – equipment			$	28,000

To record sale to a discretely presented component unit (DCU)
The government sells a piece of equipment to a DCU for its estimated fair value of $17,500. original cost of the equipment was $40,000, and accumulated depreciation at time of sale was $15,000.

Governmental Fund				
Cash	$	17,500		
Other financing source – sales of capital assets			$	17,500
Governmental Fund to Governmental Activities				
Accumulated depreciation – equipment	$	15,000		
Expense – general government (loss on sale)	$	7,500		
Other financing source – sales of capital assets	$	17,500		
Equipment			$	40,000
Proprietary Fund				
Cash	$	17,500		
Accumulated depreciation – equipment	$	15,000		
Loss on sale	$	7,500		
Equipment			$	40,000

To record transfer of capital asset from Governmental Fund to Enterprise Fund
An Enterprise Fund received equipment from a department of the General Fund with an original cost of $15,000, and accumulated depreciation of $5,000.

No entries are made in the Governmental Funds

Governmental Activities				
Transfer out	$	10,000		
Accumulated depreciation – equipment	$	5,000		
Equipment			$	15,000
Enterprise Fund				
Equipment	$	15,000		
Accumulated depreciation – equipment			$	5,000
Capital contribution			$	10,000
Enterprise Fund to Business-Type Activities				
Capital contribution	$	10,000		
Transfer in			$	10,000

To record transfer of capital asset from Enterprise Fund to Governmental Fund
An Enterprise Fund conveys a piece of equipment with an original cost of $30,000, and accumulated depreciation of $3,000 to a department of the General Fund.

No entries are made in the Governmental Funds

Governmental Activities				
Equipment	$	30,000		
Accumulated depreciation – equipment			$	3,000
Transfer In			$	27,000
Enterprise Fund				
Accumulated depreciation – equipment	$	3,000		
Loss on disposal	$	27,000		
Equipment			$	30,000
Enterprise Fund to Business-Type Activities				
Transfer out	$	27,000		
Loss on disposal			$	27,000

To record purchase of capital asset from Governmental Fund by an Enterprise Fund

An Enterprise Fund purchases a building from a department in the General Fund for its estimated fair value of $15,000. The original cost of the building was $75,000, and accumulated depreciation was $50,000 at the time of the purchase.

Governmental Fund				
Cash	$	15,000		
Other financing source – sales of capital assets			$	15,000
Governmental Fund to Governmental Activities				
Accumulated depreciation – equipment	$	50,000		
Other financing source – sales of capital assets	$	15,000		
Transfer out	$	10,000		
Equipment			$	75,000
Enterprise Fund				
Equipment	$	75,000		
Accumulated depreciation – equipment			$	50,000
Capital contribution			$	10,000
Cash			$	15,000
Enterprise Fund to Business-Type Activities				
Capital contribution	$	10,000		
Transfer in			$	10,000

To record purchase of capital asset from an Enterprise Fund by a Governmental Fund

Reverse of above – a department in the General Fund purchases a building from an Enterprise Fund for its stimated fair value of $15,000. The original cost of the building was $75,000, and accumulated depreciation was $50,000 at the time of the purchase.

Governmental Fund				
Expenditures – capital outlay	$	15,000		
Cash			$	15,000
Governmental Fund to Governmental Activities				
Equipment	$	75,000		
Accumulated depreciation – equipment			$	50,000
Transfer In			$	10,000
Expenditures – capital outlay			$	15,000
Enterprise Fund				
Cash	$	15,000		
Accumulated depreciation – equipment	$	50,000		
Loss on disposal	$	10,000		
Equipment			$	75,000
Enterprise Fund to Business-Type Activities				
Transfer out	$	10,000		
Loss on disposal			$	10,000

Leases

To record a lease with a third-party (government is lessee)

The government (the lessee) enters into a 10-year non-cancellable lease for two floors of a building with RentalProperties LLC, a third-party vendor (the lessor). The government has the option to extend the lease for an additional 10 years, which the government is reasonably certain it will exercise. The monthly payments to the lessor are $5,000, due on the first day of the month. The lessor did not provide an interest rate to be charged, so the government used 3.5 percent as the discount rate based on their recent bond issuance. The present value of the future lease payments is $864,643. Before the commencement of the lease, the government incurred capitalizable costs of $85,000 to make the building ready for use. The initial value of the intangible right-to-use lease asset is $949,643 ($864,643 initial lease liability + costs to get ready for use of $85,000). The annual amortization of the leaseasset is $47,482 ($949,643/20 years).

Governmental Fund				
Expenditures – capital outlay	$	85,000		
Cash			$	85,000

Expenditures – capital outlay	$ 864,643	
Other financing source – leases issued		$ 864,643
When payment arises		
Principal	$ 3,250	
Interest	$ 1,750	
Cash		$ 5,000
Governmental Fund to Governmental Activities		
Lease Asset	$ 949,643	
Other financing source – leases issued	$ 864,643	
Lease liability		$ 864,643
Expenditures – capital outlay		$ 949,643
Amortization expense	$ 47,482	
Accumulated amortization – lease building		$ 47,482
Payments made		
Lease liability	$ 3,250	
Principal		$ 3,250
Proprietary Fund		
Lease Asset	$ 949,643	
Cash		$ 85,000
Lease liability		$ 864,643
Amortization expense	$ 47,482	
Accumulated amortization – lease building		$ 47,482
Payments made		
Lease liability	$ 3,250	
Interest expense	$ 1,750	
Cash		$ 5,000

To record lease with third-party with prepayments and variable payments (government is lessee)

The government (lessee) enters into a 5-year non-cancellable lease for a building with a college (the lessor), which is not in the government's financial reporting entity (treated like a third-party vendor). The government has an option to extend the lease an additional 5-years, which the government is reasonably certain it will exercise. The annual payments to the lessor are $100,000, due on the first day of the year. The lessor has provided the interest rate being charged to the government of 3.5 3.5 percent. The first annual lease payment is $100,000 and will change each year based on the change in the commercial property price index (CPPI). In addition to the annual lease payment, the the government is required to pay the lessor for insurance on the building, which is approximately $15,000 per year, which the government has deemed reasonable based on insurance rates that the government currently pays. The actual insurance cost for the first year is $14,500. The government is required to pay the first and last annual lease payments at the inception of the lease. The present value of future lease payments is $711,449, which is based on 8 future payments of $100,000 (excludes the first and last annual rent, which are paid at the inception of the lease). The change in the CPPI is not factored in the present value calculation, as that is a variable component of the lease dependent on future events. The annual insurance payments are also excluded from the present value calculations, as these are a non-lease component whose amount is reasonable. The initial value of the intangible right-to-use lease asset is $911,449 (initial lease liability $711,449 + $200,000 prepayment). The annual amortization of the lease asset is $91,145 ($911,449/10 years).

Governmental Fund		
Expenditures – capital outlay	$ 911,449	
Expenditures – insurance	$ 14,500	
Cash		$ 214,500
Other financing source – leases issued		$ 711,449
Governmental fund to Governmental Activities		
Lease Asset	$ 911,449	
Other financing source – leases issued	$ 711,449	
Lease liability		$ 711,449
Expenditures- capital outlay		$ 911,449

Amortization expense	$	91,145		
Accumulated amortization – lease asset			$	91,145
Proprietary Fund				
Lease asset	$	911,449		
Rent expense	$	14,500		
Cash			$	214,500
Lease liability			$	711,449
Amortization expense	$	91,145		
Accumulated amortization – lease asset			$	91,145

Subscription-based information technology arrangements (SBITA)
To record a subscription-based technology arrangement
Entered into 5-year non-cancelable contract with vendor for use of capital asset tracking software at an annual cost of $25,000. The government hired a consultant to help with selection of software at a fee of $7,000. Additional costs were incurred for converting data, coding, and installation for an additional $15,000. Training costs will be $2,000, and software maintenance support will be $1,000 annually. The present value of future PPP payments of $120,000 (using an incremental borrowing %).

Governmental Fund				
Expenditures – capital outlay	$	15,000		
Expenditures – services	$	10,000		
Cash			$	25,000
Expenditures – capital outlay	$	120,000		
Other financing source – SBITA issued			$	120,000
Governmental Fund to Governmental Activities				
SBITA asset (initial liability $120,000 + $15,000 implementation costs)	$	135,000		
Other financing source – SBITA issued	$	120,000		
SBITA liability			$	120,000
Expenditures – capital outlay			$	135,000
Amortization expense	$	27,000		
Accumulated amortization – SBITA asset (135,000/5 years)			$	27,000
Proprietary Fund				
SBITA asset	$	135,000		
Expense	$	10,000		
Cash			$	25,000
SBITA liability			$	120,000
Amortization expense	$	27,000		
Accumulated amortization – SBITA asset			$	27,000

Public-Private and Public-Public Partnerships (PPP) arrangements
To record PPP arrangement – operator
A school district, a governmental entity, is an operator in a PPP with the county government (transferor) in which the school will operate one of the county's buildings (the underlying asset) as a location for teaching for 30 years. While the building is operational and will be used upon inception of the arrangement, the school will also make various capital improvements to the building in the first three years totaling $1.5 million. The PPP arrangement meets the criteria to be a service concession arrangement. The school will make annual payments of $150,000 to the county; each payment is due at the beginning of the year. The discount rate used to calculate the present value of the PPP payments is 4.0 percent, the rate charged by the county. The present value of the future PPP payments is $2,704,380, which is based on 29 future payments of $150,000 (first annual installment is due at the inception of the PPP). The initial value of the intangible right-to-use PPP asset is $2,554,380 (initial PPP liability: $2,554,380 +$150,000 first payment). The annual amortization of the initial PPP asset is $90,146 ($2,704,380/30 years). In the first year of the PPP arrangement, the school made a $300,000 capital improvement to the building.

Governmental Fund				
Expenditures – capital outlay	$	2,704,380		
Cash			$	150,000
Other financing source – PPP			$	2,554,380

Expenditures – capital outlay	$	300,000		
Cash			$	300,000
Governmental Fund to Governmental Activities				
PPP Asset	$	2,704,380		
Other financing source – PPP	$	2,554,380		
PPP liability			$	2,554,380
Expenditures – capital outlay			$	2,704,380
Construction in progress	$	300,000		
Expenditures – capital outlay			$	300,000
Amortization expense	$	90,146		
Accumulated amortization – PPP			$	90,146
Proprietary Fund and Governmental Activities				
PPP Asset	$	2,704,380		
Cash			$	150,000
PPP liability			$	2,554,380
Construction in progress	$	300,000		
Cash			$	300,000
Amortization expense	$	90,146		
Accumulated amortization – PPP			$	90,146

To record PPP arrangement – transferor

Using the above situation, except from the county's (the transferor) perspective. The county still recognizes the building as capital asset and recognizes depreciation expense each year on the building during the PPP arrangement. At the inception of the PPP arrangement, the carrying value of the building was $2,514,333 and has 40 more years of estimated life. The county would recognize a receivable and deferred inflow of resources for the amount of the installment payments to be received from the school (present value of the $4.5 million). The deferred inflow of resources associated with the installment payments would be amortized over the life of the PPP arrangement. In year three of the PPP arrangement, the county would record a building improvement and a deferred inflow of resources for the improvements placed into service at acquisition value. The school, the operator, has supplied the value of the improvements completed in the past three years, which approximates the acquisition value.

No entries are made in the Governmental Funds

Governmental Fund to Governmental Activities				
Building improvements	$	1,500,000		
Deferred inflow of resources			$	1,500,000
Deferred inflow of resources	$	51,724		
Depreciation expense	$	62,858		
Accumulated depreciation – building improvements			$	62,858
PPP revenue			$	51,724
Proprietary Fund				
Building improvements	$	1,500,000		
Deferred inflow of resources			$	1,500,000
Deferred inflow of resources	$	51,724		
Depreciation expense	$	62,858		
Accumulated depreciation – building improvements			$	62,858
PPP revenue			$	51,724

Insurance recoveries

To record share of insurance proceeds for damage to a capital asset

A wind storm destroyed a storage building evenly shared by the Utilities (Enterprise Fund) and Public Works Departments (Special Revenue Fund). It has an historical cost of $40,000. The building was constructed 10 years ago and had a useful life of 40 years. Insurance proceeds of $36,000 were received.

Governmental Fund		
Cash	$ 18,000	
Other financing sources – compensation for loss of capital asset		$ 18,000
Governmental Fund to Governmental Activities		
Other financing sources – compensation for loss of capital asset	$ 18,000	
Accumulated depreciation – building	$ 5,000	
Building		$ 20,000
Extraordinary or nonoperating gain on insurance recovery*		$ 3,000
Enterprise Fund		
Cash	$ 18,000	
Accumulated depreciation – building	$ 5,000	
Building		$ 20,000
Extraordinary or nonoperating gain on insurance recovery*		$ 3,000

* classification will depend on specific situation of entity