STATE OF MINNESOTA
GUIDE TO LOCAL GOVERNMENT
CAPITAL ASSETS

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Minnesota Guide to Local Government Capital Assets

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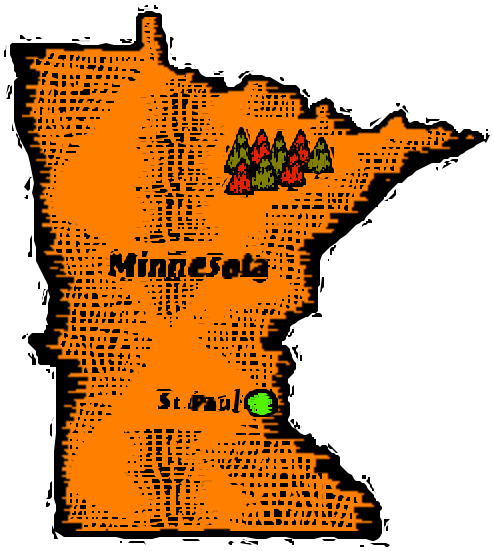
A Guide for Minnesota Local Governments on Implementing the Capital Asset and Depreciation Requirements under GASB Statement #34

I. Introduction



This guide is intended to provide guidance to local governments in understanding and implementing the accounting and financial reporting requirements for capital assets, including infrastructure, and depreciation with Governmental Accounting Standards Board[1] Statement No. 34 (GASB 34) *Basic Financial Statements--and Management's Discussion and Analysis--for State and Local Governments*. This accounting standard amends and establishes new financial reporting requirements for state and local governments, including significant new changes to report infrastructure assets and depreciate general governmental capital assets. This guide should provide general implementation 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.

Previously, long-term physical assets were called fixed assets. General government fixed assets were accounted for in the General Fixed Asset Account Group, which was presented as a separate column on the Combined Balance Sheet within the General Purpose Financial Statements. Under the new reporting requirements these general government fixed assets are joined by infrastructure assets and are known as capital assets. These capital assets are part of the governmental activities column on the new Statement of Net Assets. Depreciation, which previously was reported only in proprietary and certain trust fund types is now required to be recorded as an expense at the government-wide level in the new Statement of Activities.

While this document is not all encompassing, it is intended to provide useful information that we have identified. 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.

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

II. Definitions

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

Book value. The total cost of a capital asset less the accumulated depreciation recorded to date.

Buildings. A building is a structure that is permanently attached to the land, has a roof, is partially or completely enclosed by walls, and is not intended to be transportable or moveable. Certain buildings or structures that are an ancillary part of infrastructure networks, such as rest area facilities and pumping stations should be reported as infrastructure rather than as buildings.

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

Capital assets. Under the requirements of GASB 34, 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]

Capital leased property. Leased real or personal property, for which ownership of the asset substantially transfers to the lessee and therefore meets the criteria for capitalizing as an asset.

Capital outlay. Outflow of funds (expenditures) which result in the acquisition of or addition to capital assets.

Capitalization threshold. The 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.

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).

Composite depreciation method. Method of calculating depreciation expense for a grouping of similar assets or dissimilar assets of the same class using the same depreciation rate.

Construction in progress. Construction in progress reflects the economic construction activity status of buildings and other structures, infrastructure (highways, energy distribution systems, pipelines, etc.), additions, alterations, reconstruction, installation, and maintenance and repairs, which are substantially incomplete.

[2] Paragraph 19 of GASB 34

Depreciation. In accounting terms, depreciation is the process of allocating the cost of tangible property over a period of time, rather than deducting the cost as an expense in the year of acquisition. Generally, at the end of an asset's life, the sum of the amounts charged for depreciation in each accounting period (accumulated depreciation) will equal original cost less salvage value. Good accounting and financial management practices require that a government entity take both the cost expiration and the declining value of an asset into consideration. The cost expiration of a government entity's assets must be recognized if the cost of providing services is to be realistically reported. Also, the decline in the value of those assets must be considered if the government entity's net assets are to be stated correctly.

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 use 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.

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.

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.

Furniture 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.

Infrastructure. Assets that are 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. Infrastructure assets are often linear and normally stationary in nature. Examples include roads, bridges, tunnels, drainage systems, water systems, and dams. Infrastructure assets do not include buildings, drives, parking lots or any other examples given above that are incidental to property or access to the property.

Infrastructure improvements. Infrastructure improvements are capital costs that materially extend the useful life or increase the value of the infrastructure, or both. 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.

Intangible asset. Long-term assets that have no physical substance and are used in operations to produce products or services. Intangible asset cost must be systematically allocated to expenses over their useful life. Capitalized computer software is considered depreciable.

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).

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.
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> **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.

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

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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 a aggregated net basis.

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.

Network of assets. Composed of 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 examples, a network of infrastructure assets may be a dam composed of a concrete dam, a concrete spillway, and a series of locks.[3]

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).

Salvage value. The salvage value of an asset is the value it is expected to have when it is no longer useful for its intended purpose. In other words, the salvage value is the amount for which the asset could be sold at the end of its useful life. This value can be based on (1) general guidelines from some professional organizations such as GFOA, ASBO, etc., (2) information from other governmental entities, (3) internal experience, or (4) professionals such as engineers, architects, etc.

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[3] Footnote 14 of GASB 34

Subsystem of a network. Composed of 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. [4]

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 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 [5]

The following capital asset related definitions are from Minnesota Statutes:

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.

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.

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.

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.

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[4] Footnote 15 of GASB 34

[5] Section references are to Minnesota Statutes

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.

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.

Portage. "Portage" means a passageway two rods in width extending from one public or navigable water to another public or navigable water or from a public or navigable water to a public highway.

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.

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.

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

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 169.01.

Freeway or expressway. "Freeway" or "expressway" means a divided, controlled-access highway with four or more lanes.

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.

III. Information Needed for an Inventory Record

Governmental entities should develop strategies to ensure they have an accurate, complete, and up-to-date record of capital assets. Each government entity should have such an inventory beginning in 1980 when NCGA Statement No. 1 created the General Fixed Asset Account Group. Completeness and accuracy should be ensured through physical counts, review of purchase records, prior inventory count records, listings maintained by other government agencies, and other methods deemed necessary.

Governmental entities will need to devise a method to determine historical costs or estimated historical cost of capital assets on hand. Future asset acquisition will be valued at the acquisition cost for purchased items and donated items will be capitalized at fair market value on the donated date.

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, 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.

IV. Recording Capital Assets

Capitalization Theory - Applicable Accounting Principles
Generally accepted accounting principles related to fixed 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.*
- *The concept of useful life, which is the estimated future time span that will be benefitted by the employment of the long-lived asset.*
- *The measurement of impairment losses.*
- *The applicable accounting for the disposal of such assets.*

A tricky issue for valuing capital assets is what amounts should be capitalized when recording the asset. This section is intended to provide some general guidance on valuing capital assets, as well as some 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), 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. See Table IV-I for examples of costs a local government could capitalized as part of capital assets.

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.

Capitalized Interest

Interest costs incurred during the period of construction of proprietary fund capital assets should be capitalized. The basic guidance on interest capitalization for proprietary activities is in FASB Statement No. 34, *Capitalization of Interest Costs,* which has been amended by FASB Statement No. 62, *Capitalization of Interest Costs in Situations Involving Certain Tax-Exempt Borrowings and Certain Gifts and Grants*. The costs of capital assets for *governmental activities* do not include capitalized interest. However, interest is capitalized on:

- Assets that are constructed or otherwise produced for an enterprise's own use (including assets constructed or produced for the enterprise by others for which deposits or progress payments have been made)
- Assets intended for sale or lease that are constructed or otherwise produced as discrete projects (for example, real estate developments)

Assets that *do not* qualify for capitalization of interest include:

- Assets acquired for governmental activities (interest will be reported in the statement of activities as a separate line item)
- Assets that are in use or ready for their intended use in the earning activities of the enterprise
- Assets that are not being used in the earning activities of the enterprise and that are not undergoing the activities necessary to get them ready
- Assets acquired with gifts and grants that are restricted by the donor or grantor to acquisition of those assets to the extent that funds are available from such gifts and grants

The interest capitalization period starts when the following conditions are met:

- Expenditures for the project have been made.
- Activities are in progress to prepare an asset for its intended purpose.
- Interest costs are being incurred.

Interest capitalization ends when a capital asset is "substantially complete and ready for its intended use." FASB 62 amended the requirements when the debt is tax-exempt. In these situations, the amount that is capitalized is the net effect of interest expense and related interest revenue. In addition the FASB 62 moves the start of the capitalization period to time of the debt issuance. FASB 62 is only applicable to situations where tax-exempt debt has been issued to finance specifically identified qualifying assets. Capitalized interest can be a complicated accounting issue and local governments should consider consulting with their auditors when they have issued proprietary fund debt for capital purposes.

Capital Asset Donations

Donated capital assets should be reported at fair value[6] at the time of acquisition plus ancillary charges, if any. Donations are defined as voluntary contributions of resources to a governmental entity by a nongovernmental entity.[7]

Modified Accrual Basis - Governments should not report revenue from the *donation* of a capital asset when using the modified accrual basis except in the following situation:

> If an entity receives a donation of a capital asset and intends to sell the asset immediately, revenue should be recognized in the period the asset is donated, and the capital asset should be reported in the same fund used to report the revenue as "Assets Held for Sale." Intent to sell should be evidenced by a sale of or contract to sell the capital asset before financial statements are issued.

[6] Fair value is the amount at which an asset could be exchanged in a current transaction between willing parties.

[7] A voluntary contribution of resources between governmental entities is not a donation.

Revenue should be measured at the amount at which the capital asset is sold or its contract price. If the entity does not intend to sell the donated capital asset immediately or does not meet the criteria for intent to sell stated above, the donation should not be reported in the operations of the governmental funds.

Revenue from donations of financial resources such as cash, securities, or capital assets should be recognized when the entity has an enforceable legal claim to the donation and when it is probable the donation will be received - regardless of when the financial resources are actually received. Revenue should be measured at the fair value of the financial resource donated.

Full Accrual Basis - According to GASB Statement 33, *Accounting and Financial Reporting for Non-Exchange Transactions* entities currently using proprietary fund accounting must recognize capital asset donations as revenues and not as contributed capital.

Effective upon implementation of GASB 34, governmental activities will have to meet the standards of GASB Statement 33. Donations must be recorded and reported at fair value on the date of acquisition based on a reasonable market study. Recipients of donated capital assets will recognize the donation and related revenue when the transaction is complete and the assets are received, providing all eligibility requirements have been met. Promises of capital asset donations should be recognized as receivables and revenues (net of estimated uncollectible amounts) when all applicable eligibility requirements have been met, providing that the promise is verifiable and the resources are measurable and probable of collection.

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 capital asset should be reported in the statement of Net Assets as *"Net Assets -Restricted"* as long as the restrictions or time requirements remain in effect.

Table IV-I. Examples of Capital Asset Costs to be Capitalized	
Type of Capital Assets	**Examples**
Land and Land Improvements	• **Purchase price or fair market 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)**
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**

Table IV-I. Examples of Capital Asset Costs to be Capitalized	
Type of Capital Assets	**Examples**
Infrastructure	• **Highway and rest areas** • **Roads, streets, curbs, gutters, sidewalks, fire hydrants** • **Bridges, railroads, trestles** • **Canals, waterways, wharf, 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**

Table IV-I. Examples of Capital Asset Costs to be Capitalized	
Type of Capital Assets	**Examples**
Constructed Buildings	• **Completed project costs** • **Interest accrued during construction**[8] • **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)**

[8] Interest is capitalized only on proprietary (business-type) fund capital assets.

Table IV-I. Examples of Capital Asset Costs to be Capitalized	
Type of Capital Assets	**Examples**
Improvements to Buildings[9]	• **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**

[9] For a replacement to be capitalized, it must be a part of a major repair or rehabilitation project, which increases the value, and/or useful life of the building. A replacement may also be capitalized if the new item/part is of significantly improved quality and higher value compared to the old item/part such as replacement of an old shingle roof with a new fireproof tile roof. Replacement or restoration to original utility level would not. Determinations must be made on a case by case basis.

Table IV-I. Examples of Capital Asset Costs to be Capitalized	
Type of Capital Assets	**Examples**
Equipment, machinery, vehicles, 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 • Interest costs incurred during the application development

Improvements vs. Repairs/maintenance

Another significant issue when recording capital assets is the question of when is an expenditure capitalized as construction or an improvement versus recorded as repairs or maintenance expense. Generally, the driving factors behind capitalizing costs are those related to significantly extending the useful life, increasing capacity, or improving the efficiency of capital assets. An entity will need to analyze material expenditures as incurred as to whether they meet the tests for capitalization versus being repairs and maintenance expense.

One means of addressing the issue is to establish a policy for your entity for when capital-related costs will be capitalized. Your first test should be whether cost exceeds the capitalization thresholds for recording capital assets. Beyond this a policy could define the criteria for "significantly" extending useful life, "increased capacity", and "improving efficiency", but still allow for professional judgement. When judged independently on a case-by-case basis, this guidance can be given in applying these terms for purposes of distinguishing between capital improvements and repair or maintenance.

To "significantly" extend the useful life of an asset, some quantifiable measurement must be agreed upon. A documented increase in useful life of 25 percent for a given asset could be deemed significant, while an increase of 5 to 10 percent may not.

If documentation can be produced that indicates an increase in capacity for a given asset, then the related expense should likely be capitalized. While not necessarily 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. An increase in capacity is most likely to be seen in relation to road or utility systems where an increase in size equates to increased capacity.

Improving the efficiency of an asset could be documented through analysis of operating costs before and after the improvement, or through some other assessment of the asset and its designed use. It is assumed that any improvement in efficiency should be "material" in order to qualify as a capitalized cost meaning that the improvement should be quantified. An arbitrary figure of 10 percent may be used as a floor value when determining whether or not to capitalize a cost related to an improvement in efficiency.

It is likely that any of the above parameters could be adjusted based on the professional judgement of a qualified individual making the decision of whether to capitalize or expense a given cost. The criteria are meant as a matter of policy and to be applied as guidance, not absolutes.

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%, 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 10%.

Otherwise, the cost should be recorded as a repair and maintenance expense within the appropriate expense function.

The following are examples of expenditures *not* to capitalize as improvements to buildings. Instead, these items should be recorded as repairs and maintenance expense.

- Adding, removing and/or moving of walls relating to renovation projects that are not considered major rehabilitation projects and do not increase the value of the building
- Improvement projects of minimal or no added life expectancy and/or value to the building
- Plumbing or electrical repairs
- Cleaning, pest extermination, or other periodic maintenance
- Interior decoration, such as draperies, blinds, curtain rods, 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
- Any other maintenance-related expenditure which does not increase the value of the building

Works of Art and Historical Treasures

Works of art and historical treasures should be capitalized at their historical cost at acquisition or fair 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,[10] 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 not capitalized, a description of the collection and the reasons these assets are not capitalized should be documented.

[10] Footnote 22 to GASB 34

Leased Equipment

Equipment should be capitalized if the lease agreement meets any one of the following criteria:

- The lease transfers ownership of the property to the lessee by the end of the lease term.
- The lease contains a bargain purchase option.
- The lease term is equal to 75 percent or more of the estimated economic life of the leased property.
- The present value of the minimum lease payments at the inception of the lease, excluding executory costs, equals at least 90 percent of the fair value of the leased property.

Leases that do not meet any of the above requirements should be recorded as an operating lease and reported in the notes of the financial statements.

Capital-Related Debt

Another criterion for recording capital assets is capital-related debt. Governmental entities should carefully consider the merits of capitalizing assets purchased with debt proceeds. Capitalizing these assets would minimize the potential of negative net assets being reported in the statement of net assets. An entity is required to record the debt and not recording the related asset would make it more likely that the government would have negative net assets. In most cases it would be expected that these assets would normally meet the thresholds and guidelines for recording as a capital asset.

Modified Approach

GASB 34 allows an alternate method of accounting for infrastructure capital assets. This alternative method will be further discussed in Section VIII of this guide and is known as the "Modified Approach". One difference from the standard method is the amounts that are capitalized for infrastructure. As noted previously, generally, costs are capitalized that extend the useful life, increase the capacity, or improve the efficiency of an assets. Under the modified approach only costs that increase the capacity or efficiency of the infrastructure asset are capitalized.

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 record-keeping 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. It is recommended that each government entity use Tables V-I and V-II as 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.

Table V-I Capitalization Thresholds - Small Governments		
Capital Asset Type	**Tracking and Inventory**	**Capitalize and Depreciate for Financial Reporting**
Land	$1	Capitalize only
Land Improvements	$1	$1,000
Building and Building Improvements	$1	$1,000
Construction in Progress	$1	Capitalize only
Machinery Equipment and Vehicles	$500	$1,000
Infrastructure	$25,000	$25,000

Table V-II Capitalization Thresholds - Larger Governments		
Capital Asset Type	**Tracking and Inventory**	**Capitalize and Depreciate for Financial Reporting**
Land	$1	Capitalize only
Land Improvements	$1	$25,000
Building and Building Improvements	$1	$25,000
Building Improvements	$1	$25,000
Construction in Progress	$1	Capitalize only
Machinery, Equipment, and Vehicles	$1,000	$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 **far** exceeds the capitalization limit. These groups/classes of assets should be capitalized and depreciated. (e.g., library books in a public library). An entity is more likely to capitalized groups/classes of capital assets if the assets are acquired at the same time.

VI. Depreciation

New to general governmental capital assets is the requirement to depreciate those assets over their estimated useful lives. 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.

Depreciable Capital Assets

Table VI-I identifies whether the different types of capital assets would typically be depreciated.

Table VI-I Type of Capital Asset	Depreciate?	
	Yes	No
Land		X
Land improvements-inexhaustible		X
Land improvements-exhaustible	X	
Infrastructure and infrastructure improvements	X[11]	
Buildings and building improvements	X	
Furniture, vehicles, equipment, machinery	X	
Works of art and historical treasures-exhaustible [12]	X	
Works of art and historical treasures-inexhaustible		X
Leasehold improvements	X	
Capital leased property	X	
Easements[13]	X	X
Construction in progress[14]		X

[11] Unless modified approach used.

[12] 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

[13] Easements that have a defined useful life could be depreciated.

[14] Construction in progress assets are not depreciated until the asset is placed into service for its intended purpose

Information Needed to Calculate Depreciation

Depreciation is calculated using mathematical formulas. The formula used is dependent on the method used. However, to calculate depreciation on 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.

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.

Tables VI-II through V provide examples of the calculation of depreciation using four potential depreciation methods. 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.

Table VI-II Example of Depreciation Calculation - Straight Line

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

The sum-of-the-years'-digits (SD) is a calculation based on the sum of individual years of the estimated life. The formula is n(n+1)/2, where n = the estimated useful life. The remaining useful life (RL) is also used in the calculation.

Table VI-III Example of Depreciation Calculation - Sum-of-the-Years'-Digits

Year	Beginning Net Book Value	Accumulated Depreciation	Calculation (OC-SV) X RL/SD	Depreciation	
				Annual	Monthly
0	$27,000	$0			
1	17,400	9,600	($27,000-$3,000) X 4/10	$9,600	$800
2	10,200	16,800	($27,000-$3,000) X 3/10	7,200	600
3	5,400	21,600	($27,000-$3,000) X 2/10	4,800	400
4	3,000	24,000	($27,000-$3,000) X 1/10	2,400	200

Double-declining balance use a rate that is based on twice the straight line method. Salvage value is ignored in the calculation. In the example the straight-line percentage is 25%, so the double-declining rate (DDR) is 50%.

Table VI-IV Example of Depreciation Calculation - Double-Declining Balance

Year	Beginning Net Book Value (BNBV)	Accumulated Depreciation	Calculation BNBV X DDR	Depreciation	
				Annual	Monthly
0	$27,000	$0			
1	13,500	13,500	$27,000 X 50%	$13,500	$1,125
2	6,750	20,250	13,500 X 50%	6,750	563
3	3,375	23,625	6,750 X 50%	3,375	281
4	3,000	24,000	3,375 X 50%	375[15]	31

The activity method assumes depreciation is a function of use or productivity and is based on output or hours of use. In this example we will use hours of use. It has a productive life (PL) of 10,000 hours.

Table VI-V Example of Depreciation Calculation - Activity Method

Year	Hours Used (HU)	Beginning Net Book Value (BNBV)	Accumulated Depreciation	Calculation $\frac{(OC-SV) \times HU}{PL}$	Depreciation	
					Annual	Monthly
0		$27,000	$0			
1	2,600	20,760	6,240	($27,000-$3,000) X 2,600/ 10,000	$6,240	$520
2	1,700	16,680	10,320	($27,000-$3,000) X 1,700/ 10,000	4,080	340
3	3,000	9,480	17,520	($27,000-$3,000) X 3,000/ 10,000	7,200	600
4	2,700	3,000	24,000	($27,000-$3,000) X 2,700/ 10,000	6,480	540

[15] Only recognize enough depreciation to result in a net book value equal to the salvage value.

Depreciating an Asset that was not Purchased at the Beginning of a Fiscal Year

Computer applications generally can depreciate 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 complicating 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.** The other averaging conventions are described in Appendix C to provide an understanding of the available options.

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 organizations such as GFOA, ASBO, etc.; (3) information from state agencies such as the Department of Transportation and other governmental entities; (4) internal experience; or (5) professionals such as engineers, architects, etc.

It is difficult to come up with a "laundry list" of estimated useful lives for capital assets when condition and usage are a factor. 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 10 years. Therefore, it is recommended that each government entity develop such a list from the 5 methods shown above. These useful lives should be based on government's experience and plans for using assets, which include:

a. **Present condition.** What is the current condition of the capital asset?

b. **Construction type.** What is the quality and expense of the construction type?

c. **Maintenance policy.** What is the entities maintenance policy?

d. **Climatic conditions.** What effect does the local climate have on capital assets?

A local government should consider these factors when determining the estimated useful life of an individual or class of capital assets.

VIII. Financial Reporting Requirements

Reporting Depreciation Expense in the Financial Statements

For general capital assets, depreciation is reported only on government-wide financial statements. Depreciation expense is reported within the Statement of Activities. GASB 34 requires that depreciation for assets specifically identified with specific functions is to be included in the direct expenses of those functions. Capital assets that serve essentially all functions are reported on a separate line or reported as part of the general administration (or its counterpart) function. 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 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 not be allocated to the various functions. It should be reported as a direct expense of the function (for example, public works or transportation) that the reporting government normally associates with capital outlays for, and maintenance of, infrastructure assets or as a separate line in the statement of activities.

Reporting Capital Assets in the Financial Statements

Capital assets and the associated accumulated depreciation are reported in the Statement of Net Assets. Accumulated depreciation may be reported separately, or capital assets may be presented net of accumulated depreciation on the statement. Capital assets that are not being depreciated, such as land or infrastructure assets reported using the modified approach should be reported separately if the government has a significant amount of these assets. 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 in the face of the statement.

IX. Infrastructure Assets Determining Historical Cost or Estimated Historical Cost

Infrastructure assets should be reported as a part of capital assets in the statement of net assets. infrastructure assets generally should be reported at historical cost (if purchased or constructed) or estimated fair value (if donated) at the time of acquisition, in addition, all general infrastructure assets that are acquired prospectively--after the adoption of GASB 34--must be reported in the statement of net assets at historical cost or estimated fair value. The presentation of infrastructure assets in the statement of net assets depends on whether or not the assets are depreciated. GASB 34, paragraph 20, provides the following guidance for reporting capital assets in the statement of net assets:

> Capital assets [including infrastructure assets] that are being or have been depreciated... should be reported net of accumulated depreciation in the statement of net assets. (Accumulated depreciation may be reported on the face of the statement or disclosed in the notes.) Capital assets that are not being depreciated, such as land or infrastructure assets reported using the modified approach..., should be reported separately if the government has a significant amount of these assets. 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).

In order to ease implementation of general infrastructure reporting, more liberal rules apply for reporting infrastructure assets that were acquired prior to the adoption of GASB 34:

- Retroactive accounting for infrastructure is only required to a cutoff date. The statement requires that entities only need to account for infrastructure capital assets acquired, constructed, or significantly improved during fiscal years that ended after June 30, 1980.
- Mandatory retroactive infrastructure reporting is limited to major networks and subsystems of infrastructure capital assets. Only networks of infrastructure whose cost is estimated to exceed 10 percent of the total cost of general government capital assets reported in the first fiscal year ending after June 15, 1999, are required to be reported. For subsystems the test is 5 percent of those same general capital assets.
- The local government can use a variety of means to estimate historical cost if actual historical cost is not available.
- Small governments are exempt from mandatory retroactive infrastructure reporting. See the discussion following.

The first GASB 34 implementation guide provides examples/exercises on estimating historical cost using current replacement cost; calculating weighted-average age for general infrastructure assets recorded at transition; and determining major general infrastructure assets.

Entities with total revenue of less than $10 million

A decision must be made by small governments whether to retroactively report infrastructure assets. Phase 3 governments (See section XI.) are encouraged but are not required to report major general infrastructure assets retroactively. This means that infrastructure assets that were acquired or significantly reconstructed, or that received significant improvements in fiscal years ending after June 30, 1980, to the beginning of the effective date of GASB 34 are encouraged to be reported but are not required to be reported. Your consideration as to report these infrastructure assets should include:

- The omission of infrastructure assets may omit significant assets.
- There may be significant related debt for the infrastructure assets and it would be advantageous to include them.

X. Infrastructure Assets under the "Modified Approach"

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:
  - Have an up-to-date inventory of eligible infrastructure assets
  - 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

- 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.

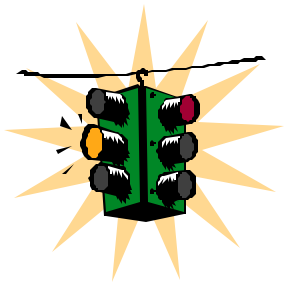
XI. Implementation Dates for GASB 34

The requirements of GASB 34 are effective in three phases based on total annual revenues in the first fiscal year ending after June 15, 1999 (earlier application is encouraged).

- Phase 1 governments - Revenues of $100 million or more should apply the requirements of this GASB 34 in financial statements for periods beginning after June 15,2001.
- Phase 2 governments - Revenues of $10 million or more but less than $100 million should apply the requirements of GASB 34 in financial statements for periods beginning after June 15, 2002.
- Phase 3 governments - Revenues of less than $10 million should apply the requirements of GASB 34 in financial statements for periods beginning after June 15, 2003.

Prospective reporting of general infrastructure assets in the statement of net assets is required beginning at the effective dates above. Retroactive reporting of all major general infrastructure assets is encouraged at that date. However, the following dates are allowed to retroactively report infrastructure assets:

- Phase 1 governments should retroactively report all major general infrastructure assets for fiscal years beginning after June 15, 2005.
- Phase 2 governments should retroactively report all major general infrastructure assets for fiscal years beginning after June 15, 2006.
- Phase 3 governments are encouraged but are not required to report major general infrastructure assets retroactively.



Appendix A - 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	Report assets purchased and donated as an expense Report donations as capital contribution or contribution 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	Charge depreciation expense and increase accumulated depreciation	Not applicable	Charge depreciation expense and increase accumulated depreciation	Charge depreciation deduction and increase accumulated depreciation
Outlays that extend the initial 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 a deduction

Activity	Government-wide Financial Statements	Governmental Fund Financial Statements	Proprietary Fund Financial Statements	Fiduciary Fund Financial Statements (excluding agency funds)
Infrastructure capital assets accounted for using the modified approach:				
Use of infrastructure capital assets	No charge for depreciation	Not applicable	No charge for depreciation	No charge for depreciation
Outlays that improve the assets' efficiency (improvements) or capacity (additions)	Capitalize	Report as expenditures	Capitalize	Capitalize
Outlays that extend the estimated useful lives of the assets (preservation costs) and outlays for repairs and maintenance	Report as expenses	Report as expenditures	Report as expenses	Report as deductions
Sales and other dispositions of capital assets	Remove the assets' cost and any accumulated depreciation	Report proceeds as other financing source or special item	Remove the assets' cost and any accumulated depreciation	Remove the assets' cost and any accumulated depreciation
	Report gain or loss on sale as special item or as general revenue or general government-type expenses (See GASB 34 Q&A, item 131)		Report gain or loss on sale as special item or as revenue or expense (usually non-operating)	Report gain or loss on sale as an addition (deduction)

Appendix B - Accounting Entries

The following case study provides examples of the typical capital asset related accounting entries that could be made both during the year and at year-end for preparing annual financial statements. This case study, with numbers, is included to provide further guidance. The entries are not all the potential accounting entries they may be needed for an individual entity. Typically during the year, because most local governments keep there records on the cash basis, they only record transactions that impact cash. The illustration will show the effect of keeping accounting records on the cash basis and the differences between modified accrual and full accrual bases of accounting when preparing annual financial statements under the requirements of GASB 34.

Case Study

The City/County of Frostbite Falls is implementing GASB 34 for its current fiscal year ending 12/31/2001. They have to implement the retroactive requirements for infrastructure at the same time. The City/County has two governmental funds (the General Fund and the Road Construction Capital Projects Fund) and one enterprise fund (Utilities Fund). Prior to implementing GASB 34 the City/County had a $500 threshold for capitalizing assets. As part of implementation the City/County has increased its capitalization threshold to $5,000. The City/County will use the straight-line method for calculating depreciation. At 12/31/2000, the City/Council had the following capital assets:

	General Capital Assets[16]		Utilities Fund	
	Cost	Accumulated Depreciation[17]	Cost	Accumulated Depreciation
Land	$ 1,500,000	-	$ 250,000	$ -
Land improvements[18]	250,000	90,000	25,000	5,000
Infrastructure[19]	-	-	750,000	225,000
Buildings	3,500,000	1,200,000	500,000	300,000
Equipment	750,000	230,000	150,000	76,250
Totals	$ 6,000,000	$ 1,520,000	$ 1,675,000	$ 606,250

[16] Prior to GASB 34 general capital assets were known as fixed assets and accounted for in an account group.

[17] Calculated as part of requirements for implementing GASB 34

[18] Exhaustible land improvements, such as parking lots.

[19] Proprietary funds infrastructure such as water or sewer systems should already be capitalized.

The City/County has the following departments/functions within the general fund:

Department	Function
Administration	General government
Police	Public safety
Public works	Highways and streets
Parks	Culture and recreation
Library	Culture and recreation

During the year the following equipment was purchased/received:

Item	Amount	Department	Purchase Method
Computer system	15,000	Administration	Cash
Desk	750	Administration	Cash
Copier	10,000	Administration	Capital lease[20]
Squad Car (1)	25,000	Police	Cash less trade-in[21]
Squad Car (2)	25,000	Police	Cash less trade-in[22]
Playground equipment	7,500	Parks	Accounts payable[23]
Truck	24,000	Utilities	Cash
Computer	6,000	Library	Donation[24]

[20] Present value of future lease payments of $10,000.

[21] $45,000 in cash and $5,000 trade-in on one old squad car.

[22] See footnote 20.

[23] Equipment received in December, but not paid for until January 2002

[24] Fair value at date of donation.

The following construction related activity occurred during the current year:

- The parks department constructed a new restroom facility at Lakeside Park for $30,000.
- Road improvement project #1 started in the prior year was completed. Current year costs for project #1 were $75,000, for a total cost of $200,000.
- Road project #2, a project for a new street, was started in 2001. Costs incurred in 2001 were $25,000 to purchase permanent right-of-way, $5,000 for engineering, $50,000 for excavation and grading, $3,000 for construction right-of-way, and $10,000 for road construction. The project is uncompleted. $20,000 of the costs are unpaid at year end. Another $200,000 of construction costs are required on the contract.
- The utilities fund issued $500,000 in tax-exempt bonds payable to finance construction of new water and sewer lines to a new subdivision. Proceeds received from the debt sale were $475,000. Accrued interest on proceeds received were $3,000. Bond issuance costs and discount deducted from the proceeds were $21,000 and $7,000, respectively. Construction was started and completed during the year. Total construction costs were $465,000. During the period of construction, interest costs were $22,000 and additional interest earnings on bond proceeds were $12,000.
- The Parks Department paid $18,000 to construct bicycle paths in 2001.
- A developer completed a subdivision and turned over the related streets to the City/County. The streets had a fair value of $250,000.
- The City/County paid Art C. Sculptor $10,000 for a bronze statue of the City/County's founding father.

The following capital asset retirements occurred:

- Frostbite Falls sold equipment purchased two years ago with an original cost of $10,000 for $1,500. The equipment has an estimated useful life of 5 years.
- Squad car traded-in for $5,000. Original cost was $18,000. Accumulated depreciation of $12,000.
- The City/County decided to forgo developing a new park and sold land for $100,000 (Original cost $75,000).
- The City/County vacated Dead End Street constructed 20 years ago at a cost of $100,000. The street had an estimated useful life of 25 years.
- The utility department disposed of $10,000 in equipment, with accumulated depreciation of $9,500 and received $500 in cash for the scrapped material.
- A wind storm destroyed a storage building evenly shared by the Utilities and Public Works Departments. The building had a 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.

Other capital asset transactions during the year:

- At mid-year the Utilities Department moved into unused office space in the City/County administration building. The Utilities Department space represents 10 percent of the total space in the building. The building was placed in service in July, 1996, for $2,000,000 and was included in general capital assets. The building's estimated useful life is 50 years.
- The Utilities Department transferred a truck to the Parks Department. The truck had an original cost of $20,000 and accumulated depreciation of $12,000.
- The change in capitalization threshold removed $120,000 in equipment from general capital assets. The equipment had accumulated depreciation of $30,000.

The City/County's has determined the following retroactive amounts for infrastructure capital assets as of January 1, 2001:

Network or Subsystem	Cost	Accumulated Depreciation	Major Network Calculation[25]
Paved roads	$ 1,500,000	$ 725,000	25.9%
Unpaved roads	650,000	375,000	11.2%
Bridges	1,000,000	200,000	17.2%
Street lighting	25,000	15,000	0.4%
Bike paths	56,000	5,000	1.0%
Sidewalks	295,000	222,000	5.1%
Construction-in-progress	125,000	-	NA
Totals	$3,651,000	$1,542,000	
Total general capital assets at 12/31/1999 were:			$5,800,000

Ongoing Transactions Accounting Entries (AE) For governmental funds these are the transactions that would typically be recorded in the records kept on the cash basis. For proprietary funds, such as the Utilities Enterprise Fund, the records are more likely to be kept on a full accrual basis during the year. However, even with proprietary funds, in many cases only transactions that have a cash piece to them are recorded on a regular basis. Many accrual-basis entries are only made on annual basis. This is particularly true for smaller local governments.

[25] Calculated pursuant to requirements of ¶ 156 of GASB 34.

Governmental Funds

AE-1 (General Fund) To record the equipment purchases made during the year for the computers, desk, and squad cars.

Dr. Expenditures, general government, administration, supplies	750	
Dr. Expenditures, general government, administration, capital outlay	15,000	
Dr. Expenditures, public safety, police (sheriff), capital outlay	45,000	
Cr. Cash		60,750

AE-2 (General Fund) To record construction of park facility.

Dr. Expenditures, culture and recreation, parks, capital outlay	30,000	
Cr. Cash		30,000

AE-3 (Road Construction Capital Projects Fund) To record cost on road project #1.

Dr. Expenditure, capital outlay, highways and streets	75,000	
Cr. Cash		75,000

AE-4 (Road Construction Capital Projects Fund) To record costs paid on road project #2.

Dr. Expenditures, capital outlay, highways and streets[26]	73,000	
Cr. Cash		73,000

AE-5 (General Fund) To record payment for construction of bicycle paths.

Dr. Expenditures, culture and recreation, parks, capital outlay	18,000	
Cr. Cash		18,000

AE-6 (General Fund) To record sale of equipment.

Dr. Cash	1,500	
Cr. Other financing source, sale of capital assets		1,500

AE-7 (General Fund) To record sale of park land.

Dr. Cash	100,000	
Cr. Other financing source, sale of capital assets		100,000

[26] Most entities would further break down these costs by object, e.g. land, engineering, payments to contractors.

AE-8 (General Fund) To record General Fund share of insurance proceeds from wind storm loss.

Dr. Cash	18,000	
Cr. Other financing source, comp. for loss of general capital asset		18,000

AE-9 (General Fund) To record payment for statue.

Dr. Expenditures, culture and recreation, capital outlay	10,000	
Cr. Cash		10,000

Proprietary Fund

AE-10 (Utilities Fund) To record purchase of truck.

Dr. Equipment-truck	24,000	
Cr. Cash		24,000

AE-11 (Utilities Fund) To record proceeds from debt issued to finance construction of water and sewer lines.[27]

Dr. Cash	475,000	
Dr. Deferred issuance costs	21,000	
Dr. Bond discount	7,000	
Cr. Bonds payable-capital related		500,000
Cr. Interest earnings		3,000

AE-12 (Utilities Fund) To record construction costs.

Dr. Infrastructure	465,000	
Cr. Cash		465,000

AE-13 (Utilities Fund) To record earnings on debt proceeds.

Dr. Cash	15,000	
Cr. Interest earnings		15,000

AE-14 (Utilities Fund) To record interest costs on capital-related debt.

Dr. Interest expense	22,000	
Cr. Cash		22,000

[27] We have included this debt-related transaction, because it is capital-related debt.

AE-15 (Utilities Fund) To record scrapping of equipment.

Dr. Cash	500	
Dr. Accumulated depreciation, equipment	9,500	
Cr. Equipment		10,000

AE-16 (Utilities Fund) To record receipt of share of insurance proceeds and loss of building due to wind storm.

Dr. Cash	18,000	
Dr. Accumulated depreciation, buildings	5,000	
Cr. Building		20,000
Cr. Extraordinary or nonoperating gain on insurance recovery[28]		3,000

Fund Level Year End Entries (FL-AE) The entries are made to adjust the general ledger records to the modified accrual basis of accounting for the governmental funds for the fund level presentation. For proprietary funds these are the year-end entries necessary to prepare the fund level financial statements on the full accrual basis of accounting.

Governmental Funds

FL-AE-1 (Road Construction Capital Projects Fund) To record payable on unpaid construction work.

Dr. Expenditures, highways and streets, capital outlay	20,000	
Cr. Contracts payable		20,000

FL-AE-2 (General Fund) To record transaction for capital lease of copier.

Dr. Expenditure, general government, administration, capital outlay	10,000	
Cr. Other financing sources, proceeds from capital leases		10,000

FL-AE-3 (General Fund) To record payable for purchase of playground equipment.

Dr. Expenditure, capital outlay, culture and recreation	7,500	
Cr. Accounts payable		7,500

[28]Classification depends on materiality and whether unusual and infrequent in occurrence.

FL-AE-4 (Road Construction Capital Projects Fund) To reserve fund balance for contract encumbrance on road project #2.

Dr. Unreserved fund balance	200,000	
Cr. Fund balance, reserved for encumbrances		200,000

Proprietary Funds

FL-AE-5 (Utilities Fund) To adjust beginning balances for change in capitalization threshold.

Dr. Accumulated depreciation, equipment	9,000	
Dr. Net assets	6,000	
Cr. Equipment		15,000

FL-AE-6 (Utilities Fund) To record capitalized interest.

Dr. Infrastructure	7,000	
Dr. Interest earnings	15,000	
Cr. Interest expense		22,000

FL-AE-7 (Utilities Fund) To record current year depreciation expense.

Dr. Depreciation expense	105,250	
Cr. Accumulated depreciation - land improvements		2,500
Cr. Accumulated depreciation - infrastructure		72,500
Cr. Accumulated depreciation - buildings		25,000
Cr. Accumulated depreciation - equipment		5,250

FL-AE-8 (Utilities Fund) To record transfer of building space to the utilities fund.

Dr. Building	200,000	
Cr. Accumulated depreciation		20,000
Cr. Capital contribution		180,000

FL-AE-9 (Utilities Fund) To record transfer of truck from the utilities fund to general capital assets.

Dr. Transfers out	8,000	
Dr. Accumulated depreciation	12,000	
Cr. Equipment		20,000

Government-Wide Year End Entries (GW-AE)- Governmental Activities These entries are need to convert the governmental funds on the modified-accrual basis to the governmental activities on the full accrual basis for the government-wide financial statements.

GW-AE-1 To record capital assets other than infrastructure at initial implementation of model in government wide financial statements. This entry will effectively move the General Fixed Assets Account Group into the governmental activities column of the government-wide financial statements. (Note that the same entry will be recorded in subsequent years for prior year balances as a cumulative adjustment.)

Dr Capital assets, land	1,500,000	
Dr Capital assets, land improvements	250,000	
Dr Capital assets, buildings and building improvements	3,500,000	
Dr Capital assets, furniture and equipment	750,000	
Cr. Accumulated depreciation, land improvements		90,000
Cr. Accumulated depreciation, buildings and building improvements		1,200,000
Cr. Accumulated depreciation, furniture and equipment		230,000
Cr. Net assets		4,480,000

GW-AE-2 To remove equipment due to change in capitalization threshold.

Dr. Accumulated depreciation, equipment	30,000	
Dr. Net assets	90,000	
Cr. Equipment		120,000

GW-AE-3 To record retroactive infrastructure capital assets. The City/County decided not to capitalize retroactive amounts for street lighting and bike paths, because that did not meet the major network capitalization requirement for retroactive infrastructure.

Dr. Infrastructure	3,445,000	
Dr. Construction-in-progress		125,000
Cr. Accumulated depreciation, infrastructure		1,522,000
Cr. Net assets		2,048,000

GW-AE-4 To capitalize computer system purchased during the year.

Dr. Equipment	15,000	
Cr. Capital outlay expenditures-general government		15,000

GW-AE-5 To capitalize new squad cars and remove squad car traded-in.

Dr. Equipment	50,000	
Dr. Accumulated depreciation	12,000	
Dr. Loss on trade-in of equipment	1,000	
Cr. Equipment		18,000
Cr. Capital outlay expenditures-public safety		45,000

GW-AE-6 To capitalize park building.

Dr. Buildings	30,000	
Cr. Expenditures, culture and recreation, parks, capital outlay		30,000

GW-AE-7 To capitalize current year construction of bike path as infrastructure .[29]

Dr. Infrastructure	18,000	
Cr. Expenditure, capital outlay, culture and recreation		18,000

GW-AE-8 To capitalize the playground equipment.

Dr. Equipment	7,500	
Cr. Expenditure, capital outlay, culture and recreation		7,500

GW-AE-9 To capitalize road improvement project #1.

Dr. Construction-in-progress	75,000	
Cr. Expenditure, capital outlay, highways and streets		75,000

GW-AE-10 To remove completed project from construction-in-progress.

Dr. Infrastructure	200,000	
Cr. Construction-in-progress		200,000

GW-AE-11 To capitalize road project #2 costs.

Dr. Land	25,000	
Dr. Construction-in-progress	88,000	
Cr. Expenditure, capital outlay, highways and streets		113,000

[29] Although not retroactive amounts for bicycle paths were not require to be capitalized, all infrastructure that meets the capitalization requirements should be recognized prospectively.

GW-AE-12 To properly record sale of equipment on full accrual basis.

Dr. Other financing sources, proceeds from sale of capital assets	1,500	
Dr. Accumulated depreciation	4,000	
Dr. Loss on sale of capital assets (if loss)	4,500	
Cr. Equipment		10,000

GW-AE-13 To record donation of computers to Library.

Dr. Equipment	6,000	
Cr. Capital contributions		6,000

GW-AE-14 To properly record sale of park land on full accrual basis.

Dr. Other financing sources, proceeds from sale of capital assets	100,000	
Cr. Land		75,000
Cr. Special item, gain on sale of park land		25,000

GW-AE-15 To remove vacated street from capital assets.

Dr. Accumulated depreciation, infrastructure	80,000	
Dr. Loss on disposal of capital asset	20,000	
Cr. Infrastructure		100,000

GW-AE-16 To convert copier capital leases issue during the year to an accrual basis (present value of liability)

Dr. Other financing sources, proceeds from capital leases	10,000	
Dr. Equipment	10,000	
Cr. Expenditure, general government, administration, capital outlay		10,000
Cr. Capital leases payable		10,000

GW-AE-17 To record streets turned over to the city/county by developer.

Dr. Infrastructure	250,000	
Cr. Capital contribution		250,000

GW-AE-18 To remove destroyed storage shed from capital assets.

Dr. Other financing source, compensation for loss of capital asset	18,000	
Dr. Accumulated depreciation	5,000	
Cr. Equipment		20,000
Cr. Extraordinary or nonoperating gain on insurance recovery[30]		3,000

GW-AE-19 To record transfer of office space to business-type activities (utility fund).

Dr. Accumulated depreciation, buildings	20,000	
Dr. Transfers	180,000	
Cr. Buildings		200,000

GW-AE-20 To record transfer of truck from business-type activities.

Dr. Equipment	20,000	
Cr. Accumulated depreciation, equipment		12,000
Cr. Transfers		8,000

GW-AE-21 To capitalize statue as works of art.

Dr. Works of art and historical treasures	10,000	
Cr. Expenditures, culture and recreation, capital outlay		10,000

GW-AE-22 To record current year depreciation.

Dr. Depreciation expense, general government	200,000	
Dr. Depreciation expense, public safety	75,000	
Dr. Depreciation expense, highways and streets	325,000	
Dr. Depreciation expense, culture and recreation	35,000	
Cr. Accumulated depreciation, land improvements		10,000
Cr. Accumulated depreciation, buildings and building improvements		175,000
Cr. Accumulated depreciation, infrastructure		365,000
Cr. Accumulated depreciation, furniture and equipment		85,000

The following exhibits summarize and show the detail impact of the preceding journal entries on general capital assets and the utilities enterprise fund capital assets.

[30] Classification depends on materiality and whether unusual and infrequent in occurrence.

Exhibit B-1	Summary of Changes in General Capital Assets						
	January 1, 2001 As previously Reported	Calculation of 1/1/2001 Accumulated Depreciation	Change in Capitalization Threshold	Retroactive Infrastructure	Beginning January 1, 2001 as Restated	Net Total Changes	December 31 Capital Assets
	GW-AE-1	GW-AE-1	GW-AE-2	GW-AE-3			
General Capital Assets							
Land	1,500,000				1,500,000	(50,000)	1,450,000
Land Improvements	250,000				250,000	0	250,000
Infrastructure				3,445,000	3,445,000	368,000	3,813,000
Buildings	3,500,000				3,500,000	(190,000)	3,310,000
Equipment	750,000		(120,000)		630,000	80,500	710,500
Works of art, historical treasures	0				0	10,000	10,000
Construction-in-progress	0			125,000	125,000	(37,000)	88,000
Total General Capital Assets	6,000,000	0	(120,000)	3,570,000	9,450,000	181,500	9,631,500
Accumulated Depreciation							
Land Improvements	0	90,000			90,000	10,000	100,000
Infrastructure	0			1,522,000	1,522,000	95,000	1,617,000
Buildings	0	1,200,000			1,200,000	340,000	1,540,000
Equipment	0	230,000	(30,000)		200,000	81,000	281,000
Total Accumulated Depreciation	0	1,520,000	(30,000)	1,522,000	3,012,000	526,000	3,538,000
Net Book Value General Capital Assets	6,000,000	(1,520,000)	(90,000)	2,048,000	6,438,000	(344,500)	6,093,500

Exhibit B-2 Detail of General Capital Asset Changes

	Computer GW-AE-4	Squad Cars GW-AE-5	Park Building GW-AE-6	Bike Trails GW-AE-7	Play Ground Equip. GW-AE-8	Road Project #1 GW-AE-9	Completed Projects GW-AE-10	Road Project #2 GW-AE-11	Sale of Equipment GW-AE-12	Donated Computer GW-AE-13	Sale of Park Land GW-AE-14	Vacated Street GW-AE-15	Copier GW-AE-16	Streets from Dvlpr. GW-AE-17	Storage Shed GW-AE-18	Office Space Tmsfr GW-AE-19	Transfer of Truck GW-AE-20	Statue GW-AE-21	Deprec GW-AE-22
General Capital Assets																			
Land								25,000			(75,000)								
Land Improvements																			
Infrastructure				18,000			200,000					(100,000)		250,000					
Buildings			30,000												(20,000)	(200,000)			
Equipment	15,000	32,000			7,500				(10,000)	6,000			10,000				20,000		
Works of art, historical treas.																			
Construction-in-progress						75,000	(200,000)	88,000										10,000	
Total General Capital Assets	15,000	32,000	30,000	18,000	7,500	75,000	0	113,000	(10,000)	6,000	(75,000)	(100,000)	10,000	250,000	(20,000)	(200,000)	20,000	10,000	0
Accumulated Depreciation																			
Land Improvements																			10,000
Infrastructure												(80,000)							175,000
Buildings															(5,000)	(20,000)			365,000
Equipment		(12,000)							(4,000)								12,000		85,000
Total Accumulated Depreciation	0	(12,000)	0	0	0	0	0	0	(4,000)	0	0	(80,000)	0	0	(5,000)	(20,000)	12,000	0	635,000
Net Book Value General Capital Assets	15,000	44,000	30,000	18,000	7,500	75,000	0	113,000	(6,000)	6,000	(75,000)	(20,000)	10,000	250,000	(15,000)	(180,000)	8,000	10,000	(635,000)

Exhibit B-3	Summary of Changes in Enterprise Fund Capital Assets				
	January 1, 2001 As previously Reported	Change in Capitalization Threshold FL-AE-5	Beginning January 1, 2001 as Restated	Total Changes	December 31 Capital Assets
Enterprise Fund Capital Assets					
Land	250,000		250,000	0	250,000
Land Improvements	25,000		25,000	0	25,000
Infrastructure	750,000		750,000	472,000	1,222,000
Buildings	500,000		500,000	180,000	680,000
Equipment	150,000	(15,000)	135,000	(6,000)	129,000
Construction-in-progress	0		0	0	0
Total Enterprise Fund Capital Assets	1,675,000	(15,000)	1,660,000	646,000	2,306,000
Accumulated Depreciation					
Land Improvements	5,000		5,000	2,500	7,500
Infrastructure	225,000		225,000	72,500	297,500
Buildings	300,000		300,000	40,000	340,000
Equipment	76,250	(9,000)	67,250	(16,250)	51,000
Total Accumulated Depreciation	606,250	(9,000)	597,250	98,750	696,000
Net Book Value Enterprise Capital Assets	1,068,750	(6,000)	1,062,750	547,250	1,610,000

Exhibit B-4	Detail of Enterprise Fund Capital Asset Changes.								
	Truck AE-9	Construction AE-11	Scrapped Equipment AE-14	Destroyed Storage Shed AE-15	Capitalized Interest FL-AE-5	Depreciation FL-AE-6	Building Space FL-AE-8	Transfer of Truck FL-AE-9	Net Total Changes
Enterprise Fund Capital Assets									
Land									0
Land Improvements									0
Infrastructure		465,000			7,000				472,000
Buildings				(20,000)			200,000		180,000
Equipment	24,000		(10,000)					(20,000)	(6,000)
Construction-in-progress									0
Total Enterprise Fund Capital Assets	24,000	465,000	(10,000)	(20,000)	7,000	0	200,000	(20,000)	646,000
Accumulated Depreciation									
Land Improvements						2,500			2,500
Infrastructure						72,500			72,500
Buildings				(5,000)		25,000	20,000		40,000
Equipment			(9,500)			5,250		(12,000)	(16,250)
Total Accumulated Depreciation	0	0	(9,500)	(5,000)	0	105,250	20,000	(12,000)	98,750
Net Book Value Enterprise Capital Assets	24,000	465,000	(500)	(15,000)	7,000	(105,250)	180,000	(8,000)	547,250

Appendix C - Estimated Useful Lives Tables

One of the areas that has caused the greatest concern is how to determine the useful life of a capital asset. While some guidance existed prior to GASB 34 for buildings and equipment useful lives, establishing useful lives for infrastructure capital assets will be a new experience for most state and local governments. To assist preparers, within this appendix we have included a number of different tables from around the country. We have identified the tables' source, which should be considered when establishing estimated useful lives for your government's capital assets. We have pulled these tables together as a starting point for determining estimates of capital assets' useful lives. The tables have been modified and reformatted for inclusion within this guide. You should review section VII of this guide for issues to consider when establishing useful lives. Reasonable assumptions, based on current information, should be used in establishing those lives.

The following tables are included:

Appendix C-1	Office of the State Auditor General Guidance
Appendix C-2	Suggested Useful Lives Table Prepared by Louisiana GASB 34 Local Government Task Force
Appendix C-3	Minnesota Department of Transportation (MNDOT) State Aid Accounting Manual Fixed Assets Useful Life Table - This table has been used to depreciate equipment for highway costing. (This table is currently being updated.)
Appendix C-4	State of Oregon
Appendix C-5	State of Texas Comptroller of Public Accounts Useful Life Guidance
Appendix C-6	State of South Carolina's Useful Lives for Depreciation of Capital Assets
Appendix C-7	Commonwealth of Virginia Office of Comptroller Guidance
Appendix C-8	State of Florida Controller's Office
Appendix C-9	State of Illinois
Appendix C-10	State of New York

Appendix C-1 General Guidance from the Office of the State Auditor

The purpose of useful life tables are 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 next to 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 live. 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 15 to 75 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 there 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 3 to 15 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 will obviously be at the lower end of the spectrum. Technology improvements can impact how long an entity uses certain equipment and can impact salvage values.
- Vehicles 3 to 12 years. Most police cars will be traded around 3 to 4 years because the cost of maintenance increases rapidly after that point. Buses tend to last longer than most other vehicles. Automobiles will probably last 5 to 7 years under normal situations.
- Infrastructure--20 to 60 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 20 to 25 years.
- Land Improvements (depreciable)--15 to 30 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.

Appendix C-2 State of Louisiana Suggested Useful Lives Table

Capital Assets of Local Governments Suggested Useful Lives		
Asset Type	**Examples**	**Depreciable Life in Years**
Furniture, office equipment	Desks, tables, chairs	5
Computer Hardware	Monitors, CPU, printer	5
Telephone Equipment		10
Motor Vehicles		
Cars and light trucks		5
Busses	School, City	8-10
Fire trucks		15
Buildings - Temporary	T-buildings, other portable	25
Buildings		40
HVAC Systems	Air-conditioners, heating, ventilation systems	20
Roofing		20
Carpet Replacement		7
Electrical\Plumbing		30
Kitchen Equipment	Appliances	12
Heavy Construction Equipment	Backhoes, Trucks, Dozers, front-end loaders, Large Tractors	5-10
Engineering, Scientific Equipment	Lab Equipment	10
Firefighting Equipment	Ladder, hoses	10
Police Special Equipment		5
Medical Equipment		10
Traffic Control Equipment	Stoplights	10
Radio, communications equipment	Mobile, portable radios	10
Recreational\ Athletic Equipment	Weight machines, mats, golf cads, treadmills, tackling sled, pitching machines	10
Library Books	Collections	5-7
Artwork	Collections	5-7
Outdoor Equipment	Playground, scoreboards, bleachers, radio towers	20

Capital Assets of Local Governments Suggested Useful Lives		
Asset Type	**Examples**	**Depreciable Life in Years**
Custodial Equipment	Floor scrubbers, vacuums, other	12
Grounds Equipment	Mowers, tractors and attachments	15
Land Improvements - structure	Parking lots, sidewalks, bus ramp, fencing, running track, flagpole	20
Land Improvements - ground work	Golf Course, Ball field, park landscaping	30
Landfill Disposal Systems		25
Land		N/A
Sewerage treatment plants		25
Infrastructure		
Easements		N/A
Drainage Systems		25
Water systems		25
Sewerage disposal Works System		25
Waterways		
Levees and canals (unlined)		N/A
Canal lining		30
Dams		
Concrete		50
Steel, Sheetpile		30
Earthen embankment		N/A
Roads		
Paved		40
Asphalt-rural		40
Asphalt-urban		20
Non-paved		50

Appendix C-3 MINNESOTA DEPARTMENT OF TRANSPORTATION (MNDOT) STATE AID ACCOUNTING MANUAL[31] FIXED ASSETS USEFUL LIFE TABLE

TYPE OF EQUIPMENT	DEPRECIATION PERIOD (YEARS)	TYPE OF EQUIPMENT	DEPRECIATION PERIOD (YEARS)
Air Compressor, Truck Mounted	7	Mower, Rotary, Disc or Sickle	4
Air Compressor, Wheel-Mounted	7	Mud-Jack	6
Air Tools	5	Pavement Breaker	8
Automobile, Pickup, 1 Ton, Vans	5	Paver, Bituminous	10
Batcher, Measuring	6	Paint Spray Outfit - striping	8
Batcher, Weighing	5	Hammer, Pile	10
Bin, Aggregate	10	Hammer, Sheeting	7
Blower, Portable	5	Pump, Asphalt	6
Bucket, Clam or Dragline	6	Pump, Water	6
Bulldozer, Tractor Attachment	7	Road Mixer, Pug Mill Type	8
Chippers	8	Road Mixer, Digging Rotor	6
Concrete Saw	4	Road Roller	10
Conveyor, Belt, on Wheels	5	Roller, Pneumatic	10
Crack Filling Machine	5	Roller, Sheepsfoot	10
Crane, Crawler	12	Roller, Trench	10
Crane, Truck-Mounted	12	Rooter or Ripper, Heavy	8
Crusher, Rock, Portable	8	Scarifier, Rotary	5
Crushing & Screening Plant	8	Scraper, Self-Propelled	12
cultivator, Motor-Driven	5	Scraper, Drawn	7
Distributor, Bitumen	10	Screen, Vibrating	8
Drill, Core	7	Screening & Leading Plant	8
Drill, Drifter	5	Seed Gathering Machine	4
Drill, Wagon	7	Shouldering Machine	10
Dryer, Aggregate	8	Shovel, Crawler	10
Elevator, Aggregate	8	Shovel, Truck-Mounted	10
Engine, Gas or Diesel	7	Snowplow, One-Way	10
Excavator, Telescoping Boom	10	Snowplow, Rotary	10
Finishing Machine, Concrete	5	Snowplow, V	10
Generator, Elec. Diesel or Gas	7	Spraying Machine, Insect	5
Gradation Control Unit	8	Spreader, Self-Propelled Sand/Chip	5
Grader, Motor	12	Spreader, Drawn or Attached	6
Grader, Pull	8	Sprinkler, Water, Truck-Mounted	7
Heater, Aggregate, Revolving	8	Steamers	8
Heater, Bitumen, Kettle	8	Subgrade Finisher	4
Heater, Tank Car	8	Sweeper, Rotary	10
Hoist, Bucket, Truck-Mounted	5	Tank, Bitumen, Storage	10
Hoist, Drum, with Power	7	Tank, Bitumen, Wheel-Mounted	10
Joint Cleaning Machine	4	Tank, Water, Skid-Mounted	10
Loader, Belt, Blade Feed	6	Tractor, Crawler	12
Loader, Chain Bucket	6	Tractor, Wheel	12
Loader, Scoop, Wheel Tractor	10	Traffic Line Marker	7
Loader, Scoop, Crawler	10	Trailer, House	7
Mower, Tractor	7	Trailer, Platform	8
Magnet, Road	5	Trucks, Multi-Use, Dump Trucks	8
Maintainer, Self-Propelled	6	Trucks, Snow Use Only	12
Maintainer, Drawn	5	Truck-Tractor, with Semi-Trailer	10
Mixer, Bituminous	7	Vibrator, Pneumatic	5
Mixer, Concrete	7	Wagon, Semi, with Tractor	7
Mixing Plant, Bituminous	8	Washing & Screening Plant	8
Mower, Flail	7	Welding Outfit, Electric	5

[31] Reprinted from MNDOT's State Aid Accounting Manual

Appendix C-4 State of Oregon

Capital Asset Type	Useful Life
Data Processing Equipment - Small Mainframe and Peripheral Equipment - LAN file servers, small mainframe computers, workstations, storage units, communication systems, software (developed and purchased), personal computers (PCs), printers, plotters, and other peripheral equipment that is an integral part of the data processing operation.	**3-5 years**
Data Processing Equipment - Large Mainframe - Large mainframe computers and other peripheral equipment as listed above.	**3-4 years**
Data Processing Equipment - Special Systems - Air Conditioning systems, fire protection systems (halon), raised flooring, special sound proofing, microwave towers, etc. should be recorded as Building Improvements unless these assets are removable.	**5-10 years**
Furniture and Equipment - Includes furniture and fixtures which are not a structural part of a building such as small office equipment, copiers, office furniture including desks and chairs, household, laundry and refrigeration equipment, educational and recreational equipment, fire fighting equipment, medical and lab equipment, agricultural and landscaping equipment, firearms, shop and plant equipment, and signs, signals and safety devices.	**5-15 years**
Automobiles - Passenger - All transportation vehicles other than trucks.	**5-10 years**
Light General Purpose Trucks - Includes trucks with unloaded weight less than 13,000 pounds (pick-ups, vans).	**6-10 years**
Heavy General Purpose Trucks - Includes trucks with unloaded weight more than 13,000 pounds. The life of the vehicles are dependent upon actual use. Trucks for construction purposes will have a shorter life. Trucks used strictly for highway use should have a longer life.	**5-10 years**
Heavy Equipment - Includes forklifts, front loaders, graders, etc.	**10-20 years**
Other Equipment & Small Buildings - Includes shop and plant equipment, construction and maintenance equipment, boats, trailers, sheds, etc.	**5-10 years**
Office Buildings, Building Improvements, Warehouses, and Garages -	
New construction	**40 years**
Existing buildings and new building improvements	**Up to 30 years**

Collections - Works of Art, Historical Treasures, Monuments, Statues, etc., are not depreciated if the collection meets all of the following conditions: Held for public exhibition, education, or research in furtherance of public service rather than financial gain. Protected, kept unencumbered, cared for, and preserved. Subject to an organizational policy that requires the proceeds from sales of collection items to be used to acquire other items for collections. Year life for collections that should be depreciated will be evaluated on a case by case basis.	
Land Improvements Land Improvements consist of betterments, other than buildings, that ready land for its intended use. Includes site improvements such as excavation, fill, grading, and utility installation; removal, relocation, or reconstruction of existing property or property of others, such as railroads and telephone and power lines; retaining walls; parking lots; fencing; and landscaping. Land improvements that readies land for Infrastructure should be recorded as Infrastructure, not Land Improvements for example, excavation, fill and grading in preparation of a road bed is Infrastructure. Improvements that produce permanent benefits for example, fill and grading costs that ready land for the erection of structures and landscaping are not depreciable. Alternatively, improvements that are considered part of a structure or that deteriorate with use over the passage of time, such as parking lots and fencing, should be considered depreciable.	**5-20 years**
Infrastructure - Infrastructure assets are 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. Includes roads, bridges, tunnels, drainage systems, water and sewer systems, dams, lighting systems, noise abatement walls, and ancillary buildings	**20-80 years**
Accounting for Infrastructure using the Modified Approach: - The Modified Approach requires: , Annual inventory of all infrastructure assets. , Condition assessments to be performed at least every 3 years. , An estimate of the annual cost necessary to preserve the infrastructure assets at the condition level established. Agencies using the Modified Approach should not depreciate infrastructure assets. Expenditures to preserve the useful life of infrastructure should be expensed in the period incurred. Additions or improvements, which increases the capacity or efficiency of infrastructure, should be capitalized but not depreciated.	

Appendix C-5 State of Texas Useful Lives Table

Useful Life		Personal Property - Class Code Description	Controlled
Months	Years		
120	10	Desks	
120	10	Tables	
120	10	Chairs	
144	12	Personal Furniture: Bed, Dresser, Rocker	
120	10	Cases, Cabinets & Credenzas	
120	10	Hand Guns	Y
120	10	Rifles	Y
84	7	Calculators	
84	7	Typewriters, Word Processors	
120	10	Other Office Furniture	
84	7	Vehicle Maintenance Equipment	
84	7	Photocopying Equipment	
84	7	Fax Machines, Telecopier	Y
84	7	Stereo Systems	Y
84	7	Cameras	Y
84	7	TV, VCR, Camcorder, Laser Disk Player	Y
84	7	Other Audio/Visual/Sound Equipment	
60	5	Musical Instruments	
120	10	Recreational Equipment: Bicycle, Pool Table	
60	5	Video Conferencing Equipment	
60	5	GPS Equipment	
144	12	Warehouse Equipment: Forklift	
108	9	Mailroom Equipment: Folder, Inserter, Labeller, Band Tier	
84	7	Instructional Equipment	
180	15	Conveyer Systems	
180	15	Drills, Stationary	
180	15	Gin Machinery	
180	15	Grinders, Stationary	

Useful Life		Personal Property - Class Code Description	Controlled
Months	Years		
180	15	Lathes, Stationary	
180	15	Metal Working Machines, Other, Stationary	
180	15	Milling Machines	
180	15	Pallet Trucks, Lifts, jacks, hydraulic	
180	15	Saws, Stationary	
180	15	Scales	
180	15	Shapers, Joiners, Planers, Stationary	
180	15	Sharpeners, Stationary	
180	15	Shears	
180	15	Textile Machinery	
180	15	Wood Working Machines, Other, Stationary	
84	7	Tools	
84	7	Agricultural Equipment	
84	7	Office Machines	
84	7	Industrial/Manufacturing Machinery	
84	7	Weather Equipment	
84	7	Cosmetology	
84	7	Printing Machines & Bookbinding Equipment	
84	7	Kitchen Appliances & Equipment	
84	7	Laundry Equipment	
84	7	Building Maintenance & Safety Equipment	
108	9	Portable Building	
120	10	Other Equipment	
60	5	Supercomputer	
96	8	Mainframe Computer Equipment & Channel Extenders	
72	6	Servers, Minicomputers	
72	6	Desktop CPU (not Apple)	Y
60	5	Peripheral Devices Microcomputer: Disk, Tape, Optical	
84	7	Printer (not portable)	Y

Useful Life		Personal Property - Class Code Description	Controlled
Months	Years		
72	6	Terminal, Monitor	
72	6	Controllers: Tape, Disk, Terminal	
60	5	Other Computer Hardware	
72	6	CPU Desktop - Apple	Y
36	3	Docking Station	
72	6	Data Projectors: 'Proxima' or Dataviewers w/o Projector	
84	7	Security System - Card Reader, Camera and Monitor (not built-in)	
36	3	Image Scanner	
72	6	Barcode Scanner	
96	8	Power Supply, Battery, Generator	
36	3	Uninterruptible Power Supply	
60	5	Modem & Related Devices	
60	5	Digital and Channel Service Units	
60	5	Multiplexor, Mau	
60	5	Communication Controllers	
60	5	Protocol Converters	
60	5	VSAT S	
60	5	Data Communications Diagnostic Systems	
60	5	Other Communications Hardware	
60	5	Lan/Wan Switching - Hubs, Switches & Routers	
120	10	Computer Equipment Racks, Shelving, Chassis	
72	6	Portable CPU (not Apple)	Y
84	7	Portable Printer	Y
72	6	Portable Apple CPU	Y
60	5	Purchased Software	
60	5	Internally Developed Software	
60	5	Customized Software (such as ISAS)	
72	6	Enterprise Software	
132	11	Amplifiers (all types)	
108	9	Analyzer (all types)	

Useful Life		Personal Property - Class Code Description	Controlled
Months	Years		
120	10	Autoclaves and Sterilizers	
168	14	Balance	Y
132	11	Baths, Water and Shakers	
168	14	Animal Cages & Accessories	
132	11	Centrifuge	Y
144	12	Chromatograph	
132	11	Cryostat	
132	11	Counter Laboratory Assembly	
120	10	Densitometer	
156	13	Electronic Module	
120	10	Electrophoresis Apparatus	
144	12	Evaporators	
168	14	Fraction Collector	
180	15	Freeze Dryers & Accessories	
108	9	Freezer (lab)	
144	12	Homogenizer	
168	14	Hood (all types)	
120	10	Ice machines (lab)	
168	14	Incubators & Accessories	Y
72	6	Isolator	
144	12	Micromanipulator	
144	12	Meters, Gauges, Indicators	
180	15	Microscopes & Accessories	Y
168	14	Micro tomes, Diamond Knives, Sharpeners	
120	10	Optical Equipment	
180	15	Oscilloscope	Y
96	8	Ovens and Ranges (lab)	
120	10	Pumps	
180	15	Recording Systems	
144	12	Refrigerators (lab)	

Useful Life		Personal Property - Class Code Description	Controlled
Months	Years		
168	14	Rotors and Heads	
108	9	Scan Systems	
180	15	Scintillation Systems	
144	12	Ultrasound Equipment	
120	10	Spectrofluorometer	
120	10	Spectrometer	
168	14	Spectrophotometer	
144	12	Stereotaxic Instrument & Accessories	
144	12	Stimulator	
180	15	Tables, Dissecting, Operating, Balancing	
120	10	Tanks, Containers, Chambers (all types)	
156	13	Water Purification	
132	11	X-Ray Equipment	
84	7	Misc Lab & Scientific Equipment	
144	12	Patient Monitoring Systems	
180	15	Breathing Apparatus, Respirator	
144	12	Defibrillator	
180	15	EKG/ECG/EEG Apparatus	
180	15	Dialysis Equipment	
96	8	Clinical Diagnostic Instruments	
120	10	Table (exam)	
132	11	Dental Equipment	
120	10	Wheelchairs	
120	10	Miscellaneous Surgical Instruments	
84	7	Patient Care Miscellaneous	
36	3	PBX, KSU, Voice Mail, Phone System	
36	3	Automatic Call Distributors	
36	3	Phone Equipment (other than systems)	Y
60	5	Passenger Cars	
120	10	Heavy Trucks (26001 lbs and over)	

Useful Life		Personal Property - Class Code Description	Controlled
Months	Years		
96	8	Buses (up to 28 passenger)	
60	5	Motorcycles	
60	5	Vehicle inventory Components/Life 5 Yrs	
120	10	Vehicle Inventory Components/Life 10 Yrs	
84	7	Utility Vehicles (carryalls, cargo vans, 2&4 whl utility, SUV)	
84	7	Vans (up to 15 passenger)	
84	7	Light Trucks (under 8600 lbs GVW)	
96	8	Mounted Equipment with Truck Chassis	
120	10	Self-propelled Roadway Equipment	
120	10	Trailers	
120	10	Towed Roadway Equipment	
60	5	Light/Medium Trucks (8600 - 14999 lbs. GVW)	
60	5	Medium Trucks (15000-26000 lbs. GVW)	
120	10	Buses (29 passengers and over)	
120	10	Vehicle (other)	
120	10	Boat (20 ft and longer)	
120	10	Boat (shorter than 20 ft)	
120	10	Boat (accessories, motors)	
480	40	Ferries	
60	5	Marine Equipment	
120	10	Boat (other, canoe, rowboat)	
120	10	Aircraft (jet)	
120	10	Airplane (single engine, propeller)	
120	10	Airplane (multiple engine, propeller)	
120	10	Aircraft (helicopters)	
120	10	Other Aircraft	
120	10	Capitalized Books & Reference Materials	
N/A	0	Library Books & Reference Materials	
120	10	Works of Art, Historical Treasures (exhaustible)	
N/A	0	Works of Art, Historical Treasures (inexhaustible)	

Useful Life		Personal Property - Class Code Description	Controlled
Months	Years		
84	7	Horses	
84	7	Cows	
84	7	Sheep	
84	7	Swine	
84	7	Other Animals	

Real Property Class Codes

Useful Life		Real Property - Class Code Description
Months	Years	
N/A	0	**Land and Land Improvements**
N/A	0	Land: Right of Way
276	23	**Facilities and Other Improvements**
300	25	F&OI Fencing and Gates
120	10	F&OI Landscaping
240	20	F&OI Parking Lots/Driveways/Parking Barriers
180	15	F&OI Outside Sprinkler Systems
144	12	F&OI Recreation Areas & Athletic Fields (including bleachers)
240	20	F&OI Golf Course Facilities
132	11	F&OI Paths and Trails
180	15	F&OI Septic Systems
540	45	F&OI Stadiums
264	22	F&OI Swimming Pools, Tennis Courts
240	20	F&OI Fountains
720	60	F&OI Plazas and Pavilions
240	20	F&OI Retaining Walls
264	22	**Building and Building Improvements**
360	30	Building Exterior: Residential
360	30	Building Exterior: Office
360	30	Building Exterior: Correctional Facilities
360	30	Building Exterior: Farm
360	30	Building Exterior: Storage or Warehouse
360	30	Building Exterior: Garage or hangar
360	30	Building Exterior: Hospital
360	30	Building Exterior: Education
360	30	Building Exterior: Research
360	30	Building Exterior: Museum
360	30	Building Exterior: Chilling station/Boiler
360	30	Building Exterior: Clinics

Useful Life		Real Property - Class Code Description
Months	Years	
240	20	Building Interior: Elevator
180	15	Building Interior: Carpet
240	20	Building Interior: Modular/Fixed furniture
240	20	Building Interior: Sprinkler system
240	20	Building Interior: Electrical
120	10	Building Interior: Roof
60	5	Building Interior: Curtains and drapes
240	20	Building Interior: Water system
180	15	Building Interior: Heating/Cooling system/Air circulation
120	10	Building Interior: Security
120	10	Building Interior: Cabling
120	10	Building Interior: Fire alarm system
312	26	**Infrastructure & Infrastructure Improvements**
Modified	0	Infrastructure: Highway System & Rest areas
240	20	Infrastructure: Road/Street (curbs, gutters)
420	35	Infrastructure: Bridge - Concrete Girder (Pan)
240	20	Infrastructure: Bridge - Concrete Slab
420	35	Infrastructure: Bridge - Culvert
360	30	Infrastructure: Bridge - Prestressed Girder (Box)
300	25	Infrastructure: Bridge - Prestressed Girder
300	25	Infrastructure: Bridge - Steel Girder
540	45	Infrastructure: Bridge - Steel Truss Category One
540	45	Infrastructure: Bridge - Steel Truss Category Two
300	25	Infrastructure: Bridge - Timber Stringer
240	20	Infrastructure: Sewer (Sanitary, Storm)
120	10	Infrastructure: Railroad
240	20	Infrastructure: Canal
240	20	Infrastructure: Waterway
240	20	Infrastructure: Drainage facility
240	20	Infrastructure: Wharf or dock
240	20	Infrastructure: Radio or television transmitting tower

Useful Life		Real Property - Class Code Description
Months	Years	
600	50	Infrastructure: Dam
240	20	Infrastructure: Electric (lines & distribution)
300	25	Infrastructure: Gas (main & lines)
300	25	Infrastructure: Water lines
240	20	Infrastructure: Fiber Optic (Information Technology)
120	10	Infrastructure: Telephone Distribution Systems
540	45	Infrastructure: Tunnels (Utility)
540	45	Infrastructure: Tunnels (Other)
180	15	Infrastructure: Lighting System (Traffic, Outdoor, Street, etc.)
120	10	Infrastructure: Signage
192	16	Infrastructure: Airport Runway/strip/taxiary/apron
540	45	Infrastructure: Trestles
420	35	Infrastructure: Sea Walls/Bulkheads/Piers/Boardwalks
300	25	Infrastructure: Fire Hydrants
420	35	Infrastructure: Agricultural Irrigation Systems
192	16	Infrastructure: Sidewalks
N/A	0	**Construction in Progress**
60	5	**Leasehold Improvements**

Appendix C-6 STATE OF SOUTH CAROLINA

USEFUL LIVES FOR DEPRECIATION OF CAPITAL ASSETS[32]

CAPITAL ASSET	USEFUL LIFE
Land	Not depreciable
Land Improvements: Some land improvements are depreciable whereas others are non-depreciable. Depreciable land improvements are those that are considered part of a structure or that deteriorate with use or with the passage of time. Non-depreciable land improvements are improvements that produce permanent benefits, primarily related to preparing land for its intended use. Depreciable land improvements should be reported as a separate category of capital assets. Non- depreciable land improvements could be reported in the land category.	
Depreciable:	
Fencing	10-20 years
Landscaping	5-15 years
Lighting	15-20 years
Parking Lots	15-20 years
Paving (Access Roadways and Walks)	10-15 years
Signs	10-15 years
Other Land Improvements	3-60 years
Non-Depreciable:	
Excavation Costs	Not depreciable
Fill and Grading Costs	Not depreciable
Buildings and Improvements:	
Hospitals	To be determined individually
Maintenance Facilities/Garages/Machine Shops	20-40 years
Military Facilities (Armories)	To be determined individually
Office Buildings	40-50 years
Prison Facilities	To be determined individually
Recreational Buildings	To be determined individually
Residential Buildings	20-30 years
Schools and Libraries	To be determined individually
Storage Facilities/Warehouses:	
Wooden Sheds/Metal Buildings	10-20 years
Concrete/Masonry Buildings	20-40 years
Other Buildings	5-50 years
Hydro Electric Utility Plants	55 years
Other Utility Plants	22-37 years

[32] Sources for useful lives include the American Hospital Association's *Estimated Useful Lives of Depreciable Hospital Assets, Revised 1998 Edition;* the Internal Revenue Service's *Publication 946, How to Depreciate Property;* and professional judgment.

Buildings and Improvements (continued):

Building Improvements: Improvements that DO NOT increase the life of the building should be expensed. Improvements that DO increase the life of the building should be capitalized as part of the cost of the building. The building's useful life should be extended based on the additional service life that the improvement provides. Depreciation expense should be calculated as follows: [building cost (i.e., original cost plus the cost of the improvement) less accumulated depreciation recognized to date] divided by the revised useful life (useful life remaining before the improvement plus the additional service life provided by the improvement).

Vehicles:

Airplanes and Helicopters	15-20 years
Automobiles	3-6 years
Light General Purpose Trucks and Vans	4-8 years
Heavy General Purpose Trucks and Buses	6-15 years
Tractors	4-10 years
Trailers	6-10 years
Boats	5-10 years

Machinery, Equipment, and Other:

Computer Equipment (Hardware)	3-7 years
Office Equipment (Copiers, Fax Machines, Paper Shredders, Filing Systems, etc.)	3-10 years
Office Furniture (Desks, Chairs, Bookcases, Cabinets, Credenzas, Tables, Work Stations, etc.)	10-20 years
Other Furnishings and Equipment	2-25 years
Hospital Equipment	To be determined individually
Assets for the Storage of Petroleum Products	10-20 years
Assets Used in the Manufacture of Fabricated Metal Products	5-15 years
Assets Used in the Manufacture or Repair of Furniture	5-15 years
Assets Used in Printing Activities	5-15 years
Nurseries, Greenhouses, and Related Equipment	10-15 years

Works of Art and Historical Treasures

For governmental funds, to be determined individually if required to be capitalized and depreciated. See section on recording works of art and historical treasures.

Infrastructure Categories of infrastructure and useful lives to be determined at a later date for governmental funds.

Construction in Progress Not depreciable

Intangible Assets:

Computer Software:	
Externally Acquired	3 years
Internally Generated	Not Capitalized

Other intangible assets to be determined individually based on type of intangible asset or life of related contract

Appendix C-7 Commonwealth of Virginia Office of the Comptroller - Useful Life Guidance

OVERVIEW The purpose of this topic is to provide guidance in establishing the useful life of acquired assets. Using the proper useful life is important for various reasons. Depreciation calculations are based upon an asset's useful life. Depreciation is important to federally-funded agencies recovering indirect costs of which depreciation is a component. Proprietary-funded agencies must also have calculated depreciation for inclusion in their financial statements. Proper depreciation rates also assist agencies in determining an asset's net book value, which helps in establishing resale values and in evaluating the need for asset replacement.

POLICY All assets classified as capital, which require depreciation in accordance with generally accepted accounting principles and/or federal indirect cost recovery, must use the useful lives prescribed in this topic, which are in conformity with those established by the Internal Revenue Service (IRS). Although all agencies may use depreciation as a management tool, it is primarily for the use of those agencies operating out of Enterprise or Internal Service Funds and/or whose operations contain federal funding.

PROCEDURES

100 Realistic Useful Lives

In the private sector, tax considerations play an important role in determining useful lives. These lives have been established with the overall consideration of allowing companies to recover their asset investments through tax deductions over a reasonable period. In the public sector, such tax considerations are not applicable. To fairly reflect costs of services, agencies and institutions should depreciate fixed assets over their realistically estimated useful lives.

Useful life ranges to calculate depreciation are provided on the following pages for broad categories of fixed assets. The purpose of the following broad useful life ranges is to provide general guidance as to the asset's life and not to be a detail source of information.

Asset	Useful Life Range	
	Minimum	Maximum
Buildings:		
Residential	20 years	30 years
Warehouse, Storage, Facilities,		
Machine Shops, Garage, etc.	20 years	40 years
Office Buildings	To be Determined Individually	
State Police Barracks	30 years	50 years
Schools and Libraries	To be Determined Individually	
"Temporary" Structures	15 years	N/A
Hospitals	To be Determined Individually	
Prisons, Recreation Buildings, and		
Other Special Purpose Buildings	To be Determined Individually	

Appendix C-7 Commonwealth of Virginia Office of the Comptroller (Continued)

	Useful Life Range	
	Minimum	Maximum
Equipment:		
Automobiles	3 years	8 years
Buses	10 years	N/A
Light General Purpose Trucks and Vans:		
Unloaded weight less than 13,000 pounds	5 years	8 years
Heavy General Purpose Trucks	8 years	10 years
Firefighting Trucks and Equipment	10 years	20 years
Tractor Units for Use Over-the-Road	8 years	10 years
Trailers and Trailer Mounted Containers	8 years	10 years
Office Furniture, Fixtures and Equipment: includes furniture and fixtures which are not structural components of a building	5 years	15 years
Examples:		
Furnishings (e.g., carpet, draperies, etc.)	5 years	10 years
Office Equipment and Furniture (e.g., desks, chairs, bookcases, typewriters, calculators, accounting machines, etc.)	10 years	15 years
Computers, Peripheral Equipment and Data Handling Equipment (includes copiers, word processing equipment, etc.)	5 years	10 years
Planes and Helicopters	3 years	8 years
Hospital Equipment	To be Determined Based on Nature of Equipment	
Improvements Other Than Buildings:		
Recreation: Assets used in the provision of entertainment services, not the buildings which house the assets	5 years	10 years
Park Benches, Swings, Slides, etc.	5 years	N/A
Assets for the Storage of Petroleum Products	10 years	20 years
Assets Used in the Manufacture of Fabricated Metal Products	5 years	15 years
Assets Used in the Manufacture and Repair of Furniture	5 years	15 years
Assets Used in Printing Activities	5 years	15 years
Nurseries, Greenhouse and Related Equipment	10 years	N/A

If abnormal wear reduces the estimated useful life of an asset (or remaining estimated useful life of an asset already in service), the useful life should be shortened appropriately.

Appendix C-8 State of Florida Controller's Office Useful Life Guidance

Estimated Useful Lives

The estimated useful life of a capital asset is a function of each agency's own experience. Supporting documentation for determining the estimated useful life would be engineering studies, actual experience documented in the records of similar assets, etc. To the extent that a state agency has documentation that supports different useful lives for a class of assets, the different useful lives should be used. Some agencies may be required to follow the useful lives identified by third party regulators such as those specified by the American Hospital Association Depreciation Guide.

The following useful lives guidelines may be used by state agencies when calculating depreciation expense only if they have no supportable estimates of their own.

CAPITAL ASSET	ESTIMATED USEFUL LIFE
Buildings:	
Type 1 - Fireproof construction	40 years
Type 2 - Non-combustible construction	27.5 years
Type 3 - External masonry wall construction	27.5 years
Type 4 - Frame construction	27.5 years
Building Improvements	20 years
Leasehold Improvements	The greater of 5 years or the term of the lease
Equipment (non-office)	10 years
Computer Equipment	3 years
Other Office Equipment: Items such as copiers, ovens, washers, dryers, office files	6 years
Life Safety Improvements: Building or leasehold improvements or equipment acquisitions made solely to satisfy the requirements of any department regarding life safety or physical environment.	5 years
Motor Vehicles	5 years
Used Motor Vehicles	3 years
Residential Furnishings	3 years
Office Furnishings	10 years
Land Improvements Subject to Depreciation	20 years
Industrial Steam and Electric Generation and Distribution Systems	22 years
Aircraft	6 years
Watercraft	20 years
Buses	9 years
Roads, Tunnels and Bridges	50 years
Boating Facilities - buildings, piers, ramps	25 years

It is allowable to componentize capital assets such that various components of the asset are depreciated over different useful lives. An example is a building. As the building ages, the shell or foundation may be depreciated over a longer useful life than the HVAC.

Appendix C-9 State of Illinois

Capital Asset Category	Estimated Useful Lives (In Years)
Infrastructure:	
Easements	No depreciation
Drainage Systems	20-40
Water Systems	20-40
Roads and Highways (not including right of way):	
Concrete	15-40
Asphalt-rural	20-40
Asphalt- urban	5-25
Non-paved	5-50
Land & Land Improvements	No depreciation
Site Improvements	3-50
Buildings	10-60
Building Improvements:	
HVAC Systems	10-20
Roofing	10-35
Electrical/Plumbing	15-45
Equipment:	
Tables, Desks, Chairs	3-7
Computer Hardware	3-7
Telephone Equipment	5-15
Motor Vehicles:	
Cars and light trucks (less than 1 ton)	3-7
Trucks (greater than 1 ton)	10-15
Heavy Construction Equipment	5-10
Other Equipment	3-25
Library Books	5-7
Works of Art, Historical Treasures	5-7

Appendix C-10 State of New York -Local Finance Law Asset Lifing

Infrastructure Capital Asset	Useful Life
Water systems	40 years
River regulating reservoirs	40 years
Water improvement and drainage	30 years
Sewer systems	40 years
Sewer system sealing	15 years
Electric light and power systems	30 years
Solid waste	25 years
Refuse disposals	20 years
Hazardous waste sites	20 years
Docks	40 years
Rapid transit railroads and street railroads	40 years
Railroad rolling stock	25 years
Bridges, tunnels, viaducts, underpasses (over $5 million)	40 years
Bridges, tunnels, viaducts, underpasses (under $5 million)	20 years
Airport construction	10 years
Airport runways	30 years
Airport hangers	25 years
Highways, roads, streets, parkways, parking areas	10-35 years
Dikes, bulkheads	20-30 years
Curbs, sidewalks, gutters	10 years
Golf course	15 years
Boardwalks	10 years
Dredges	15 years
Swimming pools	15 years
Skiing developments	20 years
Fill (placement)	30 years
Traffic signals	10 years
Traffic signs	10 years
Pedestrian malls	20 years
Fuel tanks - underground	15 years

Appendix D - Alternative Depreciation Application Conventions

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:

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 year	50% of a full year's depreciation
Second half of the year	Second half of the 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 tile 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.

6. Retroactive Application

As entities implement GASB 34 with capital assets that have not previously reported depreciation and accumulated depreciation, it may ease application to use a full-year convention. Rather than try to determine at what point in the year a capital asset was acquired, the entity can apply either a full year of depreciation in the year of acquisition or zero in the first year and a full-year in the year of disposal. The could allow for fewer calculations by grouping similar assets purchased in the same year into one calculation.

Appendix E - GFOA Recommended Capital Asset Practices

E -1 Establishing Appropriate Capitalization Thresholds for Tangible Capital Assets (1997, updated 2001)

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

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

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

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

Recommendation. The Government Finance Officers Association (GFOA) recommends that state and local governments consider the following guidelines in establishing capitalization thresholds for their tangible capital-type items:

1. Tangible capital-type items should be capitalized only if they have an estimated useful life of at least two years following the date of acquisition.
2. Capitalization thresholds are best applied to individual items rather than to groups of similar items (e.g., desks and tables).
3. Infrastructure assets should be treated separately from other capital assets for purposes of establishing capitalization thresholds. As a general rule, capitalization thresholds for non-infrastructure items should be designed to encompass approximately 80 percent of a government's total non-infrastructure tangible capital-type items.
4. In no case should a government establish a capitalization threshold of less than $5,000 for any individual item.
5. In establishing capitalization thresholds, governments that are recipients of federal awards should be aware of federal requirements that prevent the use of capitalization thresholds in excess of certain specified maximum amounts (i.e., currently $5,000) for purposes of federal reimbursement.
6. Governments should exercise control over their non-capitalized tangible capital-type items by establishing and maintaining adequate control procedures at the departmental level.

Reference - Government Fixed Asset Inventory Systems: Establishing, Maintaining and Accounting, Paul Glick, GFOA, 1987.

E -2 The Need for Periodic Inventories of Tangible Capital Assets (1997, updated 2001)

Background. The term " capital assets" is used to describe assets that are used in operations and that have initial useful lives extending beyond a single reporting period. Tangible capital assets include land, buildings, building improvements, vehicles, machinery, equipment, and infrastructure. It is essential that governments establish and maintain appropriate inventory systems for their tangible capital assets. Such systems are needed to protect tangible capital assets from the danger of loss or misuse.

Many governments have installed "perpetual" inventory systems to maintain effective control over their tangible capital assets. Perpetual inventory systems are constantly updated to reflect additions and deletions of tangible capital assets, thus providing managers with direct access throughout the year to reliable information on current balances in tangible capital asset accounts.

One advantage of establishing and maintaining a sound perpetual inventory system for tangible capital assets is that such a system can relieve a government of the burden of performing an annual inventory of its tangible capital assets. Instead, managers and auditors can use tests of randomly selected items to verify that the inventory system for tangible capital assets is continuing to function properly as designed.

Recommendation. The Government Finance Officers Association (GFOA) recommends that every state and local government perform a physical inventory of its tangible capital assets, either simultaneously or on a rotating basis, so that all of a government's tangible capital assets are physically accounted for at least once every five years. While well-designed and properly maintained perpetual inventory systems can eliminate the need for an annual inventory of a government's tangible capital assets, no inventory system is so reliable as to eliminate completely the need for a periodic physical inventory of a government's tangible capital assets.

State Auditor's Recommendation: *The Office of the State Auditor recommends a shorter time period for a physical inventory. A number of local entities do not have well-maintained capital asset records. Also, with turnover in personnel often the entity's historical knowledge could be lost during a five year period. Therefore, the Office of the State Auditor would recommend at least once every three years. If the resources are available we would encourage an annual count.*

E -3 Establishing the Estimated Useful Lives of Capital Assets (2002)

Background. Generally accepted accounting principles (GAAP) require, in most cases, that capital assets be depreciated. Depreciation is the systematic and rational allocation of the historical cost of a capital asset over its useful life. The estimated useful life assigned to a capital asset will directly affect the amount of depreciation expense reported each period in an accrual-based operating statement. Therefore, it is important to the quality of financial reporting that governments establish reasonable estimates of the useful lives of all of their depreciable capital assets.

Recommendation. Governments should profit as much as possible from the experience of other governments and private-sector enterprises when estimating the useful lives of their capital assets. At the same time, governments should make whatever adjustments are needed to any estimates obtained from others to ensure that such estimates are appropriate to their own particular circumstances. It is especially important that governments consider the potential effect of each of the following factors on the estimated useful lives of their capital assets:

> **Quality.** Similar assets may differ substantially in quality, and hence in their useful lives, because of differences in materials, design and workmanship. For example, an asphalt road will not have the same useful life as a concrete road. Likewise, the depth of the material used for paving purposes, as well as the quality of the underlying base, will also affect the useful life of a road.

Application. The useful life of a given type of capital asset may vary significantly depending upon its intended use. For example, a residential street may be expected to have a longer useful life than a major arterial thoroughfare because of differences in the type and volume of traffic.

Environment. Environmental differences among governments can have an important impact on the useful lives of their respective capital assets. For instance, the useful life of a road in a climate subject to extremes in temperature is likely to be different from that of a similar road located in a more temperate climate. Also, regulatory obsolescence may shorten the service life of some capital assets used in connection with highly regulated activities (e.g., utilities).

The potential effect of each of the factors just described may be mitigated or exacerbated as a consequence of a government's maintenance and replacement policy. For example, the potential for road damage is increased in a cold environment when cracks are not promptly repaired because water settling in the cracks will expand and contract, thereby accelerating the initial deterioration represented by the crack itself.

Once established, estimated useful lives for major categories of capital assets should be periodically compared with a government's actual experience and appropriate adjustments should be made to reflect this experience.

Depreciation is a financial reporting concept. Therefore, all of the considerations just discussed are only of concern to the extent that they could have a material impact on a government's financial statements.

Appendix F - Getting Started on Capital Assets

You have reviewed the literature, the accounting requirements, and other guidance, but how do you get started with accounting and reporting capital assets. What this section will try to do is walk you through setting up accounting records for capital assets and prepare the information necessary for reporting capital assets and related depreciation for the annual financial statements. The process will consist of a series of questions to consider and steps to go through to meet the requirements.

Do you have capital assets?

A simple question, but for some small entities it may be important. Most local government entities will have some kind of capital assets, but there may be some entities that are so small that even with low capitalization thresholds they may not have any assets that meet the capitalization requirements for financial reporting. Obviously, if you own a building you probably have an asset that needs capitalization. If you do not own a building, generally, you should take a look at what equipment and furniture your entity has and whether its cost is insignificant to the fair presentation of your financial reporting. If you do not have capital assets, the process is completed. You should document your analysis and have any applicable policies approved and in place. If your answer is that you do have capital assets continue on the next question.

What types of capital assets does your local government have?

Each type of capital asset involves different considerations. Some have different record keeping issues and others have different accounting issues. Prepare a list of the different kinds of capital assets for your local government. General categories can differ between governments, but most will break capital assets into the following general categories:

Land and land improvements (Non-depreciable)

Other land improvements (Depreciable)

Infrastructure

Building and building improvements

Equipment, furniture, vehicles and machinery

Works of art and historical treasures

Other (library collections, capitalized software, easements, etc.)

Once you know what types of capital assets you have, you can start working on the accounting records your government will need to meet the reporting requirements .

Who should be involve in establishing capital asset records and reporting?

You may have decided already who should be involved, but once you know what types of capital assets you have, you can more readily determine who should be involved or if your list of people is complete. It's primarily a financial reporting issue, so the group should include the person(s) responsible for preparing the annual financial report. The process will involve establishing certain administrative/accounting policies, so the group should include someone involved with the governing body responsible for establishing these policies.

This could be an actual member of the board/council or someone designated to represent them, such as an administrator. If your local government has infrastructure capital assets you will want to include your engineer and public works/highway department accountant. If you have a fixed asset accountant he/she should be included. Risk management personnel could be useful member(s), because typically they will have information on capital assets for insurance purposes. Representatives from departments that have significant capital assets may also be included. Other departments, such as Planning and Zoning, GIS, Recorder, etc., that may have useful information on your entity's capital assets could be included. Lastly, you may want to involve you auditor in the process.

What are the financial reporting requirements for capital assets?

The group should educate itself on the accounting and financial reporting requirements for capital assets under GASB 34. The group should review the statement itself, as well as the GASB 34 implementation guides. They may want to attend training on GASB 34. Other information can be obtain on the internet. The web site for GASB, www.gasb.org, has a Statement 34 page with a variety of links resources relating to the capital asset requirements. This guide also should be a resource. We have tried to present the requirements in understandable and useful format. Once the capital asset group understands the requirements they can determine what records are necessary to report capital assets.

What capital asset records currently exist?

Currently, a number of local governments received qualified opinions because they either don't maintain historic cost values for their general fixed assets or don't maintain adequate fixed asset records. If the current capital asset records are inadequate, the task ahead is even greater than just trying to determine amounts for infrastructure capital assets. A local government should determine if records exist for the applicable capital assets identified in question 2. Do these records include amounts for historical or estimated historical cost if purchased or constructed? Or estimated fair value at the time of donation for any donated capital assets? Do the records indicate to which department or function the capital asset is attributable? Based on the current records, a local government can determine the extent of work necessary to document capital assets.

What capital asset records are needed?

Once you know what capital assets you have and what records currently exist for those capital assets, you can determine what records need to be developed. If records do not exist for a type of capital asset then records for those assets will need to be created. What to included is another question.

Should you hire an external consultant?

The decision to hire an external consultant to prepare the records and amounts necessary to support fair presentation in the annual financial statements is a decision for each individual local governments. The decision will be based primarily on how extensive the project is, whether staff is available to do the project, and whether the cost of hiring a consultant is within the means of the local government. For most entities there is a benefit in determining the amounts themselves. In general, you save the cost of the consultant, staff obtains an understanding of the requirements and how they relate to the local government's capital assets, and it provides more ownership of the accounting records themselves. If the decision to hire a consultant is made, there are a number of different firms available. Your local government should do research to determine the consultant best for it. The process could involve requests for proposals from vendors. Sample

RFP's are available through the GFOA's GASB 34 Forum on their website: www.gfoa.org. You could ask other local governments about their experience with using different consultants. A consultant should at a minimum know the requirements of GASB 34. Local governments should clearly define what product or outcome they expect from the consultant.

What decisions need to be made?

There are a number of decisions that need to be made before proceeding. The decisions include establishing certain accounting and financial reporting policies for capital assets. Decisions will be needed on capitalization thresholds, depreciation methods, whether to use the standard depreciation method or the modified approach for infrastructure, who will be responsible for maintaining the capital assets records, how capital assets will be accounted for, what information to include in capital assets policies, whether to implement retroactive infrastructure requirements at the time of general implementation or GASB 34 or wait until some time during the additional 4-year period allowed, how will retroactive infrastructure be classified by networks and subsystems, and how estimated useful lives will be determined.

What should the capital assets records include?

To know what information a local government needs to gather it should know what records it will need to maintain to support the information included in the annual financial statements. In addition, certain information may need to be accumulated for other objectives, such as internal controls for safeguarding assets, capital budgeting or insurance purposes. Generally, for financial reporting purposes the minimum information needed is an identification of the asset; the year or acquisition or construction; the function/department using the capital asset; an estimated useful life, salvage value, and the assets accumulated depreciation. The local government will need to decide what form these records will take. Will the entity set up a manual record system, use spreadsheet or database programs, or purchase capital asset computer applications? If using computer applications, will they interface within the local governments general ledger system. The information included within the financial statements will be more summarized than the detail necessary in the capital assets records. Therefore, local governments will want to consider whether they will maintain a modified version of the old general fixed assets account group within their general ledger. Maintaining a capital asset account, somewhat similar to the old account group, will keep the ongoing summarized information needed for financial reporting and keep the information separate from the fund level accounts.

Beyond the information needed for financial reporting purposes, there is other information needed for other capital asset related purposes. This would include an asset identification number for at least equipment and furniture, location of the asset, maintenance schedule, source of funding for the asset, asset condition, capital asset account code number, custodian of asset, etc.

With the information obtained from the preceding questions in mind, a local government can start the process of meeting the capital asset related financial reporting requirements under GASB 34.

Step 1 - Establish a capital asset implementation team(group)

As discussed in the questions your local government should establish a team to implement the capital assets financial reporting requirements of GASB 34. The group should have a lead person/coordinator. The local government should consider creating a capital asset accountant position or responsibilities, who could be the lead person or at least responsible for monitoring and compiling the information prepared by the group.

Step 2 - Develop an implementation plan for capital assets.

From the information gathered by answering the previous questions, an implementation plan for capital assets can be created. The plan should identified the steps that will be taken, the person(s) responsible for completing the tasks, and a time line for completion. The following steps will provide a starting point for an implementation plan.

Step 3 - Develop a capital assets policy.

Your capital asset group should draft a capital assets policy. The governing body should review and approve the policy. The policy should address when an asset will be capitalized which primarily involves setting your capitalization threshold, but also deciding if certain assets will be grouped for capitalization, or if there are certain individual assets that will be capitalized even if they do not meet the threshold. Other items to include in the policy are:

- the procedures for accumulating costs for self-constructed assets
- method of accounting for infrastructure
- treatment of capital leases
- depreciation method chosen
- whether or not certain assets under the capitalization threshold will be tracked for inventory control purposes
- identifying person(s) responsible for maintaining capital asset records
- procedures for recording capital assets
- procedures for tracking and recording disposals of capital assets
- procedures for recording transfers of capital assets between functions/departments
- procedures for estimating useful lives
- internal controls over financial reporting and safeguarding of capital assets
- how often a physical count of capital assets will occur
- procedures for reconciling supporting records/journals to general ledger and reporting
- policies on maintenance and replacement
- whether the local government will insure or self-insure the property
- records need to meet requirements for capital assets acquired with grant funds
- procedures for accepting donated capital assets

Not all of the above information and policies may pertain to an individual government. Capital assets' policies are necessary not only for providing the basis for meeting financial reporting objectives, but also internal control, budgeting, and maintenance objectives. Another issue to consider is when these policies will take effect, because they could impact financial reporting even prior to GASB 34 implementation.

Step 4 - Review the current records for capital assets other than infrastructure

If your local government has had your independent auditor's report on your annual financial statements qualified because of inadequate fixed asset records, you know there is significant work to be done. If your entity does not have any capital records you can move on to the next step. If capital assets records do exist, this step will involve analyzing the records to determine if they provide the information needed for accounting and financial reporting of capital assets. The project would determine if the records include information on cost, year or acquisition or construction, description of property, source, identification number if applicable, location, condition, and function/department using the asset. The basic information needed for financial reporting is the type of capital asset, cost or donated value, useful live, function/department funding the acquisition/construction, function/department using the capital asset, if different, salvage value, and accumulated depreciation. If your current records provide this information for each capital asset, you can move on to establishing records for capital assets that are not currently accounted for, i.e. infrastructure.

Step 5 - Layout your capital asset records

You have set your policies and reviewed your current records. Now you need to determine if your capital asset records are complete enough to meet your capital assets policies objectives. Do your current record keeping gather the information required by your policies and needed for financial reporting? Many capital asset records will need to be updated, but if they currently are complete and consistent with GASB 34 requirements you can skip this step. How the information is laid-out depends on what type of capital asset system you have. Most capital asset computer applications will gather the required information. A local government should make sure that it does, before purchasing. If you set up a capital asset system yourself using a spreadsheet or database program, you have a good deal of flexibility in setting up the records to meet your needs. Exhibit F-1 provides a layout for an individual capital asset record that could be used for a manual or spreadsheet/database program layout. It also, could be used as an input document for a purchased computer application. If your capital asset computer application integrates with your general ledger, you should only have to input some of the information once. This form could be used and completed as part of a physical inventory count.

Step 6 - Make a physical inventory count of capital assets

One step that can be done anytime prior to implementation of GASB 34 is a physical count of capital assets. Some local governments make an annual count of capital assets. Others perform a count on a less frequent basis. In either case, as part of implementing GASB 34, a physical count is a very useful initial step. Generally, when physical counts are made the focus is primarily on equipment. However, the inventory should also include land, buildings, other improvements, and construction-in-progress. The actual count can be performed by the implementing group, individual departments, or outside consultants. In any case, sufficient instructions and training for performing the count should be provided to the counters. The instructions should clearly identify what assets should be counted and what information should be documented. The information collected should be a description of the capital asset, an asset identification or serial number, location, condition, and custodian of the asset. A good starting point is the current list of capital assets. Counters can use the list to aid with the physical inventory but the instructions should make clear that the

counters should add assets not on the list and to identify the disposition of assets missing from the list. The instructions should distinguish between the different procedures for handling the count of items that are not capitalized or inventoried, items that are inventoried but not capitalized for financial reporting and items that will be inventoried and capitalized for financial reporting. The distinction generally will be which items will be counted (items capitalized for financial reporting and items track for safeguarding) and how much information is needed. Generally, the information that will be gathered is: 1) description of item, 2) property identification number, 3) serial number, 4) cost or estimated cost, 5) source of acquisition, 6) date or estimated date of acquisition, 7) a evaluation of condition, 8) an estimate of its remaining useful life, and 9) the custodian of the asset. Some of the information may not be available or applicable to a particular capital asset, but every effort should be made to gather the information.

While much of the information may be an estimate, it still can serve as a starting point. For land, buildings, and other improvements different inventory procedures are necessary. A review of land or property tax records should identify properties owned by the local government. Building management should be able to perform an inventory of buildings and structures. Risk Management also may provide assistance in this area. Inspections should be made of land, buildings, and other improvements. These inspections will analyze physical condition and review for proper classification. Land improvements in particular may cause some difficulty. For most entities in the past when a project is constructed the costs are aggregated into one amount. Therefore, there may not be separately identified assets between land, buildings and other improvements. The inspection may determine how the costs should be divided between classes of assets, particularly if some are depreciable and some are not, or for depreciable assets if there are significant differences in useful lives between buildings and land improvements.

Step 7 - Review the information from the physical inventory count

After the count has been completed, the information will need to be reviewed for errors, such as duplication, and completeness. With a number of different individuals involved in the count, there is a greater chance of differences in how and what information is recorded for the physical count. Any missing or unusual information should be investigated and corrected. The implementation group should look for any obvious missing or unusual items. A determination may be made that additional counts or recounts are necessary.

Step 8 - Eliminate assets under the capitalization threshold

The list of capital assets should be divided between those for which there is adequate cost information and those that lack cost information. The list for those assets with cost information should be reviewed for assets under the capitalization threshold. If some assets will be tracked for other purposes, but not financial reporting they should be identified and a separate list kept. Computer applications, whether they are capital asset packages or spreadsheets/databases will be able to segregate the information for the different needs. Items under the thresholds that will not be tracked can be removed from the capital asset lists. The list of assets removed should be retained as part of an audit trail.

Step 9 - Determine cost or estimate cost for assets with no listed value

If information is missing, a determination of whether that information can be obtained is necessary. If cost is missing, determine to what extent actual or estimated cost information is available. Your accounting records, such as detailed account activity reports and disbursement journals from prior years, may provide information on cost and year of acquisition. Other sources of actual or estimates of cost are: 1) cost for similar assets, 2) information from vendors, 3) board/council minutes, 4) contract/bid files, 5) bonded debt

Exhibit F-1	**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:		
		Annual_____		
Estimated Useful Life:		**Monthly_____**		
		Accumulated depreciation_____		
_____ Years	**_____ Months**	**Salvage Value_____**		

documents, 6) disbursement/payment claims, 7) capital budgets, 8) inquiries of other local governments, and 9) property/land records. These are some sources of obtaining not only missing cost information, but also other information, in particular year of acquisition. Inquiries of personnel could also provide a reasonable estimate of this information. Hopefully, at this point you have been able to gather adequate information for most of your capital assets, other than infrastructure, which will be looked at in later steps.

Step 10 - Analyze the impact of the remaining missing information

At this point it is very likely that there still is missing information for some capital assets. An analysis should be made of the significance of the assets and the missing information. Obviously, missing information for capital assets with the potential to have a significant impact on financial reporting needs to be resolved. At this point discussions with your auditor may provide assistance in determining what is a reasonable and acceptable estimate of the missing information.

Step 11 - Reconcile the information from the physical inventory count to the individual capital asset records

The information gathered so far should be summarized and arranged in order to compare the physical count to the individual capital asset accounting records. How the information is summarized depends on the accounting records. If a list of capital assets prior to the count was used as the starting point, then adjustments to individual capital asset records will be needed for those items not on the list and those assets not found. As noted previously, any missing assets should have been reviewed to determine that they were properly disposed of. If your entity started from scratch, the step is to enter the information necessary to set up your individual capital asset records. In most cases it will be useful to retain a record of the capital assets added to and deleted from the individual records. This information will provide support to adjusting entries made to the general ledger.

Step 12 - Updated capital assets information in the general ledger

A local government's general ledger provides the basic information needed for financial reporting. However, in many cases capital assets information is not maintain on a local government's general ledger. The information is maintained in separate ledgers or spreadsheets. That information is then summarized and combined with the general ledger for financial reporting purposes. In either case the information from the individual capital asset records must be summarized into the information needed for financial reporting. Generally, it is best to reconcile back to the beginning of your government's fiscal year. However, it can be done during the year as long as the information for current year activity can be determined. Even if this inventory-to-records reconciliation process is done in the years prior to implementation of GASB 34, adjustment to the amounts reported in financial statements will likely be necessary even for the current year.

Step 13 - Maintain the records until implementation

Until implementation of GASB 34, the information on general capital assets that is reported in the financial statements is the amounts for capital assets by type and additions and deletions of capital assets. The steps that address the additional items required by GASB 34 follow, but if the creation or updating of general capital assets is done in the years prior to implementation it is important to maintain those assets now and into the future.

Step 14 - Develop a plan for retroactive reporting of infrastructure

The steps taken up until now address the capital assets that currently should be accounted for and reported in the financial statements currently. If your local government has infrastructure capital assets you will need to perform additional procedures to meet the requirements of GASB 34. A stray few local governments already maintain records for their infrastructure. If that is the case, your government should include updating infrastructure records as part of the previous steps for other capital assets. However, if your government has not previously reported infrastructure capital assets, some additional unique procedures are required. In addition, some unique decisions are needed for accounting for and reporting infrastructure. The most significant decision is whether to use the standard depreciation approach for infrastructure or to use the alternative modified approach. Since it is expected most local governments in Minnesota will use the standard depreciation approach these steps will not address implementing using the modified approach. Procedures may be added at a later time. Other decisions will be addressed in the following steps, which will also serve as the basic steps in an implementation plan.

Step 15 - Prepare a list of unreported infrastructure

A list should be made of the different types of infrastructure assets your entity owns. The list should be made by networks of infrastructure. Typical networks would be roads, street lighting, bridges, drainage systems, dams, sidewalks, tunnels, traffic lights/signals, etc. A local government should decide whether to further breakdown networks into recognizable subsystems of networks. The expected benefit of breaking down networks into subsystems is that GASB 34 only requires retroactive accounting for major networks or subsystems of infrastructure. So by breaking these assets into smaller asset categories an entity may not need to account for the retroactive piece of these assets.

Step 16 - Inventory infrastructure capital assets

From the list of infrastructure types an inventory list should be developed as a starting point for estimating/determining the cost for networks and subsystems. Generally, from a local governments public works or highway department an general inventory of infrastructure assets can be determined. Because these departments have to maintain these assets, they likely will be able to identify the number of miles of road, the type of roads, the number and type of bridges, the extent of street lighting systems and other infrastructure information. A decision that is needed is what level of detail is desired for the individual capital asset records for infrastructure. In general the choices are:

By individual asset (for example each street/road or street/road segment)

By class of asset (for example, residential streets versus highways)

If setting up each individual road/street asset most entities so far are using road segments, because typically most roads are improved or constructed in segments. For example Highway 61 may have 4 miles constructed in year one, 6.4 miles in year two, and another 5 in year five. The primary benefit of setting up records for each individual asset is it is easier for removing an asset. Using classes of assets reduces the amount of record keeping. In this case you are grouping the similar infrastructure assets into one record. With this method you will use weighted averages for useful lives and depreciation. For removing segments of roads it is likely you would use average cost per lane mile. It appears lane-miles will be a commonly used measurement for roads.

What level of detail is used could be different for the type of infrastructure asset. Bridges are more easily individually identified, so are more likely to have individual records. Creating records for individual road segments or street lights may overwhelm the resources of the implementation group. A possible alternative is to set up records by classes for retroactive purposes, but individual asset for prospective reporting.

Step 17 - Identify infrastructure acquired or constructed since June 30, 1980

GASB 34 only requires state and local governments to account for infrastructure capital assets acquired or significantly reconstructed, or received significant improvement, in fiscal years ending after June 30, 1980. Any infrastructure assets constructed prior to 1980, are not required to be recognized for financial reporting. However, an entity could choose to account for these assets. In either case, your government will need to identify the year of construction or improvement of the inventory of infrastructure assets. Using available records, some of which were identified in previous steps, a determination should be made of when an improvement was placed into service. One source that a number of counties have is their annual highway report, which will include information on individual construction projects for each year. Most highway departments have kept these reports going back a number of years. Minutes of the governing body are permanent documents and usually contain information relating to the awarding and completing of construction projects. Once the infrastructure assets have been identified by year, any infrastructure assets older than 1980 may be excluded from the inventory.

Step 18 - Determine to what extent actual or estimated cost information is available

Some steps in the implementation plan may be conducted concurrently. For example at the same time you are determining the year of acquisition, you may obtain information on cost or at least whether there are sufficient records to determine historical cost. If records are adequate, determine costs numbers by year for either individual or classes of infrastructure assets. If records do not exist that would support documenting the actual historical cost, than you will need to obtain information necessary to estimate historical cost. Here again, some of the methods discussed previously could be used. One alternative provided by GASB 34 is estimating historical cost by using current replacement cost.

Step 19 - Using current replacement cost for estimating historical cost

To used current costs to determine the historical cost you will need to deflate that current cost value back to the year of acquisition. If deflated replacement cost is to be used you should obtain current replacement costs and an appropriate price-level index. For roads the most commonly used index is the U.S. Department of Transportation, Federal Highway Administration's *Price Trend Information of Federal-Aid Highway Construction*, which can be obtained from their web site: www.fhwa.dot.gov. There are other indexes also available.

Step 20 - Calculate an estimate cost

Whether using deflated replacement cost or other estimate or actual cost, an estimate of the total cost by network and/or subsystem should be calculated. You also should review appendix G for more discussion on calculating deflated cost.

Step 21 - Determine which of the identified assets need to be reported

After determining this estimate of cost by network and subsystem, you can determine which retroactive amounts need to be reported as major infrastructure networks and subsystems. To determine whether a network or subsystem is considered major you need to calculate the percent a network or subsystem is to the total cost of general capital assets **reported** in the first fiscal year ending after June 15, 1999. If a subsystem is at least 5 percent or a network 10 percent of that total cost, it is considered major and must be reported in the financial statements. A local government is free to report retroactive amounts for non-major infrastructure networks and subsystems. Going forward all infrastructure assets that meet the capitalization requirements of your local government should be reported.

Step 22 - Determine total cost for retroactive infrastructure capital assets

Now that you have determine, which retroactive amounts will be accounted for and reported, you should total the cost for retroactive infrastructure. The records for these assets should be maintained by the appropriate person, who should add the determined amounts to the general capital asset control account. When the infrastructure amounts are added to the financial statements is another decision for a local government. You could add the infrastructure amounts, once you have established the amount, even if you have not implemented GASB 34. More likely local governments will account for these amounts at the same time they implement GASB 34. If that is the case it is important that the local government determine the appropriate amount at the beginning of the fiscal year of implementation. For those local governments that will use the extra 4 years allowed for implementing retroactive infrastructure, you need to determine the amount at the beginning of the year of adding the retroactive amounts.

Step 23 - Review works of art and historical treasures

One class of capital assets not yet dealt with is works of art or historical treasures. Many local governments have assets, such as statues, paintings, museum items, etc. If these assets meet the requirements for being a collection under paragraph 27 of GASB 34, they do not need to be capitalized. However, entities are encouraged to capitalize these collections. If capitalization of these assets is required or the local government chooses to capitalize them, the local government should follow some of the same procedures previously identified for other capital assets to determine cost and other needed information.

Step 24 - Assign each capital asset or group of capital assets an estimated useful life

Now that costs have been determined for the different classes of capital assets, the next step is to determine the depreciated value. In order to calculate accumulated depreciation estimates of their total useful and remaining useful lives must be made. We have identified a number of ways to estimate useful lives in this guide. We have also provided a number of useful life tables as a starting point. Note: if an asset is still in use then instinctively it should not be considered fully depreciated. So in general, all capital assets currently in use should have some remaining useful life.

Step 25 - Calculate accumulated depreciation for all depreciable capital assets

Depending on the depreciation method used, calculate the accumulated depreciation for depreciable capital assets by type of capital assets. A spreadsheet for calculating total cost and accumulated depreciation will be part of the GASB 34 resources we make available.

Step 26 - Summarize costs and accumulated depreciation for reporting purposes

Summarize the amounts needed for the beginning balances for total costs and accumulated depreciation by type of capital asset. These amounts will be part of the initial amounts needed to restated financial statements for the implementation of GASB 34.

Step 27- Identify depreciation expense by function

On the statement of activities the current year depreciation will need to be included in expense function related to the capital asset. For assets used by more than one function a reasonable allocation to the different functions should be made. If an asset is used by many functions it may have to be presented as unallocated depreciation.

Final Notes: These are the basic steps for a plan for meeting the reporting requirements for capital assets. Examples of some of the methods of performing these steps can be seen in the exercises in the implementation guides issued by the GASB.

After you have set up your records and the amounts needed to implement, it is important that going forward steps are in place to maintain and update the capital assets accounting system. Therefore, procedures should be in place to insure all additions and deletions are capture by that system.

Appendix G - Retroactive Infrastructure

In this appendix we will discuss three methods that individual local governments are using to determine the amounts to record for the retroactive infrastructure. These are not the only methods available, but are likely to be used by a good number of entities.

Specific Identification Method

Each infrastructure will have an individual asset inventory record, with specifically identified costs. The local governments will determine costs based on historical records, including disbursement journals, claims, contract files, and other available documents. The process would involve identifying each infrastructure asset (by segment length, rural/urban, concrete/bituminous/gravel, etc..) and grouping them into the appropriate networks or subsystems, researching historical cost, setting up asset records, determining useful lives, calculating accumulated depreciation and summarizing amounts for financial presentation.

Benefits:

- Accurate amounts for infrastructure
- Assets are individually identified, which allows for ease of removal and monitoring individual assets

Disadvantages:

- Time consuming to research individual assets
- Record keeping exceeds requirements of the standard
- Records may not exist

Group Identification Method

In this method prior records are used to determine cost for assets, but asset cost is determined by groups (networks or subsystems) rather than individual assets. In many instances Counties have prepared annual highway department reports that include costs that are grouped my type. The information can serve as the basis for this method. The costs would be accumulated by year.

Benefits:

- Less time consuming to accumulate costs
- Need to set up fewer records

Disadvantages:

- Harder to separate out individual assets should an entity need to dispose of an infrastructure asset
- May include costs that would not normally be considered improvements
- May be difficult to split out costs between land and infrastructure

Deflation Method

Under this method the local government would deflate current costs back to the year of acquisition or construction. In this method you would again identify a list of all the infrastructure assets you need or intend to determine a value for. This again would involve determining individual characteristics for the assets, including the year of acquisition or construction. The Minnesota Department of Transportation has some resources available for identifying roads and bridges, including the state needs study and state bridge database.

Once an entity has identified the individual assets by year of acquisition/construction they would obtain an appropriate price index to use to calculate the deflated value. For roads a good source is the U.S. Department of Transportation, Federal Highway Administration's Price Trend Information for Federal-Aid Highway Construction available at their web-site: www.fhwa.dot.gov. The table (Table G-1) updated on April 22, 2002 is included. For all infrastructure assets their indices available at Engineering News Record's Construction Cost Index (www.enr.com).

After obtaining a price index, the local government will need to know the current replacement cost. Sources for obtaining current prices are current construction project costs, nearby local government's recent construction experience, inquiries of contractors, trade publications and others. Typically costs are determined by lane mile or square foot, depending on the type of capital asset. After obtaining the current cost and the price index you can calculate the deflated value. Table G-2 provides a sample calculation. The calculation is done for each year an asset was acquired/constructed.

Benefits:

- Amount provides an acceptable estimate when cost records unavailable, especially when the local entity wants to determine an estimated value for infrastructure older than the amounts required to be accounted for by GASB 34
- Could required less time than trying to research individual cost records
- Calculations can be done using spreadsheets

Disadvantages:

- The number of calculations required may make the determination of a cost value a little more complicated.
- Because they are estimates based on a national index, they might not be as accurate. However, they would meet the requirements.

Table G-1 Highway Construction Price Trends and the Consumer Price Index		
Year	**Federal-Aid Highway Construction**	**Consumer Price Index**
1970	34.87	34.15
1971	36.56	35.65
1972	38.60	36.80
1973	42.50	39.08
1974	57.90	43.40
1975	58.10	47.36
1976	56.30	50.09
1977	59.80	53.35
1978	70.70	57.39
1979	85.50	63.91
1980	97.20	72.54
1981	94.20	80.02
1982	88.50	84.95
1983	87.60	87.68
1984	92.60	91.46
1985	102.00	94.72
1986	101.10	96.48
1987	100.00	100.00
1988	106.60	104.14
1989	107.70	109.15
1990	108.50	115.05
1991	107.50	119.89
1992	105.10	123.50
1993	108.30	127.20
1994	115.10	130.46
1995	121.90	134.15
1996	120.20	138.12
1997	130.60	141.29
1998	126.90	143.49
1999	136.50	146.65
2000	145.60	151.58

SOURCE: Federal Highway Administration; Office of Highway Policy Information

Table G-2 Example of Deflated Cost Calculation	
Basic Information	
Current cost per lane-mile	$500,000
Average age of roads	11 years
Lane-miles acquired since June 30, 1980	91
Price-level changes-	
Current year	145.6
Year of acquisition	107.7
Estimated useful life:	25 years
Deflated Replacement Cost for Calculation of Estimated Historical Cost	
Estimated historical cost calculation: Lane-miles X average cost per lane-mile X (year of acquisition index/current-year index)	
91 lane-miles X $500,000 X (107.7/145.6) =	$33,656,250
Using Deflated Replacement Cost for Calculation of Accumulated Depreciation	
Calculation of Accumulated Depreciation: Estimated historical cost/estimated useful life X average age	
$33,656,250/25 years X 11 years =	$14,808,750

Appendix H - Implementation Questions

Fully Depreciated Assets

One issue is how to account for capital assets that are still being used, but have exceeded their estimated useful life. This issue was specifically addressed by GASB in the second Implementation Guide (Question 145):

Q--In the process of calculating accumulated depreciation for general capital assets at transition, a government discovers that some of its assets in use are older than their assigned estimated useful lives and would be fully depreciated. Should these assets be reported as fully depreciated (at a net book value of zero or salvage value)?

A--If the assets are significant, the estimated useful lives assigned to capital assets should be reconsidered. Assets still in use should not be reported as fully depreciated. At transition, the estimated useful life of an asset includes both the years the asset has been in service and the estimated number of years of service remaining.

Put simply a capital asset that still is in use, generally should not be considered fully depreciated. Probably the most common example is the county courthouse or city hall. In many cases these buildings have been around for many years beyond the standard useful life for buildings. For example, a Courthouse that had an expected useful life of 50 years but is still in use after 60 years. Thus the 50 year life is no longer valid and an adjusted useful life will need to be developed as to how much longer the city hail will still be in use. Obviously its useful life is at least 60 years. A decision is needed to estimate if it will last at least another 10 or 15 years, etc. The important factor to remember is that it is an estimate.

If the building is an historical building, such as courthouses or city halls, then it is not likely that the building will ever be torn down. More than likely at some point it will cease to function as the city hall or the county courthouse and will take on a secondary role of a museum or something else. Once the building is no longer used for its intended function then it can be considered fully depreciated.

Appendix I - GASB Capital Asset Resources and References

GASB - The following publications are issued by the Governmental Accounting Standards Board and provide guidance relating to GASB 34. For more information you can call (800) 748-0659.

Statement No. 34 of the Governmental Accounting Standards Board, *Basic Financial Statements--and Management's Discussion and Analysis—for State and Local Governments*.

Guide to Implementation of GASB Statement 34 on Basic Financial Statements--and Management's Discussion and Analysis—for State and Local Governments. Questions and Answers

Guide to Implementation of GASB Statement 34 and Related Pronouncements. Questions and Answers

What You Should Know about Your Local Government's Finances. A Guide to Financial Statements

In addition the GASB has a variety of information and links to resources on their web-site at www.gasb.org.