Capitalization/Classification Policy

Policy Area: Accounting & Financial Reporting
Effective Date: 7/1/1995

Policy Sub Area: Capital Assets
Last Revision Date: 6/30/2017

Authority: GASB Codification Section 1400
Policy Owner/Division: Statewide Accounting

Policy

A capital asset is property, such as land, land improvements, easements, buildings, equipment, works of art and historical treasures, and infrastructure, with a cost equal to or greater than $5,000 and a useful life of two or more years. Capital assets are acquired for use in normal operations and are not for resale. These assets may be subject to depreciation. Exceptions to the $5,000 capitalization threshold will require written approval by the Office of the State Controller (OSC).

Assets costing below $5,000 are expensed; they are not capitalized nor depreciated for financial reporting purposes. Agency management has the option of tracking assets valued between $500 and $4,999.99 for inventory purposes, with a threshold chosen at the agency's discretion. A physical inventory will be taken of inventoried assets at least once a year at the same time the capitalized fixed assets are inventoried.

Intangible assets, which are generally classified as capital assets, have a separate capitalization threshold (see Intangible Assets Policy).

Procedures

NA

Accounting Guidance

Costs incurred to keep a fixed asset in its normal operating condition that do not extend the original useful life of the asset or increase the asset's future service potential, are not capitalized. These costs are expensed as repairs/maintenance.

According to GAAP, capital assets should be recorded at historical cost or estimated historical cost. Cost includes purchase price or cost of construction plus any other charges incurred to place the asset in its intended location and condition for use.
Examples of other charges include, but are not limited to:

- legal and title fees
- appraisal and negotiation fees
- surveying fees
- other closing costs
- damage payments
- land-preparation costs
- demolition cost
- architect and accounting fees
- insurance premiums during the construction phase
- transportation charges
- interest cost incurred during construction of the asset

Donated capital assets should be recorded at their acquisition value at the date of donation plus ancillary charges with the following exception. Capital assets donated prior to July 1, 2015 are recorded at their estimated fair value at the date of donation. Acquisition value is the price that would be paid to acquire an asset with equivalent service potential in an orderly market transaction at the acquisition date. Acquisition value is a market-based entry price. Acquisition value may be calculated from manufacturers’ catalogs or price quotes in periodicals, recent sales of comparable assets, or other reliable information. Professional assistance may be helpful but is not required. The following assets should be measured at acquisition value:

- Donated capital assets
- Donated works of art, historical treasures, and similar assets as provided in paragraph 27 of GASB Statement 34
- Capital assets that a government receives in a service concession arrangement as provided in paragraph 9 of GASB Statement 60

In-house resources such as labor, materials, and supplies used from General Services should also be included as part of the cost of the asset. Capitalize the costs as if outside sources were used.

**Classification:**
According to the Governmental Accounting Standards Board (GASB), the classification of capital assets depends upon the funds used to purchase them:

"A clear distinction should be made between general capital assets and capital assets of proprietary and fiduciary funds. Capital assets of proprietary funds should be reported in both the government-wide and fund financial statements. Capital assets of fiduciary funds (and similar component units) should be reported only in the statement of fiduciary net position. All other capital assets of the governmental unit are general capital assets. They should not be reported as assets in governmental funds but should be reported in the governmental activities column in the government-wide statement of net position" (prepared by OSC).
## Related Documents (Memos/Forms)

- Internal Policy/Procedure Manual for Capital Assets
- Depreciation Policy
- Intangible Assets Policy
- Physical Inventory Policy
- Maintenance Policy

## Revision History

<table>
<thead>
<tr>
<th>Date</th>
<th>Description</th>
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<tbody>
<tr>
<td>7/01/2009</td>
<td>Updated for GASB 51</td>
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<tr>
<td>1/26/2017</td>
<td>Updated links</td>
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<tr>
<td>6/30/2017</td>
<td>Updated for GASB 63 (changed net assets to net position) and GASB 72 (added requirement to prospectively report donated capital assets at acquisition value); added link to Internal Policy/Procedure Manual for Capital assets; minor edits.</td>
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