4.2 Government-Wide Financial Statements
4.2.5 Capital Assets Reporting

4.2.5.10 Capital assets are tangible or intangible assets having initial useful lives extending beyond a single reporting period. Examples of capital assets are:

- Land and improvements to land (includes right-of-way and easements).
- Buildings and building improvements.
- Parking lots[1].
- Vehicles.
- Machinery and equipment.
- Works of art and historical treasures.
- Infrastructure assets.
- All other tangible or intangible assets.

4.2.5.20 Land costs typically include:

- The purchase price.
- Closing costs, such as title to the land, attorney's fees, and recording fees.
- Assumption of any liens, mortgages, or encumbrances on the property.
- Costs incurred in getting the land in condition for its intended use, such as excavation, grading, filling, draining, clearing; removal, relocation or reconstruction of property of others (e.g., railroads, phone and power lines); retaining walls, parking lots[2], fencing, and landscaping.
- Any additional land improvements.

4.2.5.30 Any proceeds obtained in the process of getting the land ready for its intended use, such as salvage receipts on the demolition of an old building or the sale of cleared timber, are treated as a reduction in the price of the land.

4.2.5.40 Governments may use different capitalization policies for different type of assets and different thresholds for compliance with different laws and regulations. The capitalization policy should be disclosed in the notes to the financial statements.

4.2.5.50 To report capital assets, governments need to divide assets into two categories:

- Assets that are depreciated (they become worn out or obsolete when used up),

- Assets that are not depreciated (inexhaustible or infrastructure using the modified approach). Inexhaustible capital assets are defined as one whose economic benefit or service potential is not used up or is used up so slowly that its estimated useful life is extraordinarily long (e.g., land, certain land improvements, certain infrastructure, construction in progress, etc.).

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[1] Parking lots may be considered either infrastructure or land improvement, depending on whether they are incidental to the building. However, there is no difference between both approaches if the government depreciates infrastructure. In both cases a parking lot would be capitalized and depreciated.

[2] See footnote 1.

If the government has a significant amount of nondepreciable capital assets, it should report them in the statement of net position separately.

Valuation and Presentation

4.2.5.60 All assets should be reported at historical cost. Historical cost is the amount of resources spent to purchase or construct capital assets. It includes all costs necessary to put asset in its intended location or condition for use. Since governments are required to capitalize these assets at their historical cost it may be necessary to estimate that amount. One method of estimating the historical cost is to determine the current replacement cost and deflating it back to the date the asset was obtained.

4.2.5.70 Donated assets should be reported at their acquisition value. 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, or the amount at which a liability could be liquidated with the counterparty at the acquisition date. (GASB Statement 72, Fair Value Measurement and Application).

4.2.5.80 The depreciable capital assets should be reported net of accumulated depreciation. Accumulated depreciation equals total of all amounts of depreciation expenses in statements of activities (from the time when a capital asset was acquired). Accumulated depreciation may be netted against capital assets or reported as a separate line on the face of financial statements or in parentheses. Regardless of the presentation method, it has to be disclosed in the notes to the financial statements.

Depreciation should be also reported in the statement of activities. Governments can use any systematic and rational depreciation method. Depreciation expense for capital assets that can be specifically identified with a function should be included in the direct expenses of that function. Depreciation expense for shared capital assets should be allocated to the functions sharing the assets.

If a capital asset (e.g., city hall, etc.) serves essentially all functions and is not practical to allocate the depreciation to all these functions, that expense should be reported in a separate line or as part of the expenses of general government function. If a government chooses a separate line, it should clearly indicate that this line excludes the direct depreciation reported in the specific functions.

Depreciation may be also allocated through a separate indirect expense column.

Depreciation does not have to be calculated for each asset. Depreciation can be calculated by class of assets, network of assets, subsystem of network, and by individual asset. See Infrastructure Reporting for definitions of networks and subsystems.

Capital Assets of Governmental Activities

4.2.5.90 Capital assets of governmental activities consist of: general capital assets, infrastructure, and internal service fund capital assets.

Capital assets of internal service funds should be generally reported as capital assets of the governmental activities unless the internal service fund is reported in the business-type activities column.

General capital assets are capital assets of the government that are not specifically related to activities in proprietary or fiduciary funds. They are associated with governmental activities and financed by the resources of governmental funds.

Works of Art and Historical Treasures

4.2.5.100 Works of art, historical treasures, and similar assets are considered to be capital assets and as such they should be capitalized at their historical cost or acquisition value. 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, or the amount at which a liability could be liquidated with the counterparty at the acquisition date. (GASB Statement 72, Fair Value Measurement and Application)

The exhaustible assets should be depreciated over their estimated useful lives. Governments should not report depreciation for collections or items that are inexhaustible (i.e., the individual works of art or historical treasures that have extraordinarily long useful lives). Distinctions of exhaustible and inexhaustible items or collections, or their useful lives need to be made by each government. Depreciation is not required for inexhaustible items or collections. Governments should disclose information about their works of art and historical treasures in the notes to financial statements.

4.2.5.110 Collections, which meet the following requirements, are not capitalized or depreciated:

1. They are held for public exhibition, education, or research in furtherance of public service rather than financial gain;

2. They are protected, kept unencumbered, cared for, and preserved; and

3. They are a subject to an organizational policy that requires the proceeds from sales of collection items to be used to acquire other items for the collection.