OFFICE OF THE
STATE AUDITOR

BRIEF EXPLANATION

As of October 2018

Capital Assets

Overview

A Capital Asset is usually a larger purchase of building, equipment or infrastructure that has an expected life greater than one year. The governing body of an organization adopts a capitalization policy that sets a value threshold and/or type of assets that will be capitalized and tracked by the organization. Purchases under that threshold are expensed when paid while purchases over that threshold are “Capitalized” and recorded as an asset on the balance sheet and the expense is recognized over a period of time (Depreciation).

Governmental funds prepare two types of financial statements one shows capital assets and recognizes the expense of those assets over time while the other shows the total expenditure as an expense when it is incurred..

Examples

A water district buys a pump for $5,500 and the board has a policy that any purchase over $5,000 will be capitalized. The pump would be capitalized and tracked as an asset instead of being expensed at the time of purchase. If that same pump only cost $2,000 then by policy it would be expensed when purchased.

A town completes a drainage project that cost $100,000. The project would be recorded as a capital asset and the expense recognized over its estimated life (Depreciation).