



OFFICE OF THE
STATE AUDITOR

BRIEF EXPLANATION

Revised January 2019

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. The expense is recognized over a period of time (“depreciation”).

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

Examples

A water district purchases a pump for \$5,500. The board has an adopted policy that any equipment 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 the same pump only cost \$2,000, then, per 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”).