



Office of the  
Washington  
State Auditor  
Pat McCarthy

# Best Practices for Tracking Capital Asset Information

Local governments own a variety of capital assets to support the communities they serve, ranging from vehicles, equipment, and buildings to infrastructure like road and utility systems. They represent some of the largest assets on a government's Statement of Net Position. One of your accounting department's most important responsibilities – and often one of the most challenging – involves properly tracking, reporting and depreciating those assets.

Typically, accounting departments use a management system to track capital assets. This system is a set of policies and procedures established to control the capital assets for operational and financial reporting purposes. Oftentimes, governments created these systems decades ago and have not reevaluated or improved them in some time. Today, many accountants struggle to navigate the massive amount of capital asset records and the cumulative effects of years of inconsistent accounting practices.



This resource describes best practices and assorted options to help you reevaluate your capital asset management system and related policies. It describes approaches you can take to better manage your capital asset records, simplify accounting, eliminate redundant processes, and improve consistency and accuracy. Keep in mind that you have flexibility in designing such a system. It should be done purposely so that all users have the information they need, and so that you minimize the resources necessary to maintain it.

## Provide guidance to accounting staff

The State Auditor's Office's [\*Budgeting, Accounting and Reporting System\*](#) ([\*BARS Manual, section 3.3.9.30\*](#)) requires local governments to have a capital asset policy containing certain key elements. While the policy must address required elements, you should also provide additional guidance for your staff. Accountants encounter many complexities, and they may need to make judgment calls when accounting for capital assets. Providing guidance helps your accountants navigate these complexities and consistently record transactions. It also helps you ensure your capital asset records stay organized in the way you originally intended. You can use the information from many of the best practices in this resource to strengthen your policies and procedures. In addition, the Government Finance Officers Association (GFOA) has published policy-setting guidance in the second edition of its book, [\*Accounting for Capital Assets: A Guide for State and Local Governments\*](#) (page 9-3 to 9-10). GFOA updated this book in 2023.



# Use clear asset descriptions

Governments maintain long-lived capital asset records, so they need them to stand the test of time. Your current accounting staff should clearly describe and document newly procured capital assets so that future accounting staff will understand the records. For example, let's say you have three different options for describing the same underlying costs. In the table below, we provide three potential descriptions and describe the reasons for the best one.

Option	Potential description
1	2023 improvement
2	2023 jail kitchen remodel
3	2023 jail kitchen major appliance upgrade

Option 3 is the best choice and provides the most detail about the specific asset improvements.

When your accountants attempt to relate real events to capital asset records, any vague asset descriptions can make their task difficult or even impossible. A future accountant might need to locate the original asset record when many different situations arise, such as when they:

- Record the replacement, improvement or disposal of an asset (or part of an asset)
- Record an impairment (a significant and unexpected decline in usable capacity)
- Confirm existence during an inventory or audit
- Evaluate an asset's condition or remaining useful life
- Research whether the government ever capitalized a specific asset

You can facilitate clear asset descriptions by having an overall plan and policy on how your accountants will identify, describe and track capital assets. This should include how you plan to define individual assets and when you plan to employ other alternatives (more on this to come).

You can also facilitate asset identification if you maintain supporting records of each capital asset and keep them until its retirement. That way, if accountants do not understand an asset description, they have the underlying information that they need to research it.



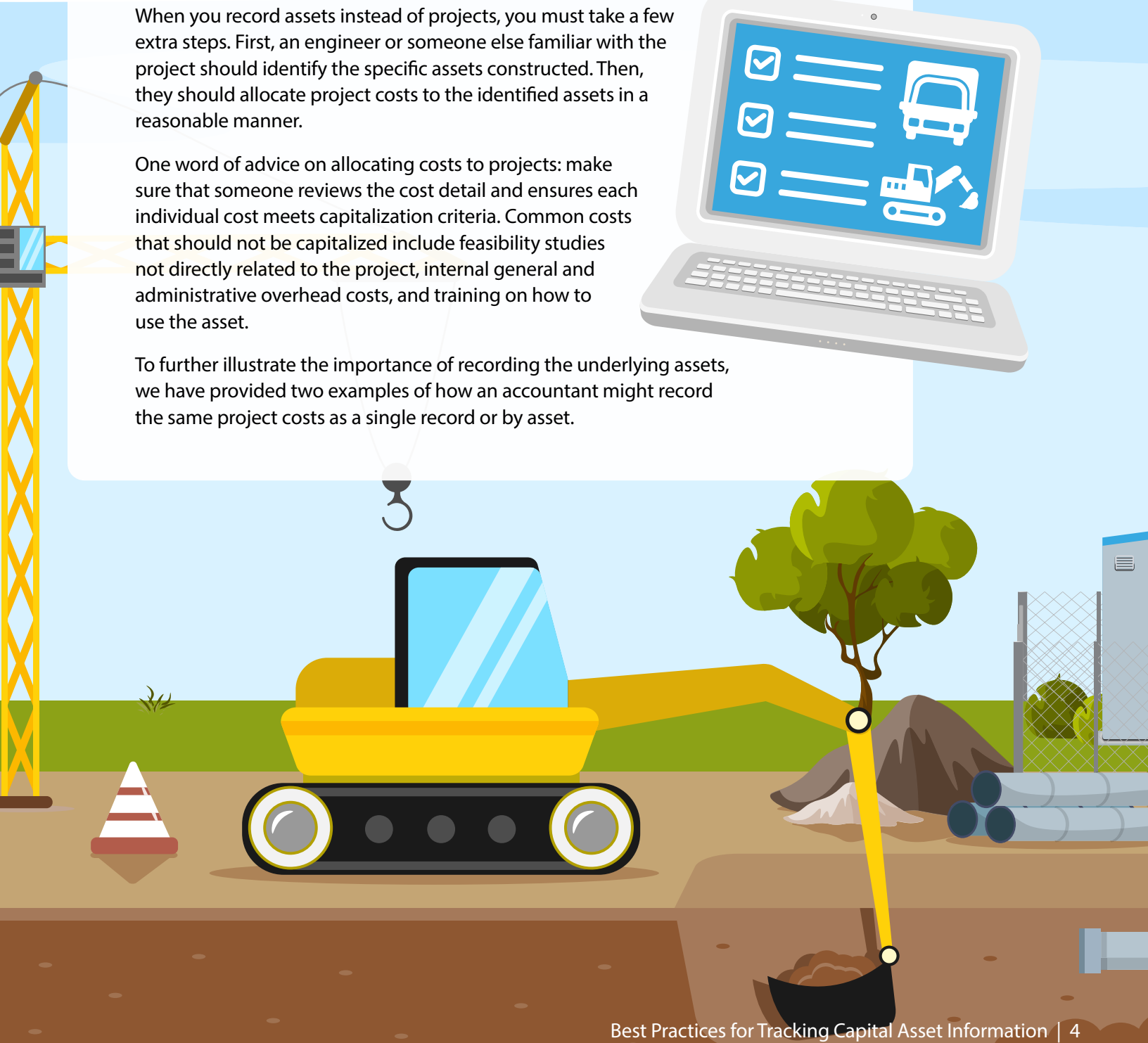
## Record assets, not projects

A project is a set of related capital work – typically completed at the same location or otherwise bid, managed or funded as a group – that can result in one or many assets. When capitalizing assets, you may find it convenient to record each project and its resulting cash flows as a single capital asset record, but this can cause problems later. Instead, record the specific assets constructed so that your accountants can easily identify them in the future. Doing this also allows you to assign a more accurate useful life to the various assets, as well as easily reevaluate it in future years.

When you record assets instead of projects, you must take a few extra steps. First, an engineer or someone else familiar with the project should identify the specific assets constructed. Then, they should allocate project costs to the identified assets in a reasonable manner.

One word of advice on allocating costs to projects: make sure that someone reviews the cost detail and ensures each individual cost meets capitalization criteria. Common costs that should not be capitalized include feasibility studies not directly related to the project, internal general and administrative overhead costs, and training on how to use the asset.

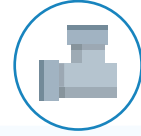
To further illustrate the importance of recording the underlying assets, we have provided two examples of how an accountant might record the same project costs as a single record or by asset.



## Example 1: The Johnson Creek Project

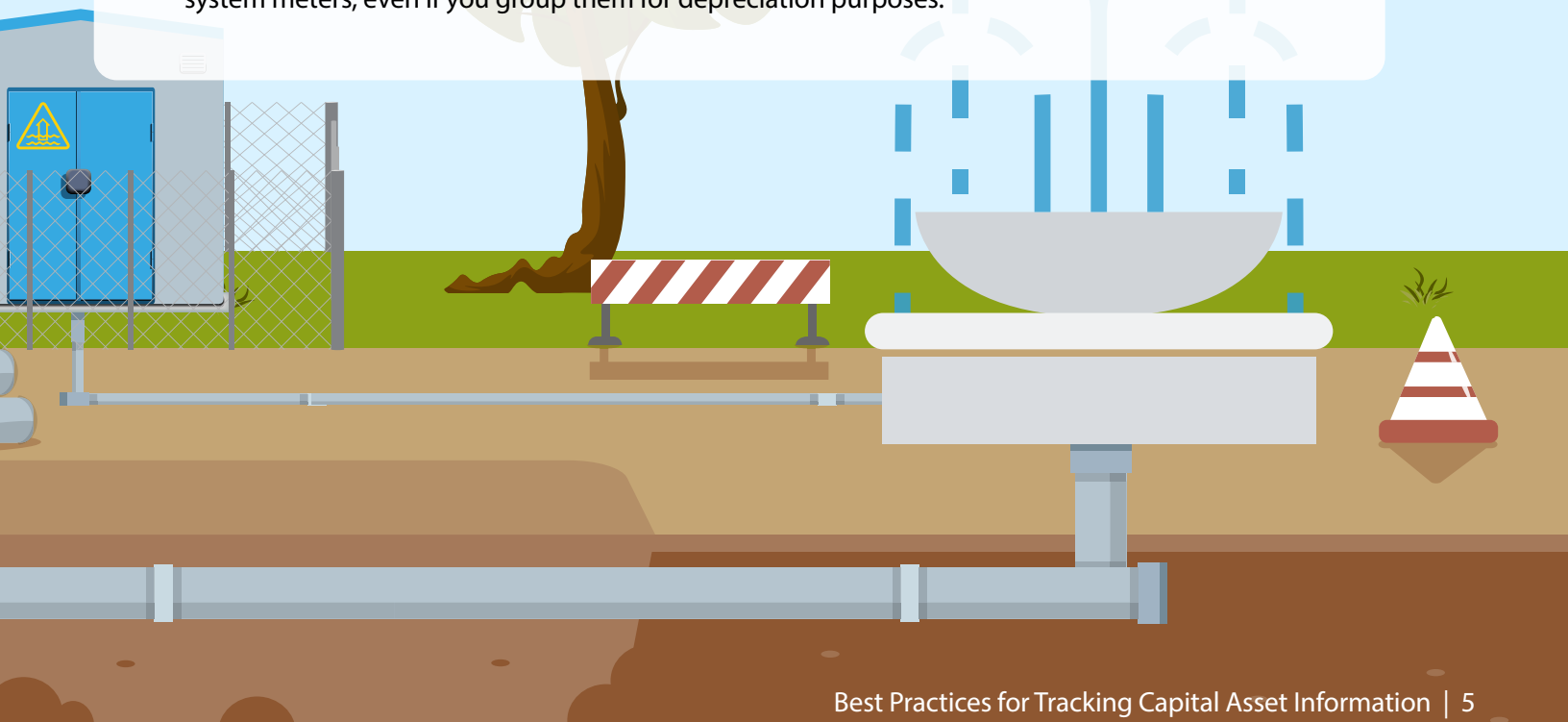
The Johnson Creek Project includes construction of a pump station, water lines, system meter and a decorative fountain. The table below lists three different options for recording these assets. In Option 1, the accountant records the entire project as one asset, but does not clearly describe the assets included. In Option 2, the accountant capitalizes each individual asset. In Option 3, the accountant records some assets individually and others in groups (we will cover this in the “Evaluate individual asset depreciation” section). Both Options 2 and 3 work well, as they identify the underlying assets.

(We present these options as a theoretical exercise; other options exist. However, you must separately record depreciable and non-depreciable assets when designing your system. And you cannot group assets from different asset classes, or that cross functional expense categories.)



Option 1 - Project-based	Option 2 – Individual assets	Option 3 – Individual and grouped assets mixed
Johnson Creek Project	Johnson Creek pump station	Johnson Creek pump station
	Johnson Creek water lines 200'	Water lines (in miles)
	Johnson Creek system meter	System meters
	Johnson Creek fountain	Johnson Creek fountain

Option 3 groups several assets together, such as the water lines and the system meters. Operational records should support the tracking of all the water lines or system meters, even if you group them for depreciation purposes.



## Example 2: Main Street Road Construction Project

The Main Street Project includes construction of the road from 15<sup>th</sup> Avenue through 31<sup>st</sup> Avenue. In Option 1, the accountant records all costs for the project, creating a new asset record for just this small road segment. In Option 2, the accountant adds the project costs to the preexisting capital asset record for Main Street, breaking out any material peripheral costs. In Option 3, the accountant adds the project costs to the asset record for all paved road miles, again breaking out any material peripheral costs. The accountant more clearly identifies each asset in Options 2 and 3, so you should choose either approach over Option 1. As replacements or upgrades occur in the future, accountants will find it easier to record changes. For example, if you replace Main Street from 20<sup>th</sup> Avenue to 50<sup>th</sup> Avenue, then the project-based approach will cause an issue.

Option 1 - Project-based	Option 2 – Individual assets	Option 3 – By subsystem
Main Street from 15 <sup>th</sup> to 31 <sup>st</sup>	Main Street (in its entirety)	Paved road miles
	Other peripherals capitalized separately, if significant	Other peripherals capitalized separately, if significant


## Evaluate individual asset depreciation

The Governmental Accounting Standards Board (GASB) allows flexibility in how governments depreciate assets. GASB describes depreciating assets by class of assets, network of assets, subsystems of a network, or individual assets. GASB also provides for composite depreciation, or depreciating assets as part of a group. For authoritative guidance, see GASB Statement No. 34 (paragraph 22, 163-166) and the State Auditor’s Office’s [BARS Manual, section 3.3.10.140](#). GFOA has also published guidance on the group/composite depreciation method in the second edition of its book, [Accounting for Capital Assets: A Guide for State and Local Governments](#) (page 7-7 to 7-10).

In some instances, you may find it beneficial to depreciate individual assets to more accurately allocate depreciation to the years benefitted. In other instances, you might find that it results in a lot of records and increased accounting work. Some governments group assets when depreciating them while also maintaining individual records for operational purposes. This can be a time saver, especially when you must record disposals and replacements. However, you should not depreciate assets in a group if it interferes with depreciation charged to functional expense categories, or if they cross asset classes.







When you depreciate assets in groups, be sure to depreciate at the correct rate. You have a higher risk of error when depreciating dissimilar assets as a group, due to the potential variability in useful lives. If you choose this method, make sure to regularly review the depreciation rate and adjust it when needed. You should also have a method to detect and record impairments, even if you have grouped assets for depreciation purposes.

Consider these three examples of group depreciation:

**Example 1: Like-kind items/same asset class**

Your government has purchased 25 police cars. You could depreciate them as part of a larger group called “police fleet cars.” Alternatively, you could depreciate each annual bulk purchase called “2023 police fleet cars.”

**Example 2: Dissimilar assets/same asset class (infrastructure)**

You can also depreciate dissimilar assets in a group if they share the same asset class and functional expense category. For example, you might depreciate roads and bridges as one system.

**Example 3: As a subsystem (roads)**

Public utility districts often record transmission lines as one group, measured in the number of miles. Cities, counties and other types of utilities could also use this approach to simplify accounting efforts. You might even consider separating miles of roadbed from miles of overlay, due to different useful lives.

## Integrate operational and accounting recordkeeping systems

Many governments maintain two separate capital asset systems – one for accounting purposes and another for operational purposes. The accounting department maintains a capital asset listing to report the total assets and corresponding depreciation on the financial statements. Operational departments maintain a listing, too, as they must purchase, manage and maintain the assets. This means staff perform redundant tasks to keep each system updated as additions or removals occur, and they should also take time to reconcile them ([BARS Manual, section 3.3.9.50](#)).

You could leverage operational capital asset records for accounting and reporting purposes, as long as you have sufficient controls in place to ensure the information is reliable. The goal here would be to maintain just one listing of the detailed assets so that accounting and operational staff could both access it for their separate purposes. You could save significant amounts of staff time, and reduce the possibility of error.

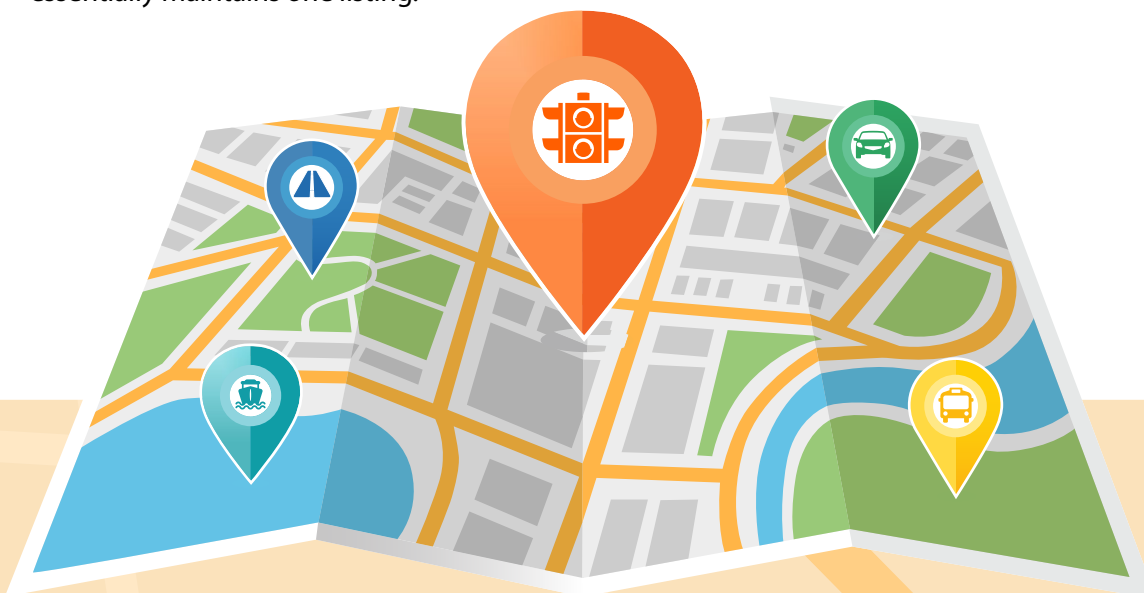
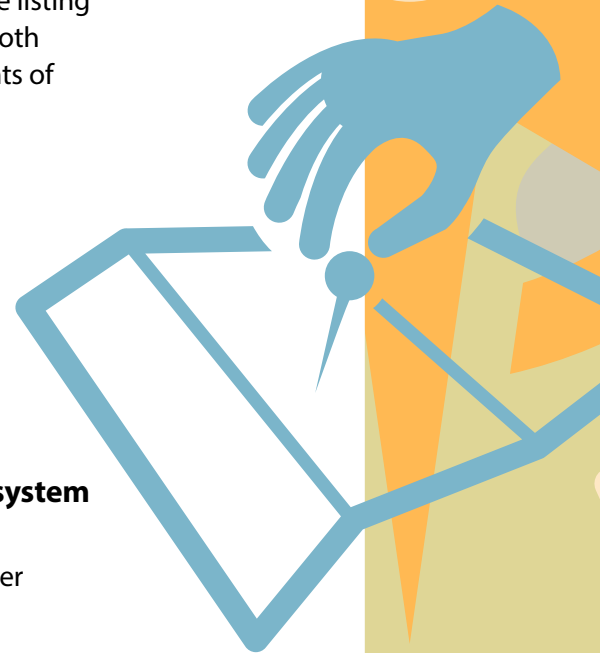
Consider these two examples for using one shared listing:

### **Example 1: A public utility district leverages its Geographic Information System (GIS)**

A public utility district uses GIS to track the detailed capital assets while using its general ledger to track dollars related to them. In this sense, the district's GIS is a subsidiary ledger to the financial system. The district has strong internal controls over its GIS.

### **Example 2: A county uses an integrated asset management system**

A county uses an integrated management system to track and report capital assets in two modules, which interface and work together to track the same assets once but for different purposes. The county essentially maintains one listing.





## Open the lines of communication with operational departments

You should periodically meet with the various operational departments responsible for capital assets, to ensure open communication channels about them. By meeting, you can discuss the information you need (and why) so that you may account for impairments, abandonments, replacements or disposals. Operational staff may also have ideas about how to strengthen internal controls, such as how to improve your government's process to communicate asset retirements.

Remember, operational staff are the experts about the assets. They can and should provide input on the factors that affect the useful life estimates, including current asset condition, how they use the assets, construction type, the maintenance policy, how long they expect assets to last given their experience, and service and technology demands.

However, they may not fully understand authoritative guidance on how to establish useful life, so you should participate in the decision and share authoritative guidance with them. For example, you should ensure that useful life is reflective of future maintenance activities.

When you meet with operational staff, be sure to listen and ask questions. You can learn many things that can help you manage your government's capital asset system. For example, you may want to know more about road maintenance plans or road repair/reconstruction (see the next section for more information about complexities that arise in this area).



## Plan for asset retirements

Your government's capital asset records, internal controls and policies will determine how easy it is to record asset retirements. Consider these challenges for recording asset retirements as you evaluate the design of your system: (1) notification of all retirements, (2) locating the original asset record, and (3) determining how to record the retirement. (Asset retirements include disposals, full or partial replacements, abandonments, removal or sale.)

**(1) Notification:** Departments must notify you when retirements occur so you can update capital asset records. However, this requires having the right set of internal controls in place so that you can capture all retirements, including infrastructure changes that are more difficult to identify, such as utility line abandonments or road modifications. Consider these options:

- Establish a department-initiated notification process for asset disposal, surplus, replacement and abandonment, and monitor the reasonableness of the asset retirement information that departments provide.
- Inquire with departments when anything new is purchased or constructed, and ask if it replaces an existing asset.
- Monitor surplus or asset abandonment lists, such as those reported to the governing body.
- Monitor insurance lists and changes to them.
- Hold the titles, such as to properties or vehicles, so that staff must contact the finance department before selling them.
- Ask the departments to review an inventory listing. (This control does not work well for infrastructure assets, and is dependent on reviewer diligence. While it is a good control, it should not be your only control.)
- Reconcile your capital asset records to those of the operational department's own listing (this is a requirement in the [BARS Manual, section 3.3.9.50](#)).

**(2) Locating the original asset record:** You need to be able to quickly locate the original asset record, sometimes 30 years or more after it was originally recorded. This can be a challenge, depending on how accountants originally recorded the asset and whether supporting documentation exists.



**(3) Recording disposal and subsequent replacement:** This can be tricky when one component of a larger asset is replaced. You should decide how to handle these transactions and formalize it in policy so that accountants will record them consistently. You have several options, as described in the [BARS Manual, section 3.3.10.80](#).

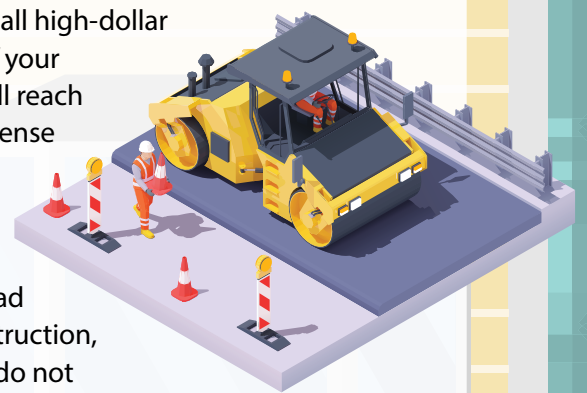
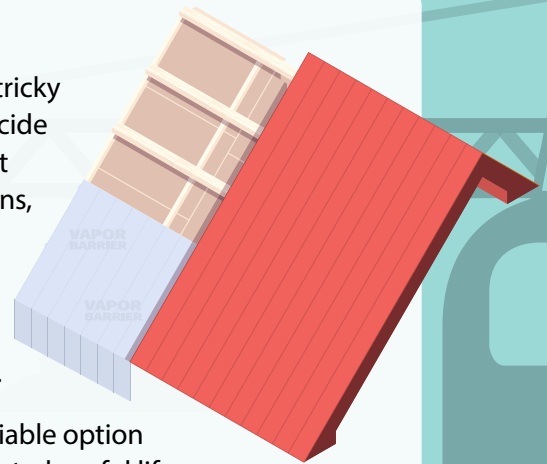
Consider these different examples of how an accountant could potentially record a roof replacement. Some of these examples involve componentization, which is discussed in the next section.

- Expense the roof replacement as maintenance. This can be a viable option if a new roof is needed so that the building can reach its estimated useful life.
- Adjust the original building asset record by removing the original roof cost, taking a loss on disposal, and adding the new roof cost to the original asset record. Alternatively, create a new asset record for just the new roof.
- If you originally componentized the building, remove and replace the capital asset roof record.

(Reminder: If you componentize assets, the best time to do that is at the time of purchase or construction, not when you replace components over time.)

In addition, consider these potential problem areas as you develop policy guidance:

- **Multiple remodels of the same building.** Accounting staff often do not have details about each remodel, so they capitalize each subsequent remodel without considering if it replaces original assets or should be expensed as maintenance.
- **Roadway maintenance.** Accounting staff often capitalize all high-dollar roadwork, but this may not be appropriate. For example, if your government performs maintenance on a road so that it will reach its estimated useful life, then your accountants should expense those costs, even if they are significant. This might include fog seals, chip seals, micro surfacing, scrub seals and thin lift overlays.
- **Road improvements.** Accounting staff often capitalize road improvement costs but neglect to consider if, during construction, they removed roadway assets. It is likely that accountants do not understand that contractors may only remove a small fraction of the original road, or they could remove significant portions of it.



## Decide early about componentization

When you apply componentization, you identify, separately record, and depreciate the various components of a larger composite asset (e.g., a building). This allows you to depreciate assets more accurately because each component is depreciated over its unique useful life.

GASB gives governments the option to track individual assets, but does not specifically address componentization in its authoritative literature. However, the BARS Manual allows it (see section [3.3.10.150](#) for guidance). In addition, the second edition of GFOA's book, *Accounting for Capital Assets: A Guide for State and Local Governments*, includes a discussion about componentization (page 7-10 to 7-15). Componentization is a preferred method for composite assets because it allows you to more accurately allocate depreciation over the periods benefited.

Componentization has other benefits, too. You may find it easier to account for component replacements, such as when a roof is replaced. You also might find it easier to reconcile accounting records to operational records, such as when trying to relate the estimated useful life for accounting purposes to operational staff's replacement schedules. For utilities, it may also help with rate setting.

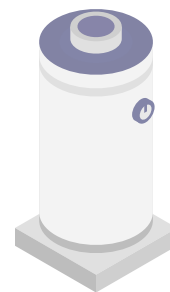
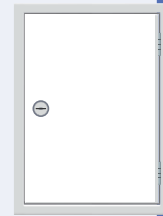
Componentization creates significantly more asset records, so you may need certain software functionality to manage it (e.g., parent-child settings). In addition, someone must take the time to identify the various components and allocate costs to them. If you decide to use componentization, you should update your policies on when and how it should be used. From a practical standpoint, it is best to implement componentization prospectively for certain types of assets, such as newly acquired buildings, at the time they are purchased or constructed. If you wait until certain replacements occur, and attempt to retroactively componentize, you may not have the information you need to allocate costs – prompting a complicated estimation process.

Consider the following two componentization examples:

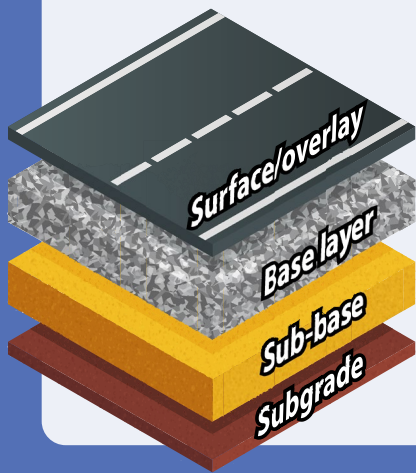
### Example 1: Componentizing a building

A building is a composite asset because it consists of many components beyond the building shell and foundation, such as a roof, heating and cooling system, and electrical system.

For some examples on various building components, see alternatives published on page 5 in PricewaterhouseCoopers' guide, *A Practical Guide to Accounting for Property under the Cost Model*. (Although this guide discusses international accounting standards for componentization rather than governmental accounting standards, it contains some useful information).



## Example 2: Componentizing a road



**Surface =  
Protects the  
base layers  
(like a roof)**

**Base layers =  
Longer life if  
protected**

A road is a composite asset because the surface layer and the base layers have different useful lives – the surface has a shorter life than the base layer. The road's surface layers protect the underlying base layers, much like a roof protects the building shell from weather and damage.

## Consider information value

You should consider the costs and benefits of various methods for identifying, tracking and depreciating capital assets. For example, consider how many asset records you will create under each approach and management's need for information. There is always a cost for information, so you should decide if the benefits of tracking extra details outweigh the costs.

Consider these three examples that may present dilemmas:

### Example 1: Creating extra groups

A public utility district depreciated all its poles as a group, no matter the size. Another public utility district also depreciated its poles using the group method, but broke them out by size, creating 10 groups instead of one. It takes more work for a utility to manage ten pole groups, so you should have a good reason before voluntarily tracking more detail than is necessary.

### Example 2: Tracking every asset, regardless of size

One government did not use a materiality threshold, while another used an excessively low threshold, triggering the reporting of many small assets. Both governments wasted time and effort tracking small assets.

### Example 3: Excessive componentization

If you use componentization for your buildings, you decide how many components to recognize. You could choose to recognize 12 to 25 different components. In theory, you could recognize 100 different components. When determining the number of components, you should weigh the cost of tracking extra assets with the perceived benefits.



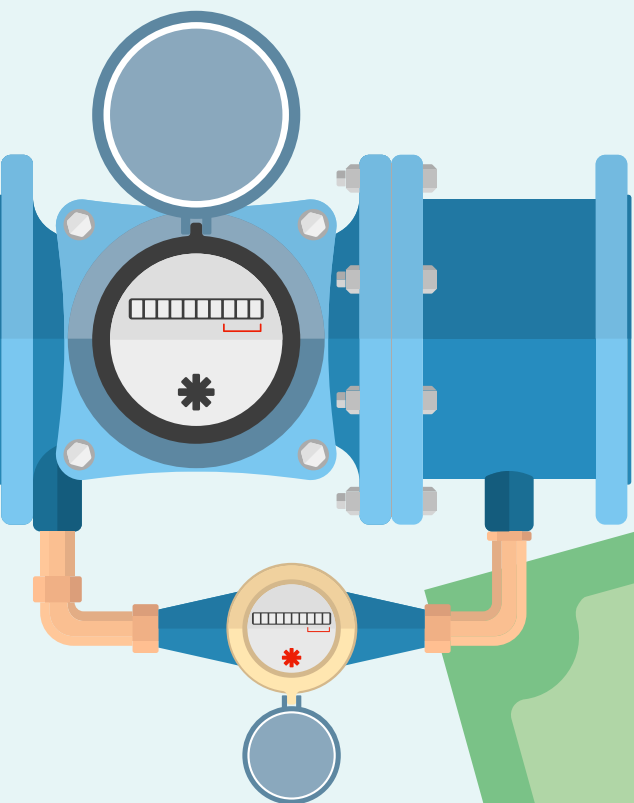
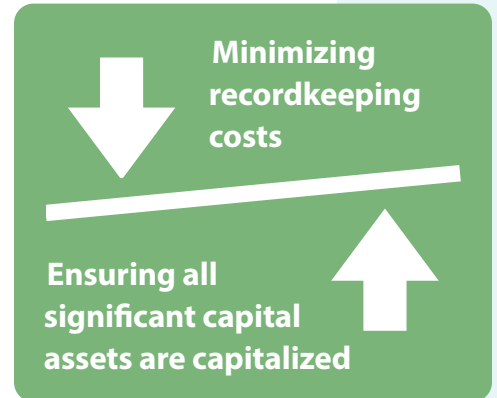


## Consider materiality

Governments typically establish a capitalization threshold, to avoid tracking and reporting small-dollar capital assets in their financial statements. You should consider the following when establishing a materiality threshold:

- Consider using different thresholds for major asset classes. For example, some governments deviate from the traditional \$5,000 capitalization threshold for infrastructure assets, but they may use it for equipment (often due to federal requirements for equipment exceeding \$5,000, [2 CFR §200.313](#)).
- Determine if you have many small-dollar “like items” significant to your financial statements (e.g., computers, utility meters or library books). If so, capitalize them no matter how many you purchase at any one time.
- Track small, theft-sensitive assets separately from your capital asset system. You can still maintain controls over these assets without cluttering your accounting records. For help, refer to the State Auditor’s Office’s [Best Practices for Internal Controls over Small and Attractive Assets](#).

If you have not evaluated your materiality thresholds in some time, you may want to perform a fresh analysis. Keep in mind that inflation and changes in the asset population may affect it. If you decide to change your materiality threshold, apply changes prospectively.





## Additional authoritative resources

- The State Auditor's Office's [BARS Manual, section 3.3.10 \(Capital Asset Accounting\)](#) – Refer to this section to better understand capital asset accounting requirements.
- [GASB codification](#) – You can access the GASB codification for free, and specifically view the capital assets section (1400). It has all the authoritative guidance, including frequent questions and answers.

## Additional related resources

- The State Auditor's Office's [Checklist for capital assets](#) – Governments reporting under generally accepted accounting principles (GAAP) should use this checklist to review their internal controls over reporting capital assets in their financial statements.
- The State Auditor's Office's [Best Practices for Internal Controls over Small and Attractive Assets](#) – Use this guide to help you improve your policies and practices over tracking theft-sensitive assets.
- GFOA's book: [Accounting for Capital Assets: A Guide for State and Local Governments \(second edition, 2023\)](#)
- GFOA's [Best Practices – Capitalization thresholds for capital assets](#) – Learn about GFOA's recommended guidelines for establishing a capitalization threshold.
- GFOA's [Capital asset training](#) – Intermediate-level training for accountants responsible for capital asset reporting in GAAP-basis financial statements.

## For assistance

This resource was developed by the Center for Government Innovation at the Office of the Washington State Auditor. Please send questions, comments, or suggestions to [Center@sao.wa.gov](mailto:Center@sao.wa.gov).

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