STATE OF IOWA
DEPARTMENT OF ADMINISTRATIVE SERVICES

Tangible Capital Assets & Depreciation Policy

This policy must be applied to all tangible capital assets meeting the definitions and thresholds defined below. See separate policies for intangible and right-to-use assets.

Definition

GASB 34, *Basic Financial Statements – and Management's Discussion and Analysis - for State and Local Governments*, as amended, defines capital assets as land, improvements to land, buildings, building improvements, vehicles, machinery, equipment, works of art and historical treasures, infrastructure, and other assets used in operations and that have initial useful lives extending beyond a single reporting period. The following are brief descriptions of tangible capital assets:

- ***Infrastructure*** – long-lived capital assets that normally can be preserved for a significantly greater number of years than most capital assets and are normally stationary in nature, and generally of value only to the government. Examples include roads, bridges, tunnels, drainage systems, water and sewer systems, dams, street lighting systems, and buildings, such as rest area facilities and road maintenance shops, that are an ancillary part of a network of infrastructure assets.
- ***Land & Land Improvements*** – land and improvements to land that ready land for its intended use, such as excavation, fill, grading, retaining walls, parking lots, fencing, landscaping, and utility installation.
- ***Buildings & Building Improvements*** – permanent structures owned or held by the government and the permanent improvements that add value to the building.
- ***Equipment*** – tangible property that does not lose its identity when removed from its location and is not changed materially or consumed immediately (within one year) by use (e.g. vehicles, copiers, kitchen appliances, mowers, etc.).
- ***Collections of works of art, historical treasures and similar assets*** are one or more items that are held for public exhibition, education, or research in furtherance of public service. Collections will not be capitalized if they meet the criteria for exclusion under GASB 34. However, collections already capitalized at June 30, 1999, will remain capitalized and all additions to those collections will be capitalized. Capitalized collections or items may require depreciation. Collections defined as inexhaustible do not require depreciation, but exhaustible collections or items must be depreciated over their estimated useful lives. *(See policy on Works of Art, Historical Treasurers and Similar Assets)*

Valuation

Capital assets should be reported at historical cost, including ancillary charges. Ancillary charges include costs that are directly attributable to asset acquisition, including transportation and freight charges, site preparation costs, and certain professional fees.

Donated capital assets are to be reported at their acquisition value at the date of acquisition. Per GASB 72, paragraph 79, acquisition value is defined as the price that would be paid to acquire an asset with equivalent service potential in an orderly market transaction at the acquisition date.

Capitalization Thresholds

Thresholds must be consistently applied by all departments, universities, and component units of the State of Iowa for financial reporting purposes. Note: The University of Iowa, Iowa State University, and University of Northern Iowa (Universities) **may** set their own thresholds and policies. All capital assets (including improvements to existing assets) **at or above** the following thresholds must be reported, all other capital assets must be excluded, for the Annual Comprehensive Financial Report (ACFR):

Infrastructure	$ 1,000,000
Land & Land Improvements	$ 100,000
Buildings & Building Improvements	$ 100,000
Equipment	$ 10,000

Funds or component units that utilize proprietary fund type accounting will continue to report infrastructure and are not subject to the infrastructure threshold.

It is intended that the thresholds are applied to individual assets and not to an aggregate of assets.

Depreciation

Capital assets should be depreciated over their estimated useful lives. Estimated useful lives are based on industry standards or other “standardized” measures when industry standards are not available. The following ranges for useful lives are used in absence of industry guidance:

Infrastructure	10-50 years
Buildings & Building Improvements	20-50 years
Equipment	2-20 years
Vehicles	3-10 years

When a capital asset reaches a net book value of zero, it must continue to be reported until the asset is physically disposed of.

- ***Straight-line*****:** The straight-line depreciation method should be used unless assets are either inexhaustible (land and certain land improvements) or are infrastructure assets reported using the modified approach. Land improvements that produce permanent benefits (e.g. fill and grading costs) are not depreciable, while improvements that deteriorate with use or the passage of time (e.g. parking lots and fencing) are subject to depreciation.

At a minimum, depreciation should be calculated on a monthly basis and allocated from the month in which the asset was acquired. It is acceptable to be more precise and calculate depreciation based upon the day the asset was received.

- ***Modified approach (infrastructure):*** The modified approach applies exclusively to infrastructure assets that are part of a network or subsystem of a network. This can exclude infrastructure assets from depreciation if certain requirements are met as defined in GASB 34 as amended.

  Upon implementation of GASB 34, the State of Iowa elected not to use the modified approach to reporting infrastructure. As a result, infrastructure is depreciated using the straight-line method.

Transfers

Assets transferred within the State of Iowa's reporting entity must continue to be reported at the original historical cost. Additionally, the balance of accumulated depreciation must transfer with the asset. Money exchanged for a transferred asset is not relevant to the transaction for financial reporting purposes in the ACFR (there is no "sale and purchase," even if cash was paid). The asset should be depreciated over the remaining estimated useful life. This useful life should be evaluated to determine if it should be adjusted after the transfer occurs.

Disposal

When capital assets are sold or disposed of, it is necessary to calculate and report a gain or loss. The gain/loss is calculated by subtracting the net book value (historical cost less any accumulated depreciation) from the net amount realized on the sale or disposal.