



LSL

“Back to Basics” **WEBINAR**

Capital Assets

1 CPE CREDIT

Tue, June 17
10:00AM PST

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Your Presenter



Nielsine Sherk, CPA
Senior Manager, Assurance & Advisory

Agenda

1. Overview of Capital Asset
2. Additions of Capital Asset
3. Depreciation of Capital Assets
4. Disposals of Capital Assets
5. Financial Reporting and Rollforward

Overview of Capital Assets

- *Capital Assets* are assets that used in operations with a useful life in excess of one year.



Major Classes of Capital Assets

Construction in Progress (CIP)	Costs of projects under construction, not yet in use.
Land	Always capitalized separately, even if associated with another asset like a building.
Buildings	Structures used in operations, typically depreciated over time.
Improvements Other Than Buildings	Permanent enhancements not part of the main building.
Furnishing and Equipment	Movable items with shorter useful lives than buildings. Also referred to as Machinery and Equipment or Vehicles and Equipment.
Infrastructure	Long-lasting assets like roads and bridges that form the backbone of government services.
Other Capital Assets	Miscellaneous assets not included in the above categories.

Capitalization Policies

- Cost Threshold Tangible or Intangible Asset exceeds the **capitalization threshold**.
 - Generally, applies to individual items, but can apply to groups of assets.
- Useful Life: Tangible or Intangible Asset has a useful life extending beyond one year and establishes minimum useful life for different capital asset types.

POLLING QUESTION #1

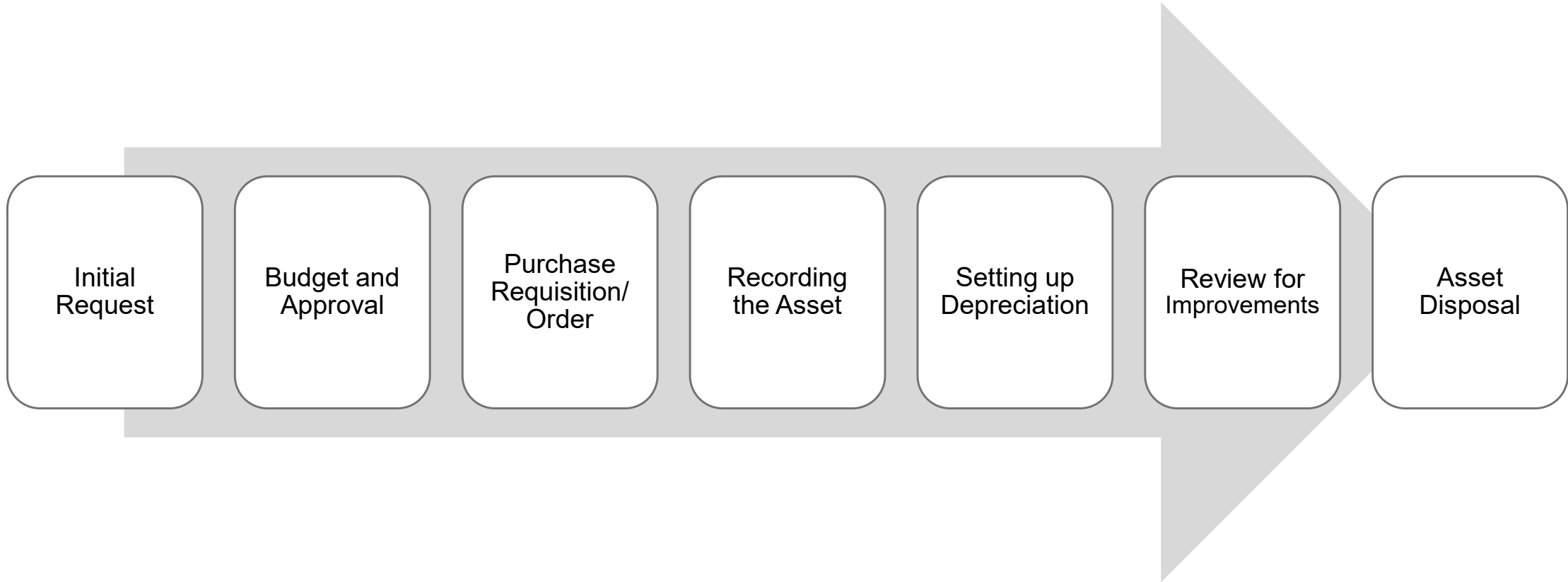
Which of the following is NOT considered a major class of capital assets?

- A. Land
- B. Buildings
- C. Inventory
- D. Equipment

Capitalization (Auditor Perspective)

- Capitalizing ineligible expenditures/expenses
- Not capitalizing a project in the year, it is placed in service
- Including items not received by 6/30 as additions
- Omitting capital outlay expenditure items in comparison to total additions listing
 - Compare total capital outlay per GL to total asset additions prior to audit and scan repairs & maintenance accounts
- Informal policy recommendations
 - Add language/thresholds for GASB 87 and 96 right-to-use assets
 - Incorrectly applying thresholds in other areas
 - Updating verbiage and thresholds to mirror financial statements

Steps in the Acquisition Process



Recording Acquisition Costs

What Costs Should be Capitalized?	
Direct Costs:	Ancillary Costs:
<ul style="list-style-type: none">• Purchase Price• Legal Fees• Closing Costs• Land Preparation	<ul style="list-style-type: none">• Transportation• Installation and Setup• Insurance during transit or installation
Costs Not to Be Capitalized:	
<ul style="list-style-type: none">• Feasibility Studies• Training Costs• Interest Costs	

Example: Purchase of Equipment

The County's Public Works Department needs new equipment to help with street maintenance tasks and personnel will need training on how to use it.

- The County purchases the equipment for \$60,000
- Delivery and Handling: \$1,500
- Installing a toolbox and safety lights: \$3,500
- Registration and Licensing Fees: \$500
- Initial Training: \$1,000

Total historical cost is \$65,500.

Journal Entries:

Modified Accrual:

Dr. Capital Outlay	\$66,500
Cr. Cash	\$66,500

Full Accrual:

Dr. Equipment	\$65,500
Cr. Capital Outlay	\$65,500
(or cash/liability for Enterprise Fund)	

Donated Infrastructure

Acquisition Value: Donated infrastructure should be recorded at its *acquisition value as of the date of donation*.

Capitalization:

- Donated infrastructure is capitalized just like purchased infrastructure.
- Include it in the capital asset records and apply appropriate depreciation over its useful life.

Example: Donated Infrastructure

A developer completed a new residential subdivision and donates the infrastructure to the County. The infrastructure is valued at \$450,000, based on construction costs documented provided by the developer.

Estimated acquisition value is \$450,000.

Journal Entries:

Modified Accrual:

No Entry

Full Accrual:

Dr. Infrastructure	\$450,000
Cr. Contribution	\$450,000

Capital Asset Additions – Audit Process

- Depreciable and non-depreciable typically sampled separately.
 - Statement of Net Position ACFR line items.
- Ensure copies of checks, invoices, and receiving documentation are available by request.
 - Compiling supporting documentation on a network drive throughout the year (quarterly) may ease the burden to pull support come fieldwork.
- Ensure accurate expense listing of capitalized Enterprise Fund CIP is available to sample.

“Best Practices” for Additions

1. Regular Reviews and Updates
2. Cross-Department Collaboration
3. Accurate and Timely Recording
4. Managing Large-Scale Projects

POLLING QUESTION #2

What acquisition costs should NOT be capitalized?

- A. Legal Fees
- B. Purchase Price
- C. Transportation
- D. Feasibility Studies

Overview of Depreciation

- Depreciation is the process of allocating the cost of a capital asset over its useful life.
- Key Considerations: Useful Life, Salvage Value, and depreciation Start Date.
- Straight-line method is the most common depreciation method.

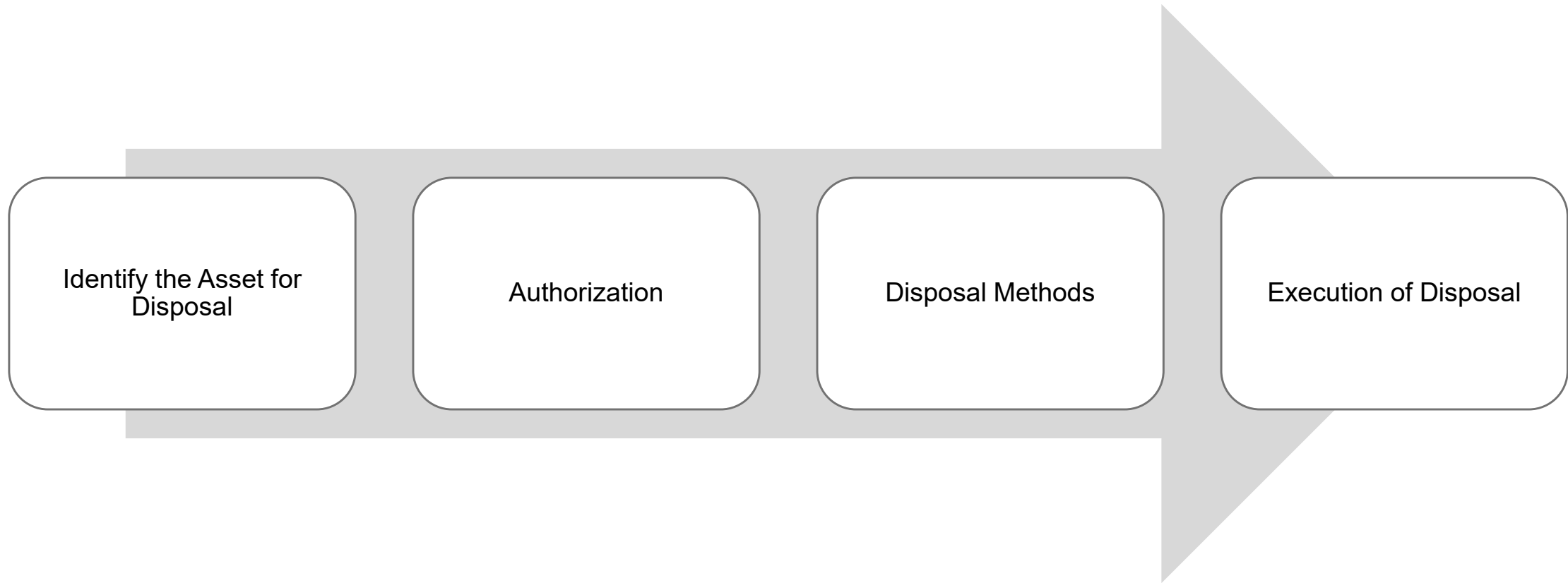
Depreciation (Auditor Perspective)

- Auditors will perform varying tests over depreciation.
 - Ratios, recalculations, assessment of reasonableness.
- Ensure listing of itemized assets with individual annual depreciation expense calculations are available.
- Review fully depreciated assets as of year-end date to have available by request.
- Perform cursory reviews of useful lives to ensure ranges are in line with policy.

Depreciation Best Practices

1. Regular Reviews
2. Reconciliation
3. Maintain Records

Disposal Process Overview



Disposal Process – Audit Notes

- Retain notice of completion approvals for CIP transfers from CIP into depreciable asset category (commonly infrastructure).
- Ensure supporting documentation is maintained:
 - Oversight approval of surplus equipment designation
 - Auction sale approval
 - Copies of checks, receipt remittance, deposit detail
- Gain/loss support maintained for depreciation to date less sale proceeds.

Example: Disposal

A County vehicle purchased for \$35,000 reaches the end of its useful life after 10 years of service. The vehicle is identified for disposal, approved by the relevant department, and sold at auction. Proceeds of \$2,000 are recorded from the sale.

Journal Entries:

Modified Accrual:

(record cash on sale)

Dr. Cash	\$2,000
Cr. Proceeds from Sale	\$2,000

Full Accrual:

Dr. Vehicle – A/D	\$35,000
Cr. Vehicle	\$35,000

POLLING QUESTION #3

A County purchases machinery for \$50,000 and expects it to have a useful life of ten years with no residual value. Using the straight-line method, what is the annual depreciation expense?

- A. \$5,000
- B. \$4,000
- C. \$10,000
- D. \$2,500

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		Beginning Balance	Adjustments	Adjusted Beginning Balance	Transfers	Increases	Decreases	Ending Balance		Balance Per GL	Difference	
5												
6												
7												
8												
9												
10	Capital assets, not being depreciated:											
11	Land											
12	City	24,621,646	-	24,621,646				24,621,646		24,621,646	-	9200-00-00-000-000000-140100-
13	Land	24,621,646	-	24,621,646	-	-	-	24,621,646				
14												
15												
16	Construction/Subscription-in-progress											
17	City	13,494,388		13,494,388	(11,777,887)	6,273,005	616,919	7,372,587		7,372,587	-	9200-00-00-000-000000-140700-
18	City SIP	-	-	-	-	298,413	-	298,413		298,413	-	9200-00-00-000-000000-140710-
19	Information Technology (SIP)	-	-	-	-	259,368	-	259,368		259,368	-	4100-00-00-000-000000-140710-
20	Construction/Subscription-i	13,494,388	-	13,494,388	(11,777,887)	6,830,786	616,919	7,930,368				
21												
22												
23												
24	Total capital assets not being depreciated	38,116,034	-	38,116,034	(11,777,887)	6,830,786	616,919	32,552,014				
25												
26												
27	Capital assets, being depreciated:											
28	Buildings											
29	City	106,458,297	-	106,458,297		-	-	106,458,297		106,458,297	-	9200-00-00-000-000000-140200-
30	Buildings	106,458,297	-	106,458,297	-	-	-	106,458,297				
31												
32												
33												
34	Structures other than buildings											
35	City	38,561,659	-	38,561,659	166,857		-	38,728,516		38,728,516	-	9200-00-00-000-000000-140210-
36	Structures other than buildir	38,561,659	-	38,561,659	166,857	-	-	38,728,516				
37												
38												
39												
40	Machinery and equipment											
41	City	3,996,550	-	3,996,550		87,095	466,662	3,616,983		3,616,983	-	9200-00-00-000-000000-140400-
42	Equipment Maintenance (4200)	1,200,436	-	1,200,436	-	89,978	37,979	1,252,435		1,252,435	-	4200-00-00-000-000000-140400-
43	Data Processing (4100)	1,648,112	1,751,909	3,400,021	-	17,160	373,459	3,043,722		3,043,722	-	4100-00-00-000-000000-140400-
44	Machinery and equipment	6,845,098	1,751,909	8,597,007	-	194,233	878,100	7,913,140				
45												
46	Vehicles											
47	Equipment Maintenance (4200)	5,312,534	-	5,312,534	-	513,766	231,587	5,594,713		5,594,713	-	4200-00-00-000-000000-140300-
48	Vehicles	5,312,534	-	5,312,534	-	513,766	231,587	5,594,713				
49												
50												
51												
52	Pipeline in service											
53	City	217,375	-	217,375	-	-	-	217,375		217,375	-	9200-00-00-000-000000-140510-
54	Pipeline in service	217,375	-	217,375	-	-	-	217,375				
55												
56												
57												
58	Utility plant in service											
59	City	89,080	-	89,080	-	-	-	89,080		89,080	-	9200-00-00-000-000000-140500-
60	Utility plant in service	89,080	-	89,080	-	-	-	89,080				
61												
62												
63												
64	Infrastructure											
65	City	285,366,510	-	285,366,510	7,007,900	-	-	292,374,410	285,366,510.00	292,374,410	-	9200-00-00-000-000000-140610- to 9200-00-00-000-000000-140630
66	Storm Drain Infrastructures	44,463,553	-	44,463,553	4,603,130	-	-	49,066,683		49,066,683	-	9200-00-00-000-000000-140640-
67	Infrastructure	329,830,063	-	329,830,063	11,611,030	-	-	341,441,093				
68												
69												
70	Right-to-Use Assets											
71	City - SBITAs	-	16,990	16,990	-	87,014	-	104,004		104,004	-	9200-00-00-000-000000-140900
72	Equipment Maintenance - SBITAs	-	-	-	-	38,219	-	38,219		38,219	-	4200-00-00-000-000000-140900-
73	Information Technology - SBITAs	-	400,111	400,111	-	54,427	-	454,538		454,538	-	4100-00-00-000-000000-140900
74		-	417,101	16,990	-	179,660	-	596,761				

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Less accumulated depreciation								
Buildings								
City	35,050,057	-	35,050,057	-	2,890,579		37,940,636	-
Buildings	35,050,057	-	35,050,057	-	2,890,579	-	37,940,636	9200-00-00-000-000000-149200-
Structures other than buildings								
City	20,577,514	-	20,577,514	-	1,376,248		21,953,762	-
Structures other than buildir	20,577,514	-	20,577,514	-	1,376,248	-	21,953,762	9200-00-00-000-000000-149210-
Machinery and equipment								
City	2,875,035	-	2,875,035	-	277,547	457,715	2,694,867	-
Equipment Maintenance (4200)	1,117,634	-	1,117,634	-	71,410	37,980	1,151,064	-
Data Processing (4100)	1,216,558	-	1,216,558	-	163,684	373,131	1,007,111	-
Machinery and equipment	5,209,227	-	5,209,227	-	512,641	868,826	4,853,042	9200-00-00-000-000000-149400- 4200-00-00-000-000000-149400- 4100-00-00-000-000000-149400-
Vehicles								
Equipment Maintenance (4200)	4,116,564	-	4,116,564	-	315,193	181,677	4,250,080	-
Vehicles	4,116,564	-	4,116,564	-	315,193	181,677	4,250,080	4200-00-00-000-000000-149300-
Pipeline in service								
City	89,334	-	89,334	-	4,565		93,899	-
Pipeline in service	89,334	-	89,334	-	4,565	-	93,899	9200-00-00-000-000000-149510-
Utility plant in service								
City	18,772	-	18,772	-	1,848	-	20,620	-
Utility plant in service	18,772	-	18,772	-	1,848	-	20,620	9200-00-00-000-000000-149500-
Infrastructure								
City	207,368,710	-	207,368,710		9,209,910	-	216,578,620	-
Storm Drain Infrastructures	31,019,073	-	31,019,073		977,171	-	31,996,244	-
Infrastructure	238,387,783	-	238,387,783	-	10,187,081	-	248,574,864	9200-00-00-000-000000-149610 to 9200-00-00-000-000000-149640-
Right-to-Use Assets								
City - SBITAs	-	-	-	-	28,294	-	28,294	-
Equipment Maintenance - SBITAs	-	-	-	-	2,940	-	2,940	-
Informational Technology - SBITA:	-	-	-	-	129,711	-	129,711	-
	-	-	-	-	160,945	-	160,945	9200-00-99-997-000000-72005 4200-00-00-000-000000-149800- 4100-00-00-000-000000-149800-
Total accumulated depreciation/amortization	303,449,251	-	303,449,251	-	15,449,100	1,050,503	317,847,848	
Total capital assets being depreciated, net	183,864,855	2,169,010	185,633,754	11,777,887	(14,561,441)	59,184	183,191,127	
Governmental activities capital assets, net	221,980,889	2,169,010	223,749,788	-	(7,730,655)	676,103	215,743,141	

CIP Rollforward Example

Project Name	7/1/2023	Additions	Deletions	6/30/2024	Ongoing as of YE?
Project 1	200,000	350,000	-	550,000	Yes
Project 2	195,000	240,000	-	435,000	Yes
Project 3	375,000	120,000	(495,000)	-	No
Project 4	300,000	500,000	(800,000)	-	No
Project 5	275,000	200,000	-	475,000	Yes
Project 6	400,000	120,000	-	520,000	Yes
	1,745,000	1,530,000	(1,295,000)	1,980,000	

POLLING QUESTION #4

What do you find to be the hardest part of managing capital assets?

- A. Recording asset additions
- B. Identifying asset disposals
- C. Calculating depreciation
- D. Managing everything at once

Financial Statements (Display)

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Assets			
Current assets			
Cash and investments	\$ 91,563,683	\$ 21,923,150	\$ 113,486,833
Prepaid items	60	-	60
Receivables			
Taxes	327,784	-	327,784
Accounts	1,553,966	3,768,567	5,322,533
Accrued interest	3,385,891	-	3,385,891
Internal balances	698,134	(698,134)	-
Due from other governments	7,876,708	133,136	8,009,844
Land held for resale	800,000	-	800,000
Total current assets	106,206,226	25,126,719	131,332,945
Noncurrent assets			
Restricted assets			
Cash and investments	9,387,650	936,864	10,324,514
Cash and investments with fiscal agents	1	2,213,477	2,213,478
Notes and loans receivable	16,333,718	-	16,333,718
Leases receivable	5,565,013	-	5,565,013
Capital assets not being depreciated or amortized	74,682,920	54,326,338	129,009,258
Capital assets, net of depreciation and amortization	136,412,530	84,002,771	220,415,301
Equity in California Domestic Water Company	-	14,512,001	14,512,001
Total noncurrent assets	242,379,832	155,791,531	398,171,363
Total assets	348,586,058	180,918,250	529,504,308

Comprise 61% and 76% of total assets for Governmental Activities & Business-type Activities!

Comprise 66% of total assets!

Notes (Disclosure)

Tangible Asset; used in operations, but not depreciated

Tangible Asset; used in operations, being depreciated

Intangible Asset; used in operations, being amortized

	Beginning Balance As Restated	Transfers	Additions	Disposals	Ending Balance
Governmental activities:					
Capital assets, not depreciated					
Land	\$ 62,092,796	\$ -	\$ -	\$ -	\$ 62,092,796
Construction in progress	12,947,484	(3,266,589)	2,909,229	-	12,590,124
Total Capital Assets, Not Depreciated	75,040,280	(3,266,589)	2,909,229	-	74,682,920
Capital assets, being depreciated					
Structures and improvements	122,858,232	-	1,719,212	(414,524)	124,162,920
Equipment	21,396,043	-	2,448,765	(739,302)	23,105,506
Infrastructure	155,516,749	3,266,589	539,848	-	159,323,186
Total Capital Assets Being Depreciated	299,771,024	3,266,589	4,707,825	(1,153,826)	306,591,612
Less accumulated depreciation for					
Structures and improvements	(60,089,465)	-	(2,458,031)	160,895	(62,386,601)
Equipment	(15,604,219)	-	(850,918)	708,156	(15,746,981)
Infrastructure	(87,329,835)	-	(5,099,486)	-	(92,429,321)
Total Accumulated Depreciation	(163,023,519)	-	(8,408,435)	869,051	(170,562,903)
Right-to-use assets:					
Equipment	56,010	-	110,620	-	166,630
Subscription IT asset	246,357	-	84,746	-	331,103
Total Capital Assets Being Depreciated	302,367	-	195,366	-	497,733
Less accumulated amortization for					
Equipment	(28,691)	-	(2,451)	-	(31,142)
Subscription IT asset	-	-	(82,770)	-	(82,770)
Total Accumulated Amortization	(28,691)	-	(85,221)	-	(113,912)
Total Capital Assets Being Depreciated/Amortized, Net	137,021,181	3,266,589	(3,590,465)	(284,775)	136,412,530
Governmental Activities Capital Assets, Net	\$ 212,061,461	\$ -	\$ (681,236)	\$ (284,775)	\$ 211,095,450

Resources

- GFOA: Capitalization Thresholds for Capital Assets
<https://www.gfoa.org/materials/capitalization-thresholds-capital-assets>
- GFOA: Accounting for Capital Assets: A Guide for State and Local Governments (*available for purchase*)
- GFOA: Estimated Useful Lives of Capital Assets
<https://www.gfoa.org/materials/estimated-useful-lives-capital-assets>
- GFOA: Inventories of Tangible Capital Assets
<https://www.gfoa.org/materials/inventories-tangible-capital-assets>

Next Back to Basics Webinar

Thursday, June 26 at 10:00 am PST

Back to Basics | Bank Reconciliations

Steven “Berrett” Warnick, CPA – Senior Manager, Assurance & Advisory

You can sign up to register in the follow up email you will receive after this webinar. Please give up to 24 hours.

Questions?

Contact Nielsine



Nielsine Sherk, CPA
Senior Manager, Assurance & Advisory
Nielsine.Sherk@slcpas.com

Contact LSL



www.lslcpas.com



contact.us@lslcpas.com



(949) 829-8299

Our Offices

Irvine, CA – Headquarters

500 Technology Drive, Suite 350
Irvine, CA 92618

Sacramento, CA

2151 River Plaza Dr., Suite 150
Sacramento, CA 95833

The Woodlands, TX

21 Waterway Avenue, Suite 30089
The Woodlands, TX 77380