Department of Finance and Administration – Policy 33
Accounting for Capital Assets

Authority and Applicability

This policy statement, effective July 1, 2025, is issued by the Department of Finance and Administration in accordance with the authorities granted to it by TCA 4-3-1007, and is applicable to all state departments, agencies, boards and commissions (herein referred to as agency or agencies), with the exception of colleges and universities.

Objective

The State of Tennessee (the State) has a significant investment in capital assets such as land, buildings, land improvements, machinery and equipment (including furniture and fixtures, vehicles, works of arts and historical treasures), intangibles (e.g. computer software, right-to-use leases, subscription-based information technology arrangements (SBITAs)), infrastructure, and construction in progress. This policy statement, covering the accounting and financial reporting of capital assets, is to help ensure accounting for the State's capital assets in accordance with Generally Accepted Accounting Principles (GAAP) as promulgated by the Governmental Accounting Standards Board (GASB), and improve accountability and operational efficiencies in managing the State's assets.

This policy statement is not intended to address all matters that require consideration when establishing internal controls or assessing risk for capital assets, particularly in the area of property control (i.e., the efficiency, effectiveness and safeguarding of capital assets). Each agency is responsible for reviewing their business practices and processes to determine where risks exist and where and how controls can be established to mitigate risks in achieving the agency's objectives.

Definition and Scope

When cited in governmental accounting and financial reporting standards, the term, *capital assets*, includes land, improvements to land, easements, buildings, building improvements, vehicles, machinery, equipment, software, works of art and historical treasures, infrastructure, right-to-use leases, SBITAs, and all other tangible and intangible assets that are used in operations and that have initial useful lives extending beyond a single reporting period.

As a practical application of the materiality principle, not all capital assets with useful lives extending beyond a single reporting period are required to be reported in a government's statement of financial position. Items with extremely short useful lives or of small monetary value are properly reported as an expense or expenditure in the period in which they are acquired. When outlays for capital assets are reported on the statement of financial position, they are considered *capitalized*. The monetary criterion used to determine whether a capital asset should be capitalized is known as the *capitalization threshold*.

This policy statement is limited to the State's capitalized assets, those meeting the State's capitalization thresholds and minimum useful life or term. The Department of Finance and Administration, Policy 32, *Maintaining Control Over Items That Are Not Capitalized*, helps ensure that adequate property controls are in place over assets that do not meet the State's thresholds for financial reporting purposes.

General Policy

1) Resources

The State provides detailed information on the reporting, valuation and depreciation of capital assets in the State of Tennessee Capital Asset Guide (Capital Asset Guide), issued by the Department of Finance and Administration, Division of Accounts (Division of Accounts). The Capital Asset Guide is designed to assist agencies in completely and accurately recording and properly reporting capital assets in their respective funds, and agencies are required to account for their capital assets in accordance with this guide.

2) Fundamental Principles

a) Accounting and Reporting

Purchases of capital assets are recorded as expenditures and reclassified from expenditures to assets through fiscal year-end adjustments for financial reporting in the State's Annual Comprehensive Financial Report.

Capital assets used in fiduciary or proprietary (enterprise and internal service) funds are reported in each of the respective funds. All other capital assets are reported as expenditures in the governmental fund financial statements but are reclassified to capital assets in the government-wide financial statements.

b) Valuation and Capitalization

Capital assets are valued based on their classification. Most assets are reported at historical cost, which includes the purchase price and any ancillary charges necessary to place the asset into its intended location and condition for use. Right-to-use lease assets and SBITAs are valued at the present value of future payments, along with any capitalizable initial costs and payments made before commencement of the term. Donated assets are recorded at acquisition value, representing the price that would be paid to acquire an asset with equal service potential.

The valuation and capitalization methods for different asset types are outlined below:

Asset Type	Valuation Method	Capitalization Threshold
Infrastructure	Historical Cost	No threshold
Land, Land Improvements and Easements	Historical Cost	No threshold
Building, Building Improvements, and Improvements Other Than Buildings	Historical Cost	$10,000
Equipment	Historical cost	$10,000
Small Grouped Assets (Computers)	Historical cost	No threshold
Commercially Available Off-The-Shelf Software (COTS)	Historical cost	$10,000
Trademarks, copyrights, and patents	Historical cost	$10,000
Internally Generated Computer Software	Estimated Total Project Costs incurred during development stage	$1,000,000
Other internally generated intangibles	Estimated Total Project Costs incurred during development stage	$1,000,000
SBITAs	Total of subscription payments and capitalizable initial costs	$200,000 & term > 12 months
Right-to-Use Leases	Total lease payments and initial direct costs	$15,000 & term > 12 months

The State's capitalization thresholds apply to GAAP financial reporting requirements only. Assets acquired in whole or in part with federal funds should follow the applicable federal regulations to determine when a particular purchase may be expensed against federal programs and when it must be amortized or depreciated over the life of the asset.

c) Depreciation/Amortization

Depreciation/amortization is the systematic and rational allocation of the cost of a capital asset over its estimated useful life. Capital assets are depreciated/amortized unless they have an indefinite useful life (e.g. land, certain intangibles) or are infrastructure assets as described in the Special Considerations section of this policy.

Depreciation/amortization is calculated using a straight-line methodology and estimated useful life guidance has been established for the major classifications of depreciable capital assets. This guidance is detailed in the Capital Asset Guide and is required to be used unless a shorter or longer estimated useful life is justified based on factual circumstances, environmental conditions, replacement policy, or industry practice.

3) Special Considerations

a) Leases and SBITAs

Accounting and financial reporting for the assets involved with leases and SBITAs will be completed in accordance with the standards established by the GASB (as more fully explained in the Capital Asset Guide).

b) Disposals or Termination of Capital Assets

When an asset is fully disposed of before it is fully depreciated, including lost and stolen assets, a gain or loss on the disposition must be recognized. The gain or loss should be the difference between the net book value (historical cost less accumulated depreciation) and the proceeds from the disposition, considering any expenses of the disposition as well. In the case of termination of a lease or SBITA, a gain or loss is the difference between the value of the carrying asset and the liability.

When a capital asset is traded in, the trade-in value of the old asset is added to the amount expended to reflect the full acquisition cost of the new capital asset.

Disposition of capital assets must be processed through the Department of General Services, Vehicle and Asset Management Division, in accordance with state laws. When an asset is missing and cannot be accounted for, the accountable agency should immediately notify the Office of the Comptroller of the Treasury in accordance with TCA 8-4-119 or 8-19-501. Additionally, missing assets must be formally retired by completing and submitting a Capital Asset Retirement Request and submitting it to the Division of Accounts, Asset Management section.

c) Impairment

A capital asset, except right-to-use leases and SBITAs, is considered to be impaired when its service utility has permanently declined significantly and unexpectedly. Events or changes in circumstances that may be indicative of impairment include evidence of physical damage, changes in legal or environmental factors, technological changes or evidence of obsolescence, changes in manner or duration of use of a capital asset and construction stoppage. Right-to-use leases and SBITAs are considered impaired if there is a significant decline in the manner or duration of use of the underlying asset. All impairments should be reported to the Division of Accounts, Asset Management section.

d) Additions and Improvements

An addition or improvement, unlike a repair, either enhances a capital asset's functionality (i.e., effectiveness or efficiency) or it materially extends a capital asset's expected useful life.

Additions (e.g., a new wing to a building) represent a new asset and must equal or exceed the standard threshold related to the major capital asset class to be capitalized. Improvements (e.g., a concrete floor for a wooden floor) represent a substitution of a better asset and must equal or exceed the standard threshold related to the major capital asset class to be capitalized.

Repairs and maintenance costs maintain the capital asset in its original operating condition and should be expensed when incurred.

e) Infrastructure

Infrastructure assets are long-lived capital assets that normally are stationary in nature and normally can be preserved for a significantly greater number of years than most capital assets. Examples of infrastructure assets include roads, bridges and right-of-way acres. Generally, infrastructure assets are capitalized regardless of cost or useful life and are reported and accounted for using a modified approach, an alternative to depreciation. Under the modified approach, depreciation expense is not recorded for these assets. Instead, costs for both maintenance and preservation of these assets are expensed in the period incurred.

f) Exchanges with Other State Agencies

When a state agency transfers capital assets to another state agency, regardless of whether consideration was or was not exchanged between the two agencies, the capital asset is transferred to the buying/receiving agency from the selling/donating agency using the net book value at the time of the transfer.

Exceptions

Exceptions to this policy require approval by the Department of Finance and Administration, Division of Accounts Deputy Chief of Accounts.

Approval of the Commissioner of Finance and Administration

I, James E. Bryson, hereby approve Policy 33 of the Department of Finance and Administration and authorize actions necessary to implement its requirements.

Signed____ Date_June 16, 2025________

James E. Bryson, Commissioner
Department of Finance and Administration

Approval of the Comptroller of the Treasury

I, Jason E. Mumpower, hereby approve Policy 33 of the Department of Finance and Administration and authorize actions necessary to implement its requirements.

Signed____ Date_June 24, 2025_____________

Jason E. Mumpower, Comptroller
Office of the Comptroller of the Treasury