



County Technical Assistance Service

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Capitalization Thresholds

Dear Reader:

The following document was created from the CTAS electronic library known as e-Li. This online library is maintained daily by CTAS staff and seeks to represent the most current information regarding issues relative to Tennessee county government.

We hope this information will be useful to you; reference to it will assist you with many of the questions that will arise in your tenure with county government. However, the *Tennessee Code Annotated* and other relevant laws or regulations should always be consulted before any action is taken based upon the contents of this document.

Please feel free to contact us if you have questions or comments regarding this information or any other e-Li material.

Sincerely,

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Capitalization Thresholds

Reference Number: CTAS-1977

The management of the county must determine the capitalization thresholds for county-owned assets. There are no authoritative pronouncements as to the exact threshold amount or the manner in which a capitalization policy should be established and applied. However, management's capitalization policies should be adopted with the mindset that an appropriate balance should be achieved ensuring that all material capital assets, collectively, are capitalized while simultaneously being mindful to minimize the cost of recordkeeping for capital assets. Counties should strive to use the lowest reasonable capitalization threshold. Keep in mind that all debt issued will be reported without any type of threshold. If a county sets its capitalization threshold too high, it runs the risk of materially misstating its financial statements.

Counties should seriously consider capitalizing all county-owned land, regardless of the amount. Since land does not depreciate, the capitalized land will generally be a permanent increase to the county's total assets. Also, through GASB 34 implementation, numerous counties have been able to identify land that management was previously unaware it owned. These "newly found" assets were either used by management or were sold as surplus, providing funds for various county needs.

Whatever capitalization threshold is decided upon, county management should remember that while it is their responsibility to determine threshold amounts, it is a responsibility of the independent auditor to determine if the county's financial statements materially reflect the accurate financial position of the county.

Source URL: <https://eli.ctas.tennessee.edu/reference/capitalization-thresholds>

