



Municipal Technical Advisory Service
INSTITUTE *for* PUBLIC SERVICE

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Valuing Capital Assets

Dear Reader:

The following document was created from the MTAS website ([mtas.tennessee.edu](https://www.mtas.tennessee.edu)). This website is maintained daily by MTAS staff and seeks to represent the most current information regarding issues relative to Tennessee municipal 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 municipal 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 MTAS website material.

Sincerely,

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After conducting and reducing to paper a complete physical inventory, the next step is to assign a dollar value to each capital asset identified. Where possible, capital assets should be recorded at historical cost. While this step can be time consuming, actual costs usually can be found through searching prior years' financial records and source documents. The objective is to determine the initial investment, not the present market or replacement value. If you cannot determine cost, the following alternatives can be used, in this order, to determine the value of capital assets:

1. Estimated market value at the time of purchase or construction; or
2. Fair market value (or appraised value) at the time when establishing the capital asset records.

During GASB Statement 34 implementation, Phase 1 and Phase 2 cities had to go back to 1981 to pick up infrastructure assets. Phase 3 cities — those with less than \$10 million in revenues recorded in their fiscal year 1999 audit — simply picked up new infrastructure from the date of implementation. GASB Statement No. 51 had the identical implementation phase in for intangible assets as used for GASB Statement No. 34. If no historical records exist or fair market value cannot be determined, a city could take current replacement costs and deflate the amount using a pertinent index such as the Consumer Price Index. If no better records exist, a city could hire an expert to estimate cost. Finance personnel could consult an external auditor during this process to determine if their cost data are acceptable for financial statement presentation.

DISCLAIMER: The letters and publications written by the MTAS consultants were written based upon the law at the time and/or a specific sets of facts. The laws referenced in the letters and publications may have changed and/or the technical advice provided may not be applicable to your city or circumstances. Always consult with your city attorney or an MTAS consultant before taking any action based on information contained in this website.

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