

Capital Asset Policy for Financial Reporting Purposes in Government

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Sources and Acknowledgments

First – State of Indiana, State Board of Accounts, Accounting and Uniform Compliance Guidelines for Counties – Financial Reporting Requirements

Second – Governmental Accounting Standards Series, No. 171-A, Statement No. 34 of the Governmental Accounting Standards Board, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Government*

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State of Indiana, State Board of Accounts, *Accounting and Uniform Compliance Guidelines Manual for Counties of Indiana* – Financial Reporting Requirements

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Counties Manual – continued

◆ *SBOA Accounting and Uniform Compliance Manual for Counties Disclosure Requirements*

- Capital Assets
 - ◆ Every unit must have a capital asset policy that details capitalization threshold
 - ◆ Every unit must have a complete listing of all capital asset owned reflecting acquisition value

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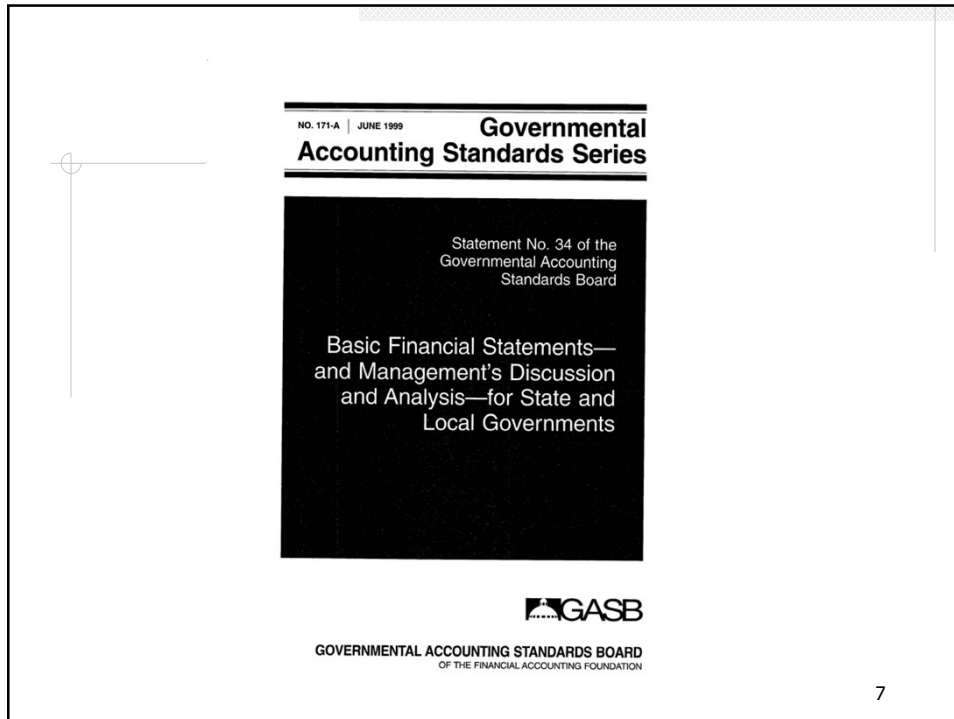
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Counties Manual – continued

- Capital Assets
 - (...mentioned again later in document)
 - ◆ A complete physical inventory must be taken every two years, unless more stringent requirements exist to verify account balances (comments)

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Capital Assets for Financial Reporting

- ◆ GASB Statement No. 34 General Disclosure Requirements
 - Capital assets should be reported at historical cost. The cost of a capital asset should include ... all costs that are directly attributable to asset acquisition. Donated capital assets should be reported at their estimated fair value at the time of acquisition plus ancillary charges, if any

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continued

◆ GASB Statement No. 34 General Disclosure Requirements

- ... the term capital assets includes land, improvements to land, easements, buildings, building improvements, vehicles, machinery and equipment, works of art and historical treasures, and all other tangible and intangible assets used in operations and have useful lives beyond a single reporting period

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continued

◆ GASB Statement No. 34 General Disclosure Requirements

- ... the term capital assets also includes infrastructure assets such as roads, rights-of-way, bridges, tunnels, drainage systems, water and sewer systems, dams, and lighting systems, (and potentially traffic signals, sidewalks, alleys)

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continued

◆ GASB Statement No. 34 General Disclosure Requirements

- ... 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

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continued

◆ GASB Statement No. 34 General Disclosure Requirements

- Capital Assets should be depreciated over their estimated useful lives
- Depreciation expense is to be reported and measured by allocating the net cost of depreciable assets over their estimated useful lives in a systematic and rational manner

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continued

◆ GASB Statement No. 34 General Disclosure Requirements

- The policy for capitalizing assets and for estimating the useful lives of those assets (used to calculate depreciation expense) is a general disclosure requirement
- Current-period depreciation expense reporting is a Required Note Disclosure

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continued

◆ GASB Statement No. 34 General Disclosure Requirements

- Capital assets that are being or have been depreciated should be reported net of accumulated depreciation in the statement of net assets.
- Capital assets should be depreciated over their estimated useful lives
- Land should not be depreciated

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continued

◆ GASB Statement No. 34 General Disclosure Requirements

- Information presented about major classes of capital assets:
 - ◆ Beginning- and end-of-year balances with accumulated depreciation presented separately from historical cost
 - ◆ Capital acquisitions

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continued

◆ GASB Statement No. 34 General Disclosure Requirements

- Information presented about major classes of capital assets, continued:
 - ◆ Sales or other dispositions
 - ◆ Current-period depreciation expense, with disclosure of the amounts charged to each of the functions in the statement of activities

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Part II

First – Analysis

Second – Examples

Third – Management Decisions

Fourth – Additional Issues and
Considerations

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Analysis and Allocation of Asset Account Balances

- ◆ By dollar amount
- ◆ By percentage of total
- ◆ This high level analysis takes minutes
- ◆ This process can assist setting priorities

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County Example

Where's the Money

• Land/Rights of Way	\$ 5,102,571
• Infrastructure	84,509,050
• Buildings	11,172,152
• Improvements other	146,342
• Equipment/vehicles	11,043,812
• Software	2,209,632
• Construction-in-Progress	<u>7,557,350</u>
	\$121,740,909

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County Example

Money by percentage of total

• Land/Rights of Way	.042
• Infrastructure/ROW	.694
• Buildings	.092
• Improvements other	.001
• Equipment/vehicles	.091
• Software	.018
• Construction-in-Progress	<u>.062</u>
	100.00%

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County Example

Equipment and Vehicles by dollar amount and percentage impact of increasing capitalization threshold (for example) to \$25,000

- Equipment/Vehicles = \$11,043,812 represents 9% of total capital assets of \$121,740,909
 - Equipment = about \$6,500,000
 - Vehicles = about \$4,500,000
 - Equipment = only 36 items are over \$25,000 and equal 5% of all capital assets
 - Equipment = 46 assets are under \$25,000 and equal 4/10ths of 1% of all capital assets

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Capital Asset Policy

◆ Capital Asset Accounting MANAGEMENT DECISIONS

- These are your capital assets
- This is your financial reporting
- Your Policy is a series of and statement of 'your management decisions'

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Capital Asset Policy

◆ Capital Asset Accounting MANAGEMENT DECISIONS

- Again, per the Governmental Accounting Standards Board in Statement No. 34 you must disclose in your policy
 - ◆ Capitalization threshold
 - ◆ Determination of estimated useful lives
 - ◆ How depreciation is to be calculated (straight/line method, no salvage, full-year/convention)

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Capital Asset Policy

◆ Capital Asset Accounting MANAGEMENT DECISIONS

■ Examples of Capitalization Thresholds

◆ Land	n/a
◆ Improvements to Land	\$25,000
◆ Buildings	\$100,000
◆ Furnishings/Equipment	\$20,000
◆ Vehicles	\$20,000
◆ General Infrastructure	\$100,000

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Capital Asset Policy

◆ Capital Asset Accounting MANAGEMENT DECISIONS

■ Examples of Asset Estimated Useful Lives

- | | |
|--------------------------|-----------------|
| ◆ Land | non-depreciable |
| ◆ Improvements to Land | 20 years |
| ◆ Buildings | 50 years |
| ◆ Furnishings/Equipment | 5 years |
| ◆ Vehicles | 5 - 15 years |
| ◆ General Infrastructure | 50 - 100 years |

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Capital Asset Policy

◆ Capital Asset Accounting MANAGEMENT DECISIONS

- Lining best based on your experience and that of your government's departments
- You can choose no salvage
- You can choose depreciation method and convention
- Reference allocation over time

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Capital Asset Policy

◆ Capital Asset Accounting MANAGEMENT DECISIONS

- ... here is when and where to make the entire process easy – so go easy on yourself
- Important to think through from a management perspective
- Project and decide what we can do and be successful at

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Capital Asset Policy

◆ Capital Asset Accounting MANAGEMENT DECISIONS

- Annual reporting and updating of the property record and the determination and reporting of additions and retirements
- Thorough planning will make possible a productive process that is accurate, effective, and efficient

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Capital Asset Policy

◆ Capital Asset Accounting MANAGEMENT DECISIONS

- Decide what's important and what's not important
- Internal Control and getting departments involved with updating and with the property control of minor but sensitive items

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Capital Asset Policy – Issues and Considerations

◆ Recommended Practices of the Government Finance Officers Association

- Establishing Appropriate Capitalization Thresholds for Capital Assets (1997, 2001, and 2006)
- The Need for Periodic Inventories of Capital Assets (1997, 2001, and 2006)
- Ensuring Control over Noncapitalized Items (2005)

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Capital Asset Policy – Issues and Considerations

- ◆ Nothing Authoritative in the Accounting Literature
 - You have the latitude to make many decisions and, thus, to make the process easier
 - These are the 'management decisions' that are your opportunities and responsibilities to make

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Capital Asset Policy – Issues and Considerations

- ◆ Establishing a Capital Asset Policy
 - You do need the approval (Ordinance) of your elected officials and administration
 - Easier if you give auditors a 'heads up' as to your plans
 - This is where the whole process of accounting for capital assets can be made easier and do-able

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Capital Asset Policy – Issues and Considerations

◆ What is a Capital Asset

- A new capital asset that is on a unit basis at or above the established capitalization threshold in cost or acquisition value
- An improvement that increases capacity, efficiency, or extends the estimated useful life of an asset beyond the original expectation

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Capital Asset Policy – Issues and Considerations

◆ What is a Capital Asset

- An addition to a building provides additional square footage and increased capacity and the capital outlay is capitalized
- Newly constructed or totally reconstructed roads are capitalized
- Widening a road increases capacity and efficiency and is capitalized

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Capital Asset Policy – Issues and Considerations

◆ What is not a Capital Asset

- Expenditures that do not result in increased capacity, efficiency or extension of estimated useful life by improving an asset with a major structural change or alteration
- Repairs and maintenance

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Capital Asset Policy – Issues and Considerations

◆ What is not a Capital Asset

- Minor assets below that are below the established capitalization threshold on a unit basis are expensed in the current year
- Common building maintenance including painting, plumbing repairs, HVAC upgrades and the like are expensed in the current year
- Re-surfacing a road, while costly, does not increase capacity or efficiency and is expensed in the current year

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Capital Asset Policy – Issues and Considerations

◆ Policy document

- Determinations to be made
 - ◆ System for initial information and for annually updating data as to additions and retirements and a re-calculation of depreciation as to annual, accumulated, and net book value amounts
 - ◆ Excel works just fine and will become the tool for annual updating and reporting

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Capital Asset Policy – Issues and Considerations

◆ Information exists

- Buildings
- General Infrastructure
- Vehicles

◆ Information for annually updating the property record

- Additions centrally
- Retirements from departments

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Capital Asset Policy – Issues and Considerations

- ◆ Establishing historical cost and date of acquisition
 - Estimates are absolutely acceptable
 - ◆ Per GASB Statement Number 34
 - ◆ In general per accounting and financial reporting
 - ◆ Acceptable in past using normal and standard costing to estimate historical cost
 - ◆ Acceptable in past using vintages and other comparisons to age assets via estimates

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Capital Asset Policy – Issues and Considerations

- ◆ Establishing historical cost and date of acquisition
 - Per GASB Statement Number 34 estimates are absolutely acceptable
 - ◆ ... if determining the actual historical cost of ... assets is not practical because of inadequate records, governments should report the estimated historical cost for ... assets that were acquired or significantly reconstructed, or that received significant improvements, in fiscal years ending after June 30, 1980

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Capital Asset Policy – Issues and Considerations

- ◆ Establishing historical cost and date of acquisition
 - Per GASB Statement Number 34 estimates are absolutely acceptable
 - ◆ ... a government may estimate the historical cost of assets by calculating a current replacement cost of a similar asset and deflating this cost through use of price-level indexes to the acquisition year (or estimated acquisition year if the actual year is unknown)

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Capital Asset Policy – Issues and Considerations

- ◆ In all of this don't let the perfect get in the way of the good
- ◆ Don't forget ... done is better than perfect

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Capital Asset Policy – Issues and Considerations

- ◆ A word about accuracy
 - Good faith effort
 - Unless egregious errors your property record should be ok and acceptable
 - These are your government's capital assets to submit to your auditors (in light of your responsibility)

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Capital Asset Policy – Issues and Considerations

- ◆ A word about accuracy continued
 - Again your capital assets and your reporting BUT smart to run your decisions in this regard by your auditors – a bit of deference and avoidance of a surprise
 - (we can't forget that your capital asset total is the largest dollar amount in all of your Annual Financial Reporting)

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Capital Asset Policy – Issues and Considerations

- ◆ Reference in all of this to ...
 - ◆ Take a least-cost approach
 - ◆ Keep it simple
 - ◆ Do implementation in-house and capitalize on professional staff, available information, and extensive resources
 - ◆ Consider an internal staff member or external facilitator to drive the process

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The End

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