

# Accounting for Capital Assets – What Doesn't Work and What Works

Indiana Association of County Auditors  
Fall Conference  
Belterra Casino Resort  
Florence, Indiana  
October 24, 2018

# Accounting for Capital Assets – What Doesn't Work and What Works

Michael M. Nielsen

*Government Fixed Asset Services, Inc.*

Long Beach, Indiana 46360-1712

(219) 221 6147

(773) 298 0289

[nielsen@fixedassetservices.com](mailto:nielsen@fixedassetservices.com)

# Introduction and History

- ◆ Accounting and Reporting of Capital Assets for Financial Reporting
- ◆ Largest number in financials
- ◆ GAAP Compliance
- ◆ GASB Statement No. 34
- ◆ Governments have struggled but the challenges are avoidable

# Introduction and History

## ◆ Quote of a County Auditor:

“ ... our fixed assets were a mess and we had a \$100 capitalization threshold. With a little guidance we created a new asset policy and put a plan of action in place – this made a seemingly monstrous task simple, manageable, and attainable.”

# What Does Not Work

- ◆ Cause of age-old challenge
- ◆ Past implementations have not been systematic or well-planned
- ◆ Annual updating not efficient, timely, or comprehensive

# 1. Dated Policy

- ◆ Existing policy is too long and complicated
- ◆ Policy is not clear and difficult to understand
- ◆ Policy may have been 'borrowed' from another government
- ◆ Document needs definitions and examples
- ◆ Capitalization threshold and Recommended Practice and wording ... 'no less than'

## 2. Dated Property Record

- ◆ Recommended Practice says “take a look at integrity at least every five years”
- ◆ Database contains unreported retirements
- ◆ Database is missing previously unrecorded assets?
- ◆ In need of editing and possible need to re-classify assets

# 3. Insufficient Departmental Involvement

- ◆ All departments have fixed assets
- ◆ Fixed assets are central and necessary to provide governmental services
- ◆ Policy is not concise and clear
- ◆ Policy is not communicated to and understood by the departments
- ◆ Departments are crucial to initial implementation and annual updating



## 4. Too Much Attention Centrally to Smaller Assets

- ◆ Have not been honest about ability to control minor assets
- ◆ Responsible department does not get to set parameters and inclusions
- ◆ Current mix of 'control' and accounting issues
- ◆ Responsibility has not been delegated to departments
- ◆ Property record should be concise and manageable as a result of higher capitalization threshold

## 5. No maximization of efforts or Top-Down Approach

- ◆ Have never attempted high level analysis of \$ and %
- ◆ Abbreviated analysis of account and classification totals
- ◆ Per GASB and where is the money?

## 6. Unreported Retirements

- ◆ ... get them out of the property record!
- ◆ Risk of overstated balances
- ◆ Reflection on management
- ◆ Can reflect on integrity of property record
- ◆ Can lead to confusion

## 7. No Control of Minor but Sensitive Items at Department Level

- ◆ Items cannot be controlled centrally
- ◆ As stated, will only be possible at department level
- ◆ Refer to Recommended Practice on 'control of minor but sensitive items'
- ◆ May already being done by some departments (IT, Fire, Police) and need only to be formalized

## 8. No Definitions or Examples of Capital, Expense, Improvement, Repair, Maintenance

- ◆ Current policy is a 'vague' document
- ◆ Often 'boilerplate' with no real clarity
- ◆ Often no definitions – capital asset, improvement, repair/maintenance
- ◆ Often no examples – capital asset, expense, improvement, repair/maintenance
- ◆ Usually no examples (additions, retirements, partial retirements)

## 9. Inadequate or Non-existing Information on Construction-in-Progress

- ◆ Often no reporting
- ◆ Many questions regarding capital v. expense
- ◆ Questions on elements of historical cost, asset lifing, date of acquisition
- ◆ Either too much or too little detail

## 10. No Schedule or Timeline for Reporting Capital Assets at Year End

- ◆ Often wait until end of the year
- ◆ Often think about fixed assets after auditor suggestion
- ◆ Too late
- ◆ No timeline translates to problems
- ◆ Result leads to hurried and uncomprehensive data gathering


# Conclusion to What does Not Work

- ◆ Fixed assets are an issue with most governments
- ◆ Ref Conferences in 2014 at 400, and 2016 at 450, and 2017 at 500
- ◆ Challenge is needless
- ◆ Planning is extremely important
- ◆ Commitment of Administration and Finance is necessary



# What Works

- ◆ High level analysis and planning
- ◆ Start with a new policy and new procedures that spell out the who, what, where, when, how and why of the process
- ◆ Strive for simplicity
- ◆ Be honest about capabilities to implement and to annually update



**... DON'T LET THE PERFECT GET IN THE  
WAY OF THE GOOD**

**-YOGI BERRA**

# 1. New Capital Asset Policy and Procedures

- ◆ Simple
- ◆ Short
- ◆ Understandable
- ◆ Recommended Practices on capitalization threshold and on property control of minor but sensitive items

## 2. High Level Analysis of Existing Property Record

- ◆ Organization of data
- ◆ Consistency of classifications
- ◆ As stated, analysis of \$ and %
- ◆ Need for editing, roll-up, break-out, and check of classification and possible re-classification of assets
- ◆ Inclusion/exclusion

### 3. Communication with Departments

- ◆ Finance Department can't do it all
- ◆ Need for additions and retirements annually (and adjustments)
- ◆ Departments that use and maintain an asset have a responsibility to assist any related 'reporting'
- ◆ Need to be clear as to expectations and timing

## 4. 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

# Actual Mid-size County

## Where's the Money

• Land	\$ 857,652
• Infrastructure/ROW	85,598,074
• Buildings	14,930,643
• Improvements other	107,356
• Equipment/vehicles	6,561,663
• Software	<u>1, 187,095</u>
	\$109,242,483

# Actual Mid-size County

## Money by percentage of total

• Land	.008
• Infrastructure/ROW	.784
• Buildings	.137
• Improvements other	.001
• Equipment/vehicles	.060
• Software	<u>.011</u>
	100.00%



## 5. Establish Control of Minor but Sensitive Items

- ◆ Recommended Practice
- ◆ Departments to decide asset types and class codes to be included for control
- ◆ Not by dollar amount
- ◆ Really a 'control' and stewardship document and not subject to accounting data elements

## 6. Deal with Unreported Retirements Once and For all

### ◆ Abbreviated case study

- Adds centrally using claims process documentation to update listing to reflect current year
- Updated inventory then sent to each department for indication of retirements
- Process has worked for over 10 years

## 7. Definitions and Examples of Capital, Expense, Improvement, Repair, Maintenance

### ◆ Samples of definitions and examples

- A - increased capacity and efficiency
- B - extended useful life (beyond
- C - new asset meeting criteria for capitalization
- D - improvement

# Deciding What 'Is Not' a Capital Asset

- ◆ No Increased capacity or efficiency
- ◆ No extension of asset's estimated useful life beyond the original expectation
- ◆ Repairs and maintenance
- ◆ Specific written example of each can help in procedures documentation
- ◆ Minor assets below unit capitalization threshold

# Deciding What 'Is Not' a Capital Asset

- ◆ Common expense items for buildings:
  - Painting
  - Roof re-surfacing
  - Replace HVAC
  - Re-carpet
  - Plumbing repair and replacement
  - Upgrade electrical service
  - Landscaping

# Deciding What 'Is Not' a Capital Asset

- ◆ Common expense items for roads
  - Re-stripe
  - Replace culvert
  - Replace signage
  - Replace guardrail
  - Re-surface existing road
  - Bridge joint repair
  - Replace streetlight

# Deciding What 'Is' a Capital Asset

- ◆ New asset that meets all criteria for capitalization
- ◆ Increased capacity – adding square footage to an existing building
- ◆ Increased capacity – adding new lanes to an existing road
- ◆ Increased efficiency – same size etc., but service provided at less cost
- ◆ An extended estimated useful life usually involves a significant alteration or structural change and an extension beyond original useful life expectation

# Deciding What 'Is' a Capital Asset

- ◆ Specific written examples of each can help (in policy document and procedures documentation)
- ◆ Repairs and maintenance usually restore an asset to original service potential and does not necessarily comprise an improvement
- ◆ Potential checklist
- ◆ An improvement generally extends an asset's estimated useful life beyond the original expectation and involves a significant alteration or structural change



# Annual Additions

- ◆ Only assets at or above capitalization threshold (a separate and increased amount for building and general infrastructure improvements)
- ◆ Assets must meet criteria of an improvement
- ◆ Department must understand capital additions v. repairs and maintenance
- ◆ No capitalization of groups of minor assets

# 8. Policy and Procedures to Address Construction-in-Progress

- ◆ Apply the who, what, where, when, how, and why concept to the process
- ◆ Significance of CIP
- ◆ Good discipline for future capitalization of new asset and retirement of replaced asset
- ◆ Generally applies to buildings and general infrastructure

## 9. Formal Schedule for Annual Update

- ◆ With a 12-31-18 fiscal year end
  - 10-1-18 – gather information on additions
  - 10-15-18 – separate capital and expense
  - 11-1-18 – update report by department
  - 11-15-18 – send update to departments for retirements
  - 12-1-18 – update list
  - 12-31-18 – prepare financial report

# 10. Commitment to Annual Updating

- ◆ Administration, Finance, and Departments
- ◆ Additions centrally
- ◆ Retirements with departmental input
- ◆ Control of minor but sensitive done by departments

# Conclusion to What Works

- ◆ New/Improved policy and procedures
- ◆ Analysis of existing property record
- ◆ Get departments involved in process
- ◆ Where's the money?
- ◆ Control of minor items to departments

# Conclusion to What Works

- ◆ Get rid of unreported retirements
- ◆ Create definitions and examples for accuracy, clarity, efficiency
- ◆ Report construction-in-progress
- ◆ Adhere to schedule for annual update
- ◆ Administration, Finance, and Departmental commitment to annual update

# If You Remember Anything from Today's Presentation ...

- ◆ Streamline your fixed asset accounting
- ◆ Establish simple and clear policy and procedure documents
- ◆ Monitor your property record
- ◆ Commit to the annual update
- ◆ ... remember, you can do this!

# Two Important Miscellaneous Items

- ◆ Recommended Practices
- ◆ Purdue University/Government Fixed Asset Services, Inc. General Infrastructure Assistance Manual of 2004, updated 2006, and revised 2012



# Recommended Practices for the Financial Reporting of Capital Assets

1. Establishing appropriate capitalization thresholds
2. The need for periodic inventories
3. Control of noncapitalized items

# Inventory Example

Inventory columns A, B, C, D, E, G

	A	B	C	D	E	F	G	H	I	J	K	L	M	N	O	P	Q	R	S
9	Urban Local Roads Calculations													ROW for Urban Local Roads Calculations					
	Road Name	From	To	Length (miles)	Width (ft)	Year Constructed (before 1980 go to middle of decade)	Length x Width (yards <sup>2</sup> )	Replacement Cost Total (\$)	*Deflation for Year Constructed	** Historical Total Cost (\$)	Asset Life (years)	*** Annual Depreciation (\$)	Accumulated Depreciation (\$)	Net Book Value (\$)	**** Weighted Average Width of ROW (ft.) (Use 43.4' if value is not known)	ROW Area (Acres)	Total Fair Value per Acre for ROW (\$)	***** Deflation for Year Acquired for ROW (Used CPI-Deflator)	Historical Cost/Fair Value of ROW (\$)
10	Madson	500E	600E	2.2	20	2003	25,555	\$1,431,091	1.00	\$1,431,091	50	\$28,622	\$57,244	\$1,373,848	43.4	11.6	\$266,687	1.000	\$266,687
12	Jersey	Union Ch.	Hursh	1.9	22	1999	24,277	\$1,359,537	0.91	\$1,237,178	50	\$24,744	\$148,461	\$1,088,717	43.4	10.0	\$230,321	0.905	\$208,440
13	Akron	SR 1	Ohio Rd.	3.6	25	2000	52,272	\$2,927,232	0.97	\$2,839,415	50	\$56,788	\$283,942	\$2,555,474	43.4	19.0	\$436,397	0.936	\$408,468
14	Puff	CR 261	Frosh	0.9	25	1940	13,068	\$731,808	0.09	\$65,863	50		\$65,863		43.4	4.7	\$109,099	0.102	\$11,128
15	Popp	Sutton	500 E	2.7	22	1965	34,500	\$1,931,973	0.17	\$328,435	50	\$6,569	\$262,748	\$65,687	43.4	14.2	\$327,298	0.175	\$57,113
16	Deer Track	Manick Rd.	600E	7.9	20	1989	91,766	\$5,138,918	0.72	\$3,700,021	50	\$74,000	\$1,184,007	\$2,516,014	43.4	41.6	\$957,649	0.674	\$645,456
17	David	Hursh	Frosh	1.5	22	1909	19,166	\$1,073,318	0.03	\$32,200	50		\$32,200		43.4	7.9	\$181,832	0.035	\$6,310
18	Sunflower	Treelane	600E	6.1	25	2002	88,572	\$4,960,032	0.99	\$4,910,432	50	\$98,209	\$294,626	\$4,615,806	43.4	32.2	\$739,451	0.978	\$723,183
19	Farmland	100'w	SR 34	0.7	22	1954	8,944	\$500,882	0.15	\$75,132	50		\$75,132		43.4	3.7	\$84,855	0.147	\$12,465
20	Waldron	Treelane	250S	2.7	25	1968	39,204	\$2,195,424	0.17	\$373,222	50	\$7,464	\$276,184	\$97,038	43.4	14.2	\$327,298	0.175	\$57,113
21	51	SR 40	250S	7.9	22	1975	100,943	\$5,652,810	0.36	\$2,035,012	50	\$40,700	\$1,221,007	\$814,005	43.4	41.6	\$957,649	0.285	\$272,547
22	Newton	SR1	100'w	1.5	20	1974	17,424	\$975,744	0.36	\$351,268	50	\$7,025	\$217,786	\$133,482	43.4	7.9	\$181,832	0.285	\$51,749
23	Taylor	Frosh	Treelane	6.1	20	1964	70,858	\$3,968,026	0.17	\$674,564	50	\$13,491	\$553,143	\$121,422	43.4	32.2	\$739,451	0.175	\$129,034
24	Ross	Manick Rd.	Ohio Rd.	0.7	25	1932	10,164	\$569,184	0.06	\$34,151	50		\$34,151		43.4	3.7	\$84,855	0.077	\$6,559
45	If more rows are added please change the total sum equation.																		
46												Total Sum:	\$357,613	\$4,706,493	\$13,381,491			Total Sum:	\$2,856,253





# Questions and Comments

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