

Capital Assets and Accumulated Depreciation

Auditors' Spring Conference
May 2021

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Definition of Capital Asset

- GASB Statement 34 paragraph 19
 - *The term capital assets includes land, improvements to land, easements, buildings, building improvements, vehicles, machinery, equipment, works of art and historical treasures, infrastructure, and all other tangible or intangible assets that are used in operations and that have initial useful lives extending beyond a single reporting period.*



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Audit Position

- Guidance from Chapter 1 of the Accounting and Uniform Compliance Guidelines Manual for County Auditors:
 - *Every unit must have a capital assets policy that details the threshold at which an item is considered a capital asset. Every unit must have a complete detail listing of all capital assets owned which reflects their acquisition value. Capital Asset Ledger (Form 369) has been prescribed for this purpose. A complete physical inventory must be taken at least every two years, unless more stringent requirements exist, to verify account balances carried in the accounting records.*



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Current Requirements

- Capitalization Policy with Threshold
 - Threshold should be reasonable
 - Useful lives
- Current inventory of capital assets
 - Detail listing of capitalized items
 - Inventory of small but sensitive items (not capital assets)
- Two-year inventory or other control over accuracy of inventory
 - Additions and deletions



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CAPITAL ASSETS LEDGER

General Form No. 369 (Rev. 2019)

FUND _____

DEPARTMENT OR BUILDING _____

Date of Purchase	Description of Asset	Serial Number	Location of Asset	Original Cost of Asset	Estimated Life of Asset	Date of Disposal of Fixed Asset	Amount Received on Disposal or Trade in	Types of Capital Assets					Books and Other	Total Fixed Assets
								Land	Infrastructure	Buildings	Improvements Other Than Buildings	Machinery Equipment & Vehicles		
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SAMPLE



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Date of Purchase	Description of Asset	Serial Number	Location of Asset	Original Cost of Asset	Estimated Life of Asset	Date of Disposal of Fixed Asset	Amount Received on Disposal or Trade in	Types of Capital Assets					Books and Other	Total Fixed Assets	
								Land	Infrastructure	Buildings	Improvements Other Than Buildings	Machinery Equipment & Vehicles			Construction in Progress
1/1/1960	Courthouse		Courthouse Square	755,000	75 years			5,000.00		750,000.00					755,000
1/1/1960	Jail		E Main Street	906,000	50 years			6,000.00		900,000.00					906,000
4/30/1980	Only county road		00 EW 00NS	750,000	25 years				750,000.00						750,000
5/12/2014	Ford Pick-up with Plow Blade		Fleet Vehicle	65,000	10 years	12/7/2019	-					65,000			65,000
6/24/2018	Sheriff Vehicle		Fleet Vehicle	42,000	5 years							42,000			42,000
	Jail Project		E Main Street										1,725,000		1,725,000
12/31/2018								11,000	750,000	1,650,000	-	107,000.00	1,725,000	-	4,243,000
5/16/2019	Courthouse Parking Lot		W. Main Street	15,000	30 years			1,000.00				14,000			15,000
12/7/2019	Chevy Pickup with snow plow		Fleet Vehicle	70,000				-				70,000			70,000
11/15/2019	Renovation of Jail		E Main Street	2,000,000						2,000,000					2,000,000
12/31/2019								12,000	750,000	3,650,000	14,000	112,000.00	-		4,538,000



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Report Totals from Example

	Ending Balance
Governmental activities:	
Land	11,000
Infrastructure	750,000
Buildings	1,650,000
Machinery, equipment and vehicles	107,000
Construction Work In Progress	1,725,000
Total Governmental Activities	4,243,000
Total capital Assets	4,243,000



Supplemental Schedule in Audit Report

Capital assets are reported at actual or estimated historical cost based on appraisals or deflated current replacement cost. Contributed or donated assets are reported at estimated fair value at the time received.

	Ending Balance
Governmental activities:	
Land	\$ 2,716,100
Infrastructure	41,176,585
Buildings	25,718,700
Machinery, equipment, and vehicles	<u>12,121,897</u>
Total governmental activities	<u>81,733,282</u>
Total capital assets	<u><u>\$ 81,733,282</u></u>



Land

- Land is often closely associated with another asset
 - Land under a building
 - Land purchased for a road
- Land should always be classified separately and not part of the cost of the other asset
- Records must include a description, amount of acreage (if relevant), acquisition date and purchase price.
- Land is assumed to have an indefinite life and is not depreciated
- Usually, all land is capitalized.



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Infrastructure

- Physical systems of government; Examples include highways and roads, bridges, storm water and drainage, communication networks, water and sewer systems, dams and lighting systems
- Relative longer useful lives
- Non moveable
- Highway Department usually tracking roads and bridges and can provide best estimate of useful lives



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Buildings

- Permanent Structures
- A capital asset account for buildings must reflect the location or each building and the purchase price or construction cost of improvements, if applicable. If a building is acquired by gift, the account must reflect its appraised value at the time of acquisition.
- Courthouses, jails, highway garages and park community centers.
- Often 50 years for useful life – estimate based on use, maintenance, quality



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Improvements Other than Buildings

- Improvements to land other than buildings that add value to the land but do not have an indefinite life.
- Examples include fences, retaining walls, sidewalks, parking lots and most landscaping
- Useful life will depend on the improvement:
 - Parking lots are often shown at 15 years
 - Sidewalks 40 to 80 years depending on construction material.
 - Fences last around 15 -20 years
 - Landscaping around 15 years



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Equipment

- Machinery, trucks, cars, highway equipment, computer servers, safes, furnishings, desks, cabinets and other office equipment.
- Small but sensitive items. Track but don't capitalize.
- GASB recommended practice is that the capitalization threshold should be at least \$5,000.
- Threshold is applied to individual assets. Exception – collections such as a library's book collection. (An individual book is not material, the collection itself is material)
- Separately account for equipment purchased with federal dollars and be aware of Federal requirement.
- Useful life by category of equipment. Often 5 to 10 years



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Books and Other

- Libraries and book collections
 - New category of Annual Financial Report
 - Collections valued as a whole, will be exhausted through general use
- Other Collections with Indefinite Life
 - Museums and historical collections
 - Art Collections
 - If the purpose of the collection is display or research, the collection is being adequately maintained and the proceeds from the sale of collection items must be applied to acquiring new items – no depreciation. Not required to report these assets.



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Construction Work in Progress

- This category allows for the collection of costs in the construction of a capital asset such as new building or road. When the project is completed, it is moved from Construction Work In Progress to the applicable capital asset category such as building or infrastructure.
- Category is not depreciated – once placed in service depreciation will start.



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How is a Capital Asset Valued?

- Historical Cost
 - Claim for purchase
 - Contract for construction costs
 - Board minutes or other historical documents
- Estimating Historical Cost
 - Current cost of asset
 - Consumer Price Index calculation – March 2020 County Bulletin page 11-12
 - Basis for estimate and documentation of basis



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ESTABLISHING THE ESTIMATED COST OF CAPITAL ASSETS

When it is not possible to determine the historical cost of capital assets owned by a governmental unit, the following procedure should be followed.

Develop an inventory of all capital assets which are significant for which records of the historical costs are not available. Obtain an estimate of the replacement costs of these assets. Through inquiry determine the year or approximate year of acquisition. Then multiply the estimated replacement cost by the factor for the year of acquisition from the Table of Cost Indexes. The resulting amount will be the estimated cost of the asset.

In some cases estimated replacement cost can be obtained from insurance policies; however, if estimated replacement costs are not available from insurance policies, you should obtain or make an estimate of the replacement costs.

If the replacement cost is estimated to be \$76,000.00 and the asset was constructed about 1930, then the estimated cost of the asset should be reported as \$5,320.00.

$$\$76,000.00 \times .07 = \$5,320.00$$

TABLE OF COST INDEXES
1922 to 2017

<u>Year</u>	<u>Index</u>	<u>Year</u>	<u>Index</u>	<u>Year</u>	<u>Index</u>	<u>Year</u>	<u>Index</u>
2017	1.00	1993	.59	1969	.15	1945	.07
2016	.98	1992	.57	1968	.14	1944	.07
2015	.97	1991	.56	1967	.14	1943	.07
2014	.97	1990	.53	1966	.13	1942	.07
2013	.95	1989	.51	1965	.13	1941	.06
2012	.94	1988	.48	1964	.13	1940	.06
2011	.92	1987	.46	1963	.12	1939	.06
2010	.89	1986	.45	1962	.12	1938	.06
2009	.88	1985	.44	1961	.12	1937	.06



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Determining the useful life

- Capitalization policy
- County's experience with similar assets
- Other County's useful lives determinations
- Estimate and documentation for basis
- Update as needed based on actual experience



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Depreciation

- Allocates the deferred cost (capitalized amount) to the future accounting periods. This is based on the value of the asset (historical cost) over the useful life of the asset.
- Example: Truck purchased for \$50,000 and estimated life is 5 years with no salvage value using straight line method
 - Capitalize at \$50,000
 - Depreciation: \$ 50,000/5 years is \$10,000 per year.



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Accumulated Depreciation

- Total Depreciation used for each asset.
- For Enhanced Regulatory reporting you will not report depreciation expense
- Truck Example of \$50,000 acquisition cost and \$10,000 depreciation
 - Accumulated Depreciation:
 - Year 1 \$10,000
 - Year 2 \$20,000
 - Year 3 \$30,000
 - Year 4 \$40,000
 - Year 5 \$50,000

Fully depreciated



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New Reporting Requirements

Capital Assets

Capital asset activity for the year ended December 31, 2019, was as follows:

County Assets	Beginning Balance 01/01/19	Additions	Reductions	Ending Balance 12/31/19
General Government Activities				
Land	\$ 1,371,633	\$ 500,000	\$ 49,682	\$ 1,821,951
Infrastructure	1,591,231	352,789	256,251	1,687,769
Buildings	25,348,431	3,500,000	1,750,000	27,098,431
Improvements other than Buildings	-	-	-	-
Machinery, Equipment and Vehicles	9,476,302	2,000,000	1,260,350	10,215,952
Construction in Progress	75,000	25,000	-	100,000
Total general government capital assets	\$ 37,787,597	\$ 6,352,789	\$ 3,316,283	\$ 40,824,103
Memorial Coliseum				
Land	\$ 484,622	\$ 50,000	\$ 40,020	\$ 484,622
Infrastructure	5,716,235	200,000	-	5,916,235
Building	19,961,506	-	500,000	19,461,506
Improvements other than Buildings	-	-	-	-
Machinery, Equipment, and Vehicles	2,366,162	-	50,788	2,315,374
Construction in Progress	-	-	-	-
Total memorial coliseum capital assets	\$ 28,528,525	\$ 250,000	\$ 590,808	\$ 28,177,736



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Additions to Capital Assets

• Additions

- Procedures in place to gather and report capital asset purchases from current claims:
 - Capital Outlay Classification
 - Flagged by software – generates reports
 - Segregate Claims
 - Capital Asset Addition forms
- Internal controls in place to ensure procedures are followed



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Reductions to Capital Assets

- Deletions
 - Procedures in place to gather and report deletions
 - Trade – ins (capital asset addition forms)
 - Sale of assets (Capital asset disposal forms)
 - Salvage (Board Minutes)
 - Inventories
 - Internal Controls in place to ensure procedures are followed.



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Capital Asset Note (draft)

Note X. Capital Assets

General Government Assets	Beginning Balance 01/01/20	Additions	Reductions	Ending Balance 12/31/20
Capital assets not being depreciated				
Land	1,371,633	500,000	49,682	1,821,951
Construction in progress	75,000	25,000	-	100,000
Total capital assets not being depreciated	1,446,633	525,000	49,682	1,921,951
Capital assets being depreciated				
Infrastructure	1,591,231	352,789	256,251	1,687,769
Buildings	25,348,431	3,500,000	1,750,000	27,098,431
Improvements other than Buildings	-	-	-	-
Machinery, Equipment and Vehicles	9,476,302	2,000,000	1,260,350	10,215,952
Total capital assets being depreciated	36,415,964	5,852,789	3,266,601	39,002,152
Less: Accumulated depreciation				
Infrastructure	106,612	23,637	17,169	113,080
Buildings	1,698,345	234,500	117,250	1,815,595
Improvements other than Buildings	-	-	-	-
Machinery, Equipment and Vehicles	634,912	134,000	84,443	684,469
Total accumulated depreciation	2,439,870	392,137	218,862	2,613,144
Net capital assets being depreciated	\$ 33,976,094	\$ 5,460,652	\$ 3,047,739	\$ 36,389,008



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Accumulated Depreciation Schedule

- Schedule is a summary of accumulated depreciation by category for all assets in capital asset schedule that are being depreciated.
- Beginning balance would tie to ending balance of prior year
- Additions represent the depreciation expense allocated for that year.
- Reductions represent that the capital asset was disposed of and the accumulated depreciation is removed for that asset from the schedule.
- Ending balance is the accumulated depreciation at year end for the capital asset schedule



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Our Truck Example

	BEG BAL	ADDITIONS	REDUCTIONS	END. BAL
YEAR 1				
CAPITAL ASSETS				
EQUIPMENT	-	50,000	-	50,000
LESS ACCUM. DEPRECIATION				
EQUIPMENT	-	10,000	-	10,000
YEAR 2				
CAPITAL ASSETS				
EQUIPMENT	50,000	-	-	50,000
LESS ACCUM. DEPRECIATION				
EQUIPMENT	10,000	10,000	-	20,000
YEAR 3				
CAPITAL ASSETS				
EQUIPMENT	50,000	-	-	50,000
LESS ACCUM. DEPRECIATION				
EQUIPMENT	20,000	10,000	-	30,000



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Date of Purchase	Description on Asset	Original Cost of Asset	Estimated Life of Asset	Yearly Depreciation	01/01/2020 Beginning Balance	Additions	Reductions	12/30/2020 Ending Balance
Infrastructure								
8/2/2017	Main Street	55,000	10	5,500	13,750	5,500	-	19,250
8/2/2017	City Bridge	63,500	10	6,350	15,875	6,350	-	22,225
9/16/2017	County Road	74,500	10	7,450	18,625	7,450	-	26,075
					48,250	19,300	-	67,550
Buildings								
5/13/1962	County Building	185,000	50	3,700	185,000	-	-	185,000
7/24/1996	Jail	253,000	50	5,060	118,910	5,060	-	123,970
					303,910	5,060	-	308,970
Machinery and Equipment								
6/15/2017	2010 Camry	17,750	5	3,550	10,650	3,550	-	14,200
1/1/2019	Example Pickup	50,000	5	10,000	10,000	10,000	-	20,000
4/22/2020	2018 Dodge Charger R/T	38,200	5	7,640	-	7,640	-	7,640
					20,650	21,190	-	41,840
Improvements Other than Buildings								
3/27/2018	Fountain	15,000	20	750	1,500	750	-	2,250
					1,500	750	-	2,250



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Schedule for Report

Less: Accumulated Depreciation						
Infrastructure			48,250	19,300	-	67,550
Buildings			303,910	5,060	-	308,970
Improvements other than buildings			20,650	21,190	-	41,840
Machinery, equipment and vehicles			1,500	750	-	2,250
Total accumulated depreciation			374,310	46,300	-	420,610



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Book Value

- Asset value less accumulated depreciation
- Truck Example Year 2 \$50,000 less \$20,000 = \$30,000 Book value
- Schedule shows summary for each classification and not individual assets but does show within a classification how “old” the assets are and gives some idea of when replacement costs may be needed.



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Physical Inventories

- If, the capital asset records are not complete, a physical inventory of assets above the threshold may be needed-specifically for equipment and vehicles.
- Once every two years have the departments do a physical inventory of equipment in their department- especially important for disposals that may not have been reported.
- Inventory small items that may be at higher risk of misappropriation such as laptops, cell phones, tablets, tools for example. Keep those inventories up to date.



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Resources and Questions

- Lori and Ricci
 - Counties@sboa.in.gov
 - 317-232-2512
 - www.in.gov/sboa



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