

Accounting for Capital Assets I

New Hampshire Government Finance Officers
Association

33rd Annual Meeting

May 3, 2018

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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 e-mail from a county in the Midwest:

“ ... 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.”

Common Deficiencies

- ◆ 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
- ◆ Policy is difficult to understand
- ◆ Policy may have been 'borrowed' from other government
- ◆ Document needs definitions and examples
- ◆ Capitalization threshold and Recommended Practice and wording ... 'no less than'

2. Dated Property Record

- ◆ GFOA Recommended Practice says 'take a look at integrity' at least every five years
- ◆ Database contains unreported retirements (more later)
- ◆ Database is missing previously unrecorded assets?
- ◆ In need of editing and possible need to re-classify assets
- ◆ Difference between monitoring and updating is not understood

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
- ◆ Departments are crucial to annual updating

4. Too Much Attention to Smaller Assets

- ◆ Have not been honest about ability to control minor assets
- ◆ Does not work except at department level
- ◆ Responsible department does not get to set parameters and inclusions
- ◆ Current mix of 'control' and accounting issues and reporting
- ◆ 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?

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%

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

Annual retirements

- ◆ Data may be difficult to establish centrally so departments are key to gathering the information
- ◆ Data may be incomplete and include only trade-ins but not items scrapped or disposed of at departmental level
- ◆ Communication problems
- ◆ Departments unable or unwilling to determine retirements
- ◆ Often ... simply report 'no retirements' and over time this can lead to overstated balances

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 GFOA Recommended Practice on 'control of minor but sensitive items'
- ◆ Some departments may already control minor but sensitive assets (IT, Fire Police) and current process needs only to be reviewed and formalized

8. No definitions or written 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 incomprehensive data gathering

Conclusion to Common Deficiencies

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

Summary and Conclusion

If you remember anything from today's presentations ...

- ◆ 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!

Questions and Comments

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