

# Accounting for Capital Assets II

New Hampshire Government Finance Officers  
Association

33<sup>rd</sup> Annual Meeting

May 3, 2018

# Accounting for Capital Assets II

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# Possible Solutions

- ◆ High level analysis and planning
- ◆ Start with new policy and new procedures
- ◆ Procedures to spell out the who, what, where, when, how, and why of the process
- ◆ Strive for simplicity (per Yogi – ‘don’t let the perfect get in the way of the good’)
- ◆ Be honest about capabilities to implement and to annually update

# 1. New Capital Asset Policy and Procedures

- ◆ Simple
- ◆ Short
- ◆ Understandable
- ◆ GFOA 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

- ◆ Slide 8 allocates by dollar amount
- ◆ Slide 9 allocates 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

- ◆ GFOA 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
- ◆ Reference municipal and county examples
  - Adds centrally then report sent to each department for indication of retirements
  - Takes one week
  - Process has worked for over 10 years

## 7. Definitions and written examples of capital, expense, improvement, repair, maintenance

### ◆ Samples of definitions and examples

- Increased capacity and efficiency
- Extended useful life beyond original expectation
- New asset meeting criteria for capitalization
- Improvement

# Deciding what is not a capital asset

- ◆ No Increased capacity
- ◆ No Increased efficiency
- ◆ No extension of asset's estimated useful life beyond the original expectation
- ◆ An extended estimated useful life usually involves a significant alteration or structural change
- ◆ 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
- ◆ Example from GFOA Capital Asset Seminar
- ◆ An improvement generally extends an asset's estimated useful life beyond the original expectation and involves a significant alteration or structural change

# Annual additions

- ◆ Can be a challenge
- ◆ 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 construction-in-progress
- ◆ 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

- ◆ Assume a 6-30-18 fiscal year end
  - 4-1-18 – gather information on additions
  - 4-15-18 – separate capital and expense
  - 5-1-18 – update report by department
  - 5-15-18 – send update to departments for retirements
  - 6-1-18 – update list
  - 6-30-18 – 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 Solutions and Approaches

- ◆ 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 Solutions and Approaches

- ◆ 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

# 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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