

Center for Local Government Excellence




Capital Asset Management

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Objective



To provide local governments a basis to establish a system of controls over capital assets and to plan for any future capital asset maintenance and replacement needs.

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Capital Asset Management




What is a capital asset?

A capital asset is a tangible or intangible asset of an entity that costs more than the established capitalization threshold and has an estimated useful life extending beyond one year.

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What is a capital asset?

When outlays (expenditures) for these items are reported on the statement of net position, they are said to be capitalized. The dollar amount used to determine whether a given capital asset should be reported on the statement of net position is known as the capitalization threshold.

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Examples of capital assets include:


Land, buildings, building improvements, infrastructure (roads, bridges, water system, sewer system, etc.), furniture, equipment, and motor vehicles used in the operations of the entity.

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Capitalization Thresholds

A government may establish a single capitalization threshold for all of its capital assets, or it may establish different capitalization thresholds for different classes of capital assets and should consider an appropriate balance between ensuring all significant capital assets are capitalized while minimizing recordkeeping cost.




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Implementation Guide (IG) 2021-1 Q 5.1

Q - Should a government's capitalization policy be applied only to individual assets or can it be applied to a group of assets acquired together? Consider a government that has established a capitalization threshold of \$5,000 for equipment. If the government purchases 100 computers costing \$1,500 each, should the computers be capitalized?

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Implementation Guide (IG) 2021-1 Q 5.1

Answer

A – Capitalization policies adopted by governments include many considerations, such as finding an appropriate balance between ensuring that all significant capital assets, collectively, are capitalized and minimizing the cost of recordkeeping for capital assets. **A government should capitalize assets whose individual acquisition costs are less than the threshold for an individual asset if those assets in the aggregate are significant.** Computers, classroom furniture, and library books are examples of asset types that may not meet a capitalization policy on an individual basis, yet could be significant collectively. In this example, if the \$150,000 aggregate amount is significant, the government should capitalize the computers.

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Implementation Guide (IG) 2021-1 Q 5.1

Answer

- * Issued in May 2021
- * Effective for the 2023-2024 fiscal year
- * Change will be required to be made retroactively
- * Required to restate all prior periods presented (if present more than 1 fiscal year)
- * Cumulative effect on prior periods should be reported as a restatement of the beginning net position or fund net position, as applicable

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Estimating Useful Life for Depreciation

Except for land which is not depreciated, capital assets are depreciated over their estimated useful lives. LLA recommended estimated useful life by asset classes are as follows:

Asset Class	Suggested Estimated Useful Life
Land	Not depreciated
Buildings	40 years
Building Improvements	20 years
Machinery and Equipment	5 years
Vehicles	7 years
Computers	3 years
Office Equipment	7 years
Furniture	7 years
Roads	40 years
Bridges	20 years
Water System	40 years
Sewer System	40 years

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Record Keeping

Review LA-R.S. 24:515(B) requires records be maintained of land, buildings, general fixed assets including date of purchase, description, cost, disposition, etc.

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Record Keeping

The entity head is responsible for recording, tagging (for identification purposes), and coordinating the annual inventory of all capital assets. The listing of capital assets is to be updated each year for assets acquired and disposed. Failure to identify and periodically account for entity assets/property exposes the entity to possible loss, theft, and misuse of its assets.

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Capital Asset Additions

During the year, department heads are to notify the entity head (or designee) when a capital asset is purchased and received.

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Capital Asset Additions

The entity head (or designee) is to obtain the supporting documentation (e.g., purchase order, invoice, etc.) to record the asset information on the capital asset listing. Information recorded and maintained within internal records should include the asset description, date of acquisition, location, department, cost (or fair value if donated), warranties (if applicable), maintenance history, condition rating, salvage value, and estimated useful life.

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Capital Asset Additions

The entity head (or designee) is to assign an identification number to the asset and record that number on the listing. Entity head (or designee) is to affix a tag/sticker to the asset that displays the identification number and the name of the entity.

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Annual Physical Inventory of Capital Assets

As a best practice, approximately 15 days before the end of each fiscal year, department heads are to be provided with a complete listing of the capital assets for which they are held accountable. These inventory lists are to be used to document their physical inventory and note any possible impairment found.

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Annual Physical Inventory of Capital Assets

Recommended items to include on the inventory listing are:

- Capital Asset Description/Photo
- Location
- Tag Number
- Original Value
- Condition rating

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Annual Physical Inventory of Capital Assets

Including a condition rating on the inventory listing will help determine when assets need repair, replacement or to be disposed of. An example of a condition rating is:

- * **Code N** = New
- * **Code G** = Good
- * **Code F** = Fair
- * **Code P** = Poor
- * **Code O** = Out of Service
- * **Code R** = Being Repaired

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Annual Physical Inventory of Capital Assets

1. Department heads (or designees) are to conduct the inventory by touring the department/premises and locating each asset listed. Every effort is to be made to locate all assets of the municipality.
2. For each asset that is observed, place a check-mark on the inventory listing next to the description of the asset and note the condition.


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Annual Physical Inventory of Capital Assets

3. Verify that the asset's location is the same location shown on the inventory listing. If not the same location, make a note of the change.
4. For an asset that is missing, place an "x" on the listing next to the description of the asset. Department heads are to immediately notify the entity head of any missing assets.

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Annual Physical Inventory of Capital Assets

5. The entity head is to notify the district attorney and Legislative Auditor of any misappropriation of assets.
6. Upon completion of the physical inventory, department heads are to sign and date their inventory lists and return to the entity head (or designee).

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Annual Physical Inventory of Capital Assets

7. The entity head (or designee) is to review the inventory lists for completeness and for any notes made by department heads.
8. The entity head (or designee) updates the capital assets listing for any changes and prints a final listing.

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Annual Physical Inventory of Capital Assets

9. Annually, the listing of capital assets is to be reconciled/agreed with the assets account balance(s) recorded in the accounting system (general ledger).
10. The inventory lists and the final capital assets listing are to be made available to the auditor upon request.
11. Begin the process for deletion/disposal of those assets that are identified as permanently impaired.

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Capital Asset Deletions/Disposals

- * Impairment should be noted during the annual inventory but is also an ongoing process.
- * During the year, the department heads are to notify the entity head (or designee) when a capital asset is no longer useful in operations and thus available for disposal.

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Capital Asset Deletions/Disposals

Examples of possible impairment are:

- * Damage from floods, fires, storms, etc.
- * New water quality standards for a treatment plant
- * Obsolescence of high tech equipment
- * School closure prior to the end of its useful life

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Capital Asset Deletions/Disposals

- 1) The entity head is to consult with legal counsel to ensure compliance with state laws that pertain to the disposal (e.g., sell, exchange, etc.) of entity property/assets.

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Capital Asset Deletions/Disposals

2. All disposal related documentation (e.g., board resolutions, appraisals, advertisements, bids received, etc.) is to be maintained by the entity head (or designee).
3. The entity head (or designee) is to identify the asset on the listing and document its disposal (e.g., date, proceeds, etc.).
4. The accounting records are to be updated.

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Planning for Future Capital Asset Maintenance and Replacement

An entity should consider developing financial policies that identify and dedicate fees or other revenue sources to help maintain the expected service levels of capital assets.



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Planning for Future Capital Asset Maintenance and Replacement

As part of the planning process the entity head should, on a regular basis, provide a "plain language" report on Capital Assets to elected officials and make the report available to the general public.

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Planning for Future Capital Asset Maintenance and Replacement

The "plain language" report on Capital Assets should describe:

1. Condition ratings jurisdiction-wide compared to established policy standards.
2. Condition ratings by geographical area, capital asset class, and other relevant factors compared to established policy standards.

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Planning for Future Capital Asset Maintenance and Replacement

The "plain language" report on Capital Assets should describe:

3. Indirect condition data (e.g., water main breaks, sewer back-up complaints).
4. Renewal and Replacement life cycle(s) by infrastructure type.
5. Funding sources for capital assets, including any restrictions that might be imposed on use and/or disposal.

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Planning for Future Capital Asset Maintenance and Replacement

The "plain language" report on Capital Assets should describe:

6. Funding sources for capital assets, including any restrictions that might be imposed on use and/or disposal.
7. Year-to-year changes in net value of assets.

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Planning for Future Capital Asset Maintenance and Replacement

The "plain language" report on Capital Assets should describe:

8. Actual expenditures and performance data on maintenance and renewal and replacement compared to budgeted expenditures performance data (e.g., budgeted street miles, reconstructed compared to actual).

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Planning for Future Capital Asset Maintenance and Replacement

The "plain language" report on Capital Assets should describe:

9. Long-term trends extending over the prior four to six or more years. Year-to-year expenditure figures are less valuable due to general inflation rates and the changing supply and cost of construction contractors and contract bids over time.

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Planning for Future Capital Asset Maintenance and Replacement

The "plain language" report on Capital Assets should describe:


10. Other more "global" measures such as replacement cycle, 3 year-to-year comparisons of work completed (e.g., miles of sewers, water mains, street lights, etc., repaired/replaced), book value, etc., may also be used.

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