





#### 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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#### **Capital Asset Management**



# 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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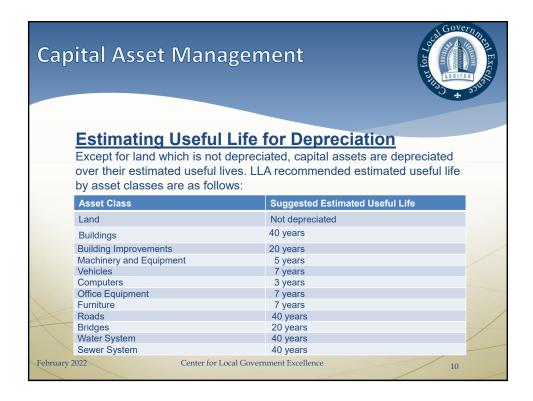
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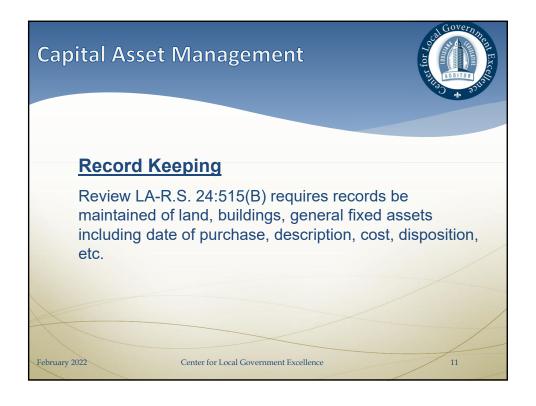
# Implementation Guide (IG) 2021-1 Q 5.1 Answer \* Issued in May 2021 \* Effective for the 2023-2024 fiscal year \* Change will be required to be made retroactively \* Required to restate all prior periods presented (if present more than 1 fiscal year) \* Cumulative effect on prior periods should be

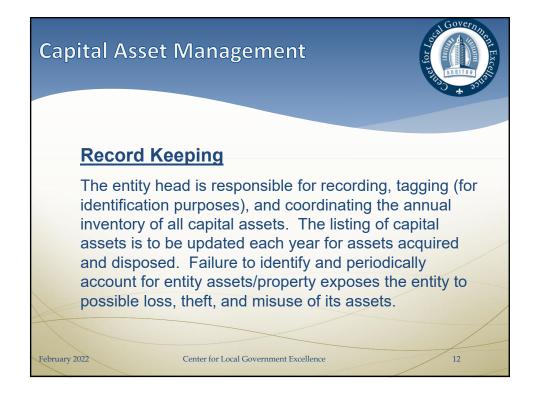
reported as a restatement of the beginning net-

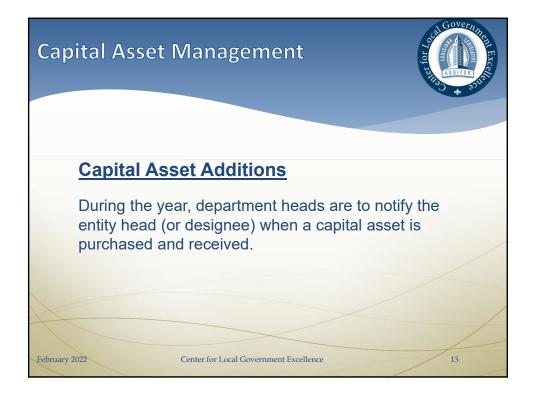
position or fund net position, as applicable

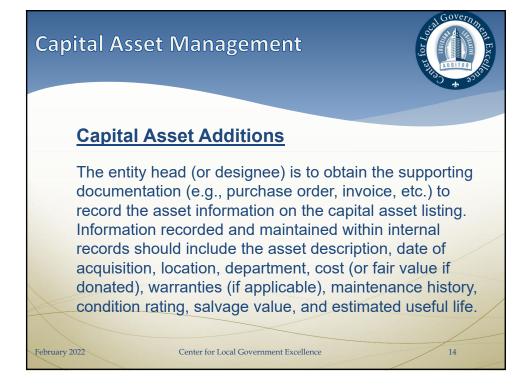
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#### **Capital Asset Additions**

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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#### **Capital Asset Management**

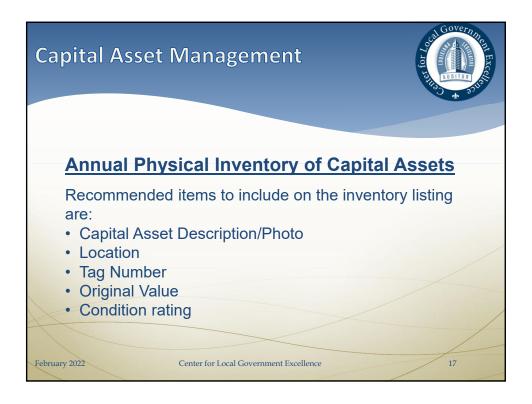


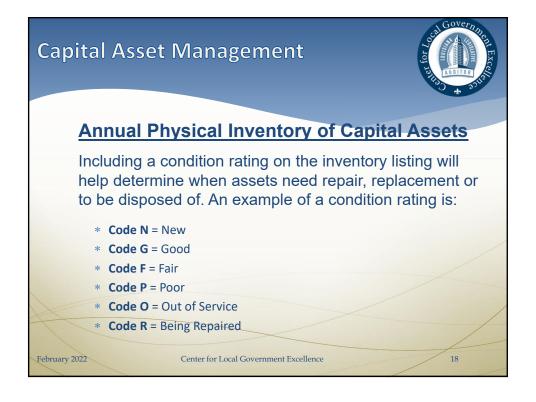
#### **Annual Physical Inventory of Capital Assets**

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**

- 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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#### **Capital Asset Management**



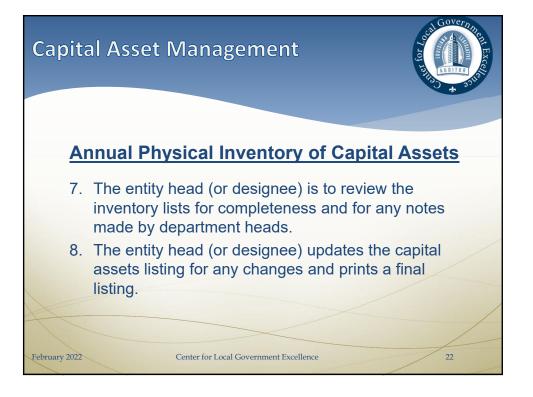
#### **Annual Physical Inventory of Capital Assets**

- 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.
- 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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# Capital Asset Management 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).





#### **Annual Physical Inventory of Capital Assets**

- 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 Management**

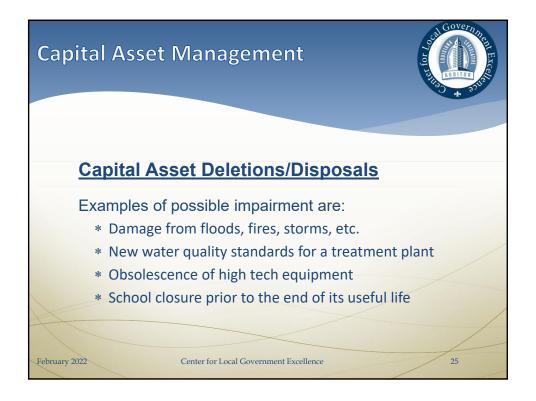


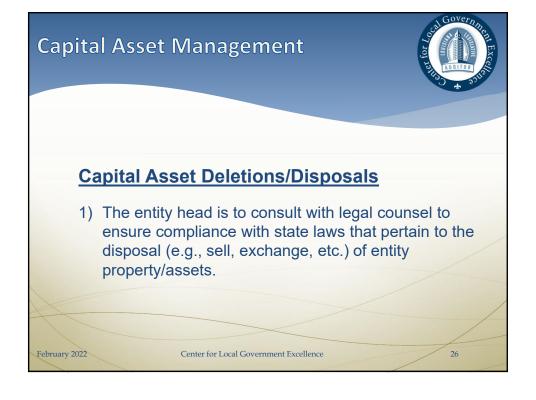
#### **Capital Asset Deletions/Disposals**

- \* 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**

- 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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#### **Capital Asset Management**



# 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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#### **Capital Asset Management**



# Planning for Future Capital Asset Maintenance and Replacement

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

- Condition ratings jurisdiction-wide compared to established policy standards.
- 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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#### **Capital Asset Management**



#### **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:

 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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