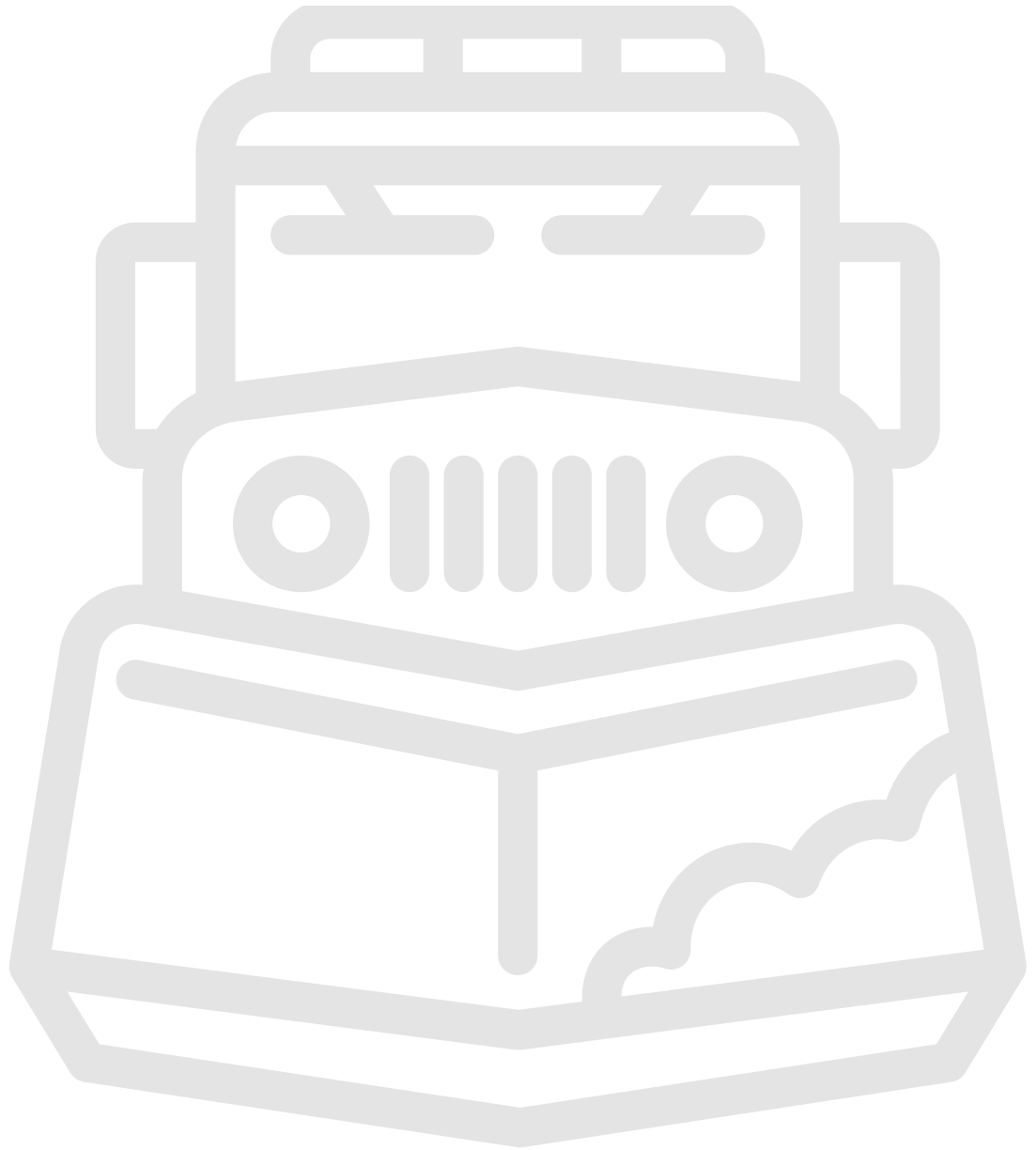


# Capital Assets



Office of the New York  
**STATE COMPTROLLER**  
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# Capital Assets

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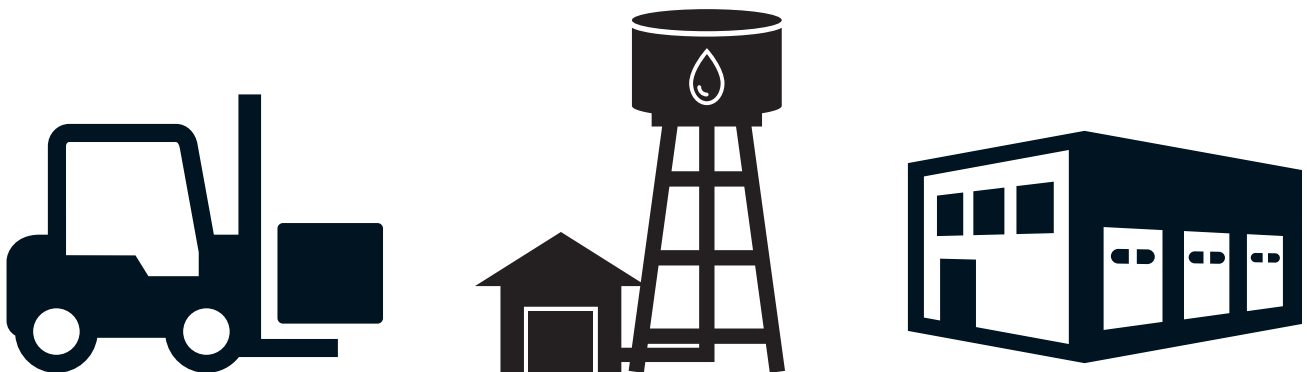
A local government's<sup>1</sup> inventory of capital assets often represents its most significant investment of municipal resources. Over time, purchases of buildings, equipment, machinery and other long-term assets can result in the accumulation of tens of millions of dollars in municipal property. Like any portfolio, these assets need to be actively managed to ensure that the most value is received from this considerable investment.

Capital assets generally are acquired to help provide essential services (directly or indirectly) to the citizens of the local government. Local officials (officials), through their practices, must maximize the value of these assets. Officials must ensure that capital assets are protected from loss, that their value is maintained and that they are used effectively. This guide will address practices that officials can use to receive the most value from their government's investment in capital assets.

For the purposes of this guide, a capital asset is defined as a tangible or intangible asset that is used in operations and that has a useful life of more than one year, such as land and improvements to land; buildings and building improvements; vehicles; machinery; equipment; and sewer, water and highway infrastructures.

To help officials maximize the value received from their government's investment in capital assets, this guide will present information on:

- Risk Assessment
- Asset Protection
- Asset Maintenance
- Asset Performance
- Asset Disposal.



# Risk Assessment

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A local government's capital assets are subject to a number of risks. Officials must be cognizant of these risks as they seek to effectively manage their capital assets. By identifying the associated risks, officials can develop strategies to manage those risks and ensure that capital assets are adequately protected.

Local government capital assets are subject to risks of loss, misuse and/or obsolescence. These risks will vary depending on the nature of the assets involved. For example, computer equipment is generally at a greater risk of obsolescence or loss through theft than a bulldozer or a building. Misuse may be more likely to occur with those capital assets that can be used for other than municipal purposes, such as vehicles and computers.

Officials should assess the significance and likelihood of all the risks threatening capital assets. Significance should be assessed in terms of dollar amounts, operational importance and public perception. Considerations of likelihood should address issues such as the nature and function of each asset (see examples cited above). Officials must then decide how best to address any significant and likely risks. The costs of each potentially mitigating action should be weighed against the benefits. For information on the use of internal controls to mitigate capital asset risks, see our *Local Government Management Guide* entitled [The Practice of Internal Controls](#).

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By identifying the associated risks, officials can develop strategies to manage those risks and ensure that capital assets are adequately protected.

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# Asset Protection

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## Policies

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First and foremost, officials should take steps to ensure that municipal capital assets are adequately protected from loss or misuse. A good way to accomplish this is through the development of a comprehensive policy that addresses this issue. Such a policy could also address capital asset maintenance and performance. A written policy, adopted by the governing board, should communicate management's objectives. The policy should spell out the duties, records and procedures required to achieve these objectives. It should set general procedures and overall requirements for protecting the local government's capital assets.<sup>2</sup> Subject to statutory requirements, the policy should establish the minimum value of assets to be tracked for departmental inventory control. It should also establish thresholds for financial reporting purposes, which is discussed further in [Appendix E](#). Essentially, a capital asset policy should address each of the components contained within this section.

## Property Control Manager

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One person (the property control manager) should be responsible for tracking the capital assets of the local government and for the accuracy and usefulness of the asset records. Subject to the approval of the governing board, this person should set the detailed procedures with respect to capital asset protection. These procedures should be in writing and should be distributed to the people who will be involved in the control and inventory of assets to ensure accuracy of detail records and proper accountability for assets. The property control manager is also responsible for the design and distribution of the documents to be used to record assets and for properly explaining these documents to the people who will use them. Both the initial and subsequent physical inventories are the responsibility of the property control manager.

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One person (the property control manager) should be responsible for tracking the capital assets of the local government and for the accuracy and usefulness of the asset records.

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The governing board should designate a staff person as the property control manager. Generally, this is less than a full-time position and the designated individual could perform other duties. For internal control purposes, the person in charge of the property records should not have access to the property/assets. Departmental capital asset custodians should also be designated. Usually, department heads are designated as departmental custodians with the provision that they may appoint someone to act for them.

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## Property Records

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Capital asset protection begins with quality recordkeeping. Detailed property records help establish accountability and allow for the development of additional controls and safeguards. The accuracy and completeness of these records can also impact the various costs (insurance, replacement, etc.) associated with owning capital assets. For these reasons, capital asset accounts must be complete, accurate and up to date.

The focal point of capital asset accounting is the individual property record. Each piece of property meeting the criteria for inclusion in the capital asset inventory should be adequately described in these property records. These records take various forms and contain a variety of data. All property records should be maintained by the property control manager. Generally, there are two types of records: the real property record and the personal property record. [Appendix A](#) contains links to sample records for a manual and a computerized system.

**Real property records** contain substantial information about land and buildings. Among the items of information may be a small diagram showing the location of any building, a deed description and a picture of the property. Other data should include the date of purchase, the price, the assessed and appraised values, and the department using the property.

It is also a good practice to use a separate folder for each property to file original documents, such as the deed, the governing board's resolution authorizing acquisition of the land and/or buildings, condemnation papers, correspondence and all other documents relating to the individual land and/or building.

**Personal property records** are maintained for each piece of personal property that exceeds the minimum value set by the governing board. Examples of personal property include a truck, computer and copier. Sufficient information must be on the property records to identify the item, such as the:

- Description of the item, including make, model and serial numbers;
- Assigned identification number (when appropriate);
- Purchase date, amount, vendor and voucher number;
- Department having custody and the location within the department; and
- Source of funds used to purchase the item and any adjustments to the initial cost.

Similar lower-priced items, such as file cabinets, can be accounted for as a group, with total costs and inventories recorded on a single record.

If part of the cost of an item is financed by a trade-in, the gross amount, not the net expenditure, should be shown on the property record. When an item has been disposed of, that fact should be reflected on the record. The record could also provide space to record depreciation and/or the loss in service value of the asset due to wear and tear and obsolescence. This is useful information for officials when dealing with asset maintenance or replacement. Additionally, should a capital asset appreciate in value, the property control manager may want to note this fact. Among other things, this information will be useful in determining insurance coverage.



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Alternatively, capital asset recordkeeping can be made easier by using available technology such as video cameras, digital cameras, document scanners, computers, barcode technology and other tools. In larger local governments, computerized recordkeeping is especially valuable for tracking capital asset inventories.<sup>3</sup> Individual records of large and ever-changing inventories can be updated through a simple database query. Also, this type of perpetual inventory system provides improved control over capital assets by establishing timely accountability.

## Accountability

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Any accounting system is only as good as the information it contains. To be of value, property records (and related control accounts) must contain a complete and accurate account of the capital assets owned by the local government. Accurately recording each asset establishes accountability that, in turn, provides a foundation for creating additional safeguards. A physical inventory is the only way to establish initial accountability. Such an inventory is required when establishing a capital assets accounting system and periodically thereafter to ensure the system's continued accuracy. Conducting an inventory involves making a physical inspection or otherwise ascertaining the existence of capital assets and listing them in some systematic manner. [Appendix A](#) contains links to sample forms.

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Accurately recording each asset establishes accountability that, in turn, provides a foundation for creating additional safeguards.

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## Initial Inventory

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Conducting an initial inventory of capital assets can be a daunting task. However, there are ways to make this necessary action less intimidating. The inventory can be broken into several smaller counts, which are spread out over time. Officials can use a risk-based approach to determine which capital assets to count first and which ones to count later. For example, where adequate safeguards are already in place and less risk exists, physical inventories can be delayed. Where safeguards are lacking and more risk exists, counts should be scheduled as soon as possible.

Large, expensive assets can be “booked” with minimal effort; that is, real property, heavy equipment, vehicles, etc., can usually be counted and recorded relatively quickly. Common sources of information for listing real property include deeds, maps, assessor's property records, tax rolls, insurance records, claims, governing body resolutions and department records. Sufficient information about each item should be recorded on the real property record to identify it. Even though there are generally fewer items of real property than personal property, in terms of dollar value, a substantial portion of the capital asset inventory will likely be comprised of real property. Therefore, it is important to get an accurate count of real property, especially because these items tend to make up the majority of insurance coverage and related costs.

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Dollar minimums can and should be established so that insignificant items are not counted and recorded. In determining the minimum amount to be included in the inventory of capital assets, the governing board should make a determination of what represents significant value. This must be considered in the context of the size of the local government, the volume of capital assets and the resources and costs required to compile and maintain records. Subject to statutory requirements, the minimum amount can be set as low as \$500 or range to as high as \$5,000 or more. For high-risk inventory items such as tools, vehicle parts and office equipment, lower dollar thresholds might be desirable. This guidance relates to how a local government will track and control capital assets internally and is different than establishing a capitalization threshold to determine which assets should be reported in the financial statements. Specific guidance for accounting for capital assets, materiality, and capitalization thresholds as it relates to the financial statements may be found in [Appendix E](#) of this guide.

Also, similar items should be grouped together and included in the capital assets inventory if the group total exceeds the minimum amount. For example, if 100 steel chairs were purchased at \$25 each, \$2,500 (not \$25) should be used to determine if the chairs exceed the minimum amount for recording in the property records.

After the initial inventory has been completed, additional information such as historical cost and source of funds must be ascertained. Much of this information can be secured by examining paid claims or departmental records.

Every effort should be made to list all property – above the minimum amount – in the initial inventory. Don't be discouraged, however, if additional items turn up after the inventory has been completed. Simply add them to the list. It also may be difficult, if not impossible, to find the cost and source of funds of some items that have been on hand for many years. [Appendix B](#) provides some guidance on how to estimate these "missing" cost figures.

## Periodic Inventories

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To maintain the accuracy and completeness of recorded amounts, departmental custodians or their representatives should conduct periodic follow-up inventories of all capital assets. These counts are best completed at a time during the fiscal year when they will not interrupt normal operations. Each department should schedule and conduct their own physical inventories to best fit in with their departmental schedules and needs. Where there is rapid turnover of inventory items, periodic inventories should be performed more frequently. The results of these inventories should be compared to detailed inventory records and the results submitted to the property control manager.

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Where there is rapid turnover of inventory items, periodic inventories should be performed more frequently.

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Periodically, the property control manager's office should ensure that a physical inventory is conducted of each department. This need not be done every year for each department but should be done in some of the departments each year. Over a three- or four-year period, physical inventories should be performed for all departments. They should not be scheduled in advance but should be done when and where the property control manager determines that they are necessary, based on an assessment of risk. If the local government has an independent internal auditor with post-audit functions or if the local government hires an independent CPA firm to do an annual audit, the property control manager can furnish these auditors with the necessary information so that they may perform spot-checks while they are conducting regular departmental audits. If the property control manager decides to use the independent internal or external auditor, and they agree to perform these functions, it will relieve the property control manager of some, but not all, of the responsibility of performing the physical inventory of that department.

Any discrepancies between actual and recorded capital assets discovered during the physical inventories should be fully investigated. Such discrepancies may lead to a review and modification of internal controls and an adjustment to the accounting records.

## Additional Safeguards

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Once an accurate and complete record of capital assets has been established, additional safeguards can be put in place. The types of safekeeping policies and procedures used should address the risks associated with the capital assets being protected. For example, some assets, by their very nature may need more protection than others (e.g., cell phones, laptop computers, gasoline, etc.). In addition to policies and procedures, additional controls that should be considered include identification numbers and markings, restricted access, perpetual inventory records and insurance.

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The types of safekeeping policies and procedures used should address the risks associated with the capital assets being protected.

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**Identification Numbers and Markings** – Each piece of property may be assigned an identification number. By using a metal tag, decal, stenciling or other such means, identification numbers can be affixed to each piece of property. These types of markings may be obtained from vendors who deal in office equipment and supplies.

The identification of capital assets is necessary for internal control and audit purposes. If a local government can identify a particular capital asset by some other method (serial numbers on computers or printers, engine numbers, complete descriptions, etc.), decaling is not required. Officials may also wish to assign numbers to each property record for filing purposes.

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Some local governments use a single series of numbers for all property while others classify property by type and assign a code number to each type in addition to the identification number. For example, all computers could be coded 7, desks 11, printers 13 and so on. The first desk purchased would be designated 11-1, the second 11-2, etc. A separate series of identification numbers would be used with each code. Still others add a department and/or function code. For example, expenditure code 1325 in the General Governmental Support function identifies the Treasurer's Office within the local government. Thus, for the Treasurer's Office, the first desk identified would be 1325-11-1. For vehicles and other large items of equipment, it may be desirable to include in the identification number the year the item was acquired. For example, a police car could be identified by function, type, number and year acquired – 3120-39-1-2022.

Any identification tag or decal should also have the name of the local government on it. Whenever possible, the local government's name should be prominently displayed on the property or equipment. Stenciling the name onto the asset (or using some other method that makes it difficult to remove the identification) can provide added protection.

As can be seen from the foregoing, the system used for identification numbers and markings can be very simple or very elaborate. Each local government should take into consideration its own circumstances and decide which system best fits its needs.

To save time in locating identification markings, rules should be established and observed concerning the exact points where they will be affixed on different types of equipment.

**Restricted Access** – A key control for ensuring capital asset security is through restricted access. This control can be accomplished several ways and, if done properly, has the effect of establishing individual accountability. Access to assets and records should be limited to authorized individuals. Only those employees with a functional need for access should be given authorization. Access limits can range from locks and keys, usage logs and/or passwords to more elaborate systems that restrict access to capital asset inventories.

Locked storage areas can provide sufficient, cost-effective protection for many inventory items. Keys to vehicles, machinery and equipment should also be secured. Usage logs can supplement this protection. By having individuals sign for any items that they use, officials can track the type, quantity and frequency of items used. Returned items would also be noted in these records. Usage records also allow officials to verify that only authorized individuals are using the inventory. Passwords can be assigned to restrict access to computer records, storage areas and fuel pumps. Password systems should produce reports to officials that track the use of these passwords by individuals.

When physical restrictions to inventory (assets) are coupled with restrictions to the accounting records, inventory controls are greatly enhanced. In other words, when the individual with authorized access to the inventory does not have access to the inventory control records, then that individual remains accountable for the recorded amounts. These recorded amounts should be compared to detail records (and physical counts) on a regular basis. Any discrepancies found should be discussed with the individual who has authorized access to the inventory.

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**Perpetual Inventory Records** – Every local government should have a complete up-to-date inventory of capital assets to ensure that both physical control and accountability are maintained over all assets, including lower-cost assets that aren't reported in financial statements. Some local governments use perpetual inventory records to maintain control over their capital assets. Perpetual inventory records are detailed records that are continually updated as items are added or removed from supply. This inventory system provides officials with direct access to reliable information on current capital assets throughout the year.

To be effective, a perpetual inventory system needs timely information. As new assets are acquired, sufficient information must be forwarded to the property control manager so that detailed records can be properly completed. Identification numbers and markings may also need to be taken care of. One option is to use a purchase order system that includes an inventory copy to be distributed to the property control manager; however, any means that captures and transmits the information for all new capital assets is acceptable.

Similarly, any changes to capital assets need to be communicated to the property control manager in a timely manner. Improvements to assets, deterioration of assets, trade-ins, sales of assets and anything else that affects asset value or count should be communicated to the property control manager so that records can be updated. Periodically, the depreciation and appreciation of asset value can also be tracked in these inventory records. Again, the methods used to accomplish this should fit the circumstances of the local government. For example, larger local governments may need more elaborate systems to accurately capture all the changes.

**Insurance** – Insurance protection is a necessary aspect of running a local government. Adequate insurance coverage can further reduce the risk of loss of capital assets. To determine the adequacy of insurance protection, complete and accurate property records are essential. Good records will establish the ownership, value, condition, location and custodian of all local government property. This information will allow officials and agents to best match the coverage to the assets (and the custodians). Knowing the value of assets permits the optimum insurance coverage and prevents excess or insufficient coverage. Excess coverage results in unnecessary cost and insufficient coverage means excess risk. In addition, up-to-date capital asset records provide valuable information for proof-of-loss if a claim for loss is filed.

# Asset Maintenance

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Many capital assets require significant resources to retain their value. After a considerable initial investment, local governments must continually commit time and money to the maintenance of buildings, infrastructure, machinery, equipment and similar assets. This commitment is necessary to ensure that the value and effectiveness of these assets is preserved.

The effort expended to maintain capital asset investments should be tracked in the local government's records. Those departments responsible for routine maintenance are usually in the best position to record the details of this work. The degree of detail recorded should depend on the needs of management and the cost of tracking the information. At a minimum, the costs of materials and labor are often logged. When significant improvements are made to a capital asset, the cost information should be communicated to the property control manager so that the increased value can be recorded.

Pertinent records should also be maintained for vehicles, such as daily maintenance and fuel usage logs and cumulative costs of parts, labor and overhead by vehicle. Escalating maintenance costs are a key factor in determining when to replace a fleet vehicle.<sup>4</sup>

The recorded cost of a capital asset should include the cost of any subsequent additions or improvements but exclude the cost of repairs. An addition or improvement, unlike a repair, either enhances a capital asset's functionality (effectiveness or efficiency) or extends a capital asset's expected useful life. For example:

- Periodically resurfacing a road would be treated as a repair (the cost would not be added to the cost basis).
- Adding a new lane constitutes an addition (the cost would be added to the cost basis).

Asset maintenance records can provide officials with information needed to make key decisions. A maintenance history can provide officials with the frequency and types of services performed to date. It can also show the cumulative cost of those services (in terms of materials, staff time and overhead). Moreover, these records can reveal instances where routine maintenance was missed and can show where maintenance costs are growing – a possible indication of bigger problems. A maintenance record can also support higher values for assets traded in or sold by offering proof of maintenance.

Officials can use the information from maintenance records to support capital asset decisions. Decisions to repair or replace an existing asset are easier to make when there is a history of the repairs and improvements made. Again, if maintenance records show that repair costs are increasing (with marginal benefit), the decision to invest in a replacement can be better supported as the cost-effective option.

Detailed maintenance records can provide officials with a clearer picture of the condition of existing assets. This information is helpful for planning a repair and preventive maintenance schedule and for budgeting for those expenditures. Knowing the condition of an asset also helps in planning for future replacements and expansion programs. This information is very useful for developing an overall capital improvement program to acquire and replace capital assets and determine how to finance such purchases.

# Asset Performance

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An investment in a capital asset is only as valuable as the return on that investment (i.e., the performance received from that asset). To maximize that return, officials should actively monitor the performance of these high-priced assets to make informed decisions. For example, if capital assets are underperforming, remedial actions should be taken.

Most local government assets are not acquired for the purposes of generating profits; therefore, their performance should be measured against the purpose for which they were acquired (e.g., providing services). A capital asset that is not performing as planned can end up costing a local government in terms of productivity and dollars.

Actions to improve productivity will vary depending upon the specific circumstances encountered. However, actions to improve the financial component of asset performance are more universal and are discussed below. Also discussed are several practices that can be used to improve the efficiency of asset use.

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Common performance issues encountered by local governments include revenue production, cost reduction, cost shifting and performance measures.

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A complete inventory of capital assets provides officials with the big picture. The scope and breadth of local government property can be better understood with proper asset records. This perspective can help officials target areas for further investigation. For example, they can select individual or groups of capital assets to examine for performance issues. Common performance issues encountered by local governments include revenue production, cost reduction, cost shifting and performance measures.

Ideally, capital asset revenue production should be maximized. A review of asset usage may indicate time periods when the asset is underutilized. Where feasible, officials may consider renting out the asset to other local governments during these slack periods. Rental fees should be competitive and sufficient to cover any additional costs (e.g., delivery, legal) associated with the arrangement.<sup>5</sup> When it is determined that an asset has minimal value for operations, consider selling it. For those assets intended to produce revenue, there are many ways to improve the bottom line. At a minimum, consider increasing the number of paying customers using the asset.

There are also many ways to reduce costs associated with capital assets. Some of the areas to consider include insurance, maintenance and financing. Insurance records should be routinely compared to up-to-date property records to verify the existence and ownership of covered assets. Discrepancies should be investigated immediately, and unnecessary coverage discontinued. Book values of assets should be compared to coverage amounts and deductibles and be adjusted to reflect decreased values. As unneeded assets are sold, traded in or retired, they should be removed promptly from insurance documents.

Routine maintenance can help keep other, more expensive, problems from cropping up. For this reason, such maintenance should not be cut during difficult budget times. Routine maintenance can also extend the useful life of an asset, thereby increasing its productivity and delaying its replacement cost. Also, when sold or traded-in at the end of its extended life, a well-maintained asset should be worth more.

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Officials can effectively use the time gained through these maintenance efforts to arrange for the financing of the eventual replacement asset. This time can be used to prepare for a larger down payment, seek the best price and arrange the best financing for the planned replacement acquisition. These steps should result in a lower initial cost for the local government and reduced financing costs over the term of any debt issued for the purchase.<sup>6</sup>

Asset performance can also be improved by sharing ownership and costs of the asset. Where feasible, local governments may enter into intermunicipal cooperation agreements<sup>7</sup> to acquire capital assets. Shared ownership, between two or more local governments, can result in reduced acquisition, finance and maintenance costs for all parties involved. By sharing the use of the asset, its idle time is also reduced. This type of cooperative arrangement can translate into lower costs and higher usage rates.

**Performance Measures** – To ensure that capital assets are truly performing as intended, performance measures should be developed and implemented. There are several measures that can help officials gauge the efficiency and effectiveness of capital asset performance. Officials should develop performance measures that best give them the information that they need in the most cost-effective manner possible. The Government Finance Officers Association (GFOA) offers guidelines<sup>8</sup> for developing meaningful performance measures, including that performance measures should be, among other attributes:

- Useful
- Relevant
- Reliable
- Collectible
- Consistent
- Communicated.

Specifically, for capital assets, officials might consider measures that track asset usage, return on investment (for revenue-producing assets), operating costs, maintenance/repair costs and costs per unit produced (e.g., road miles paved, tons of garbage collected).

For inventory-type assets, officials might consider measures that compare usage to users so that reasonableness tests can be applied to the data. These types of measures can provide added assurance that inventory use is proper and that corrective actions are not needed.

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Shared ownership, between two or more local governments, can result in reduced acquisition, finance and maintenance costs for all parties involved.

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# Asset Disposal

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Disposal of assets may be subject to statutory requirements; however, governing boards should ensure there are adopted policies and procedures designed to ensure maximum financial benefit is obtained for the local government.

By maintaining property records, local governments should be able to easily identify surplus and obsolete assets. For example, when an asset is identified as surplus or obsolete, the property control manager should provide information to the governing board to allow it to determine this and approve of the asset's disposal. The governing board should determine if the asset has any value through examination of the property records and physical inspection. If it is determined that the asset has value, the governing board should attempt to sell the asset in a manner to obtain the maximum value. If the governing board is unable to sell the asset or if it determines that the asset has no value, it can vote to donate the asset. The attempt to sell and value the asset should be documented. The property records should also be updated for appropriate disposal information, such as historical and market values and purchaser.

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If it is determined that the (obsolete) asset has value, the governing board should attempt to sell the asset in a manner to obtain the maximum value.

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Assets, such as computers or other electronic devices, may contain sensitive and confidential information or software that needs to be cleared prior to disposal or transfer of the asset. The governing board should establish a plan that clearly describes the local government's security management policies and procedures for secure disposal of equipment containing electronic information.

# Appendix A:

## Property Record Forms

Sample manual forms [pdf]* are available for the following:
Initial Inventory Sheet
Real Property Record
Personal Property Record
Register of Identification Numbers
Property Acquisition Record
Property Disposition Record
Physical Inventory Worksheet
<a href="https://www.osc.ny.gov/files/local-government/publications/pdf/capitalassets-manualrecords.pdf">*https://www.osc.ny.gov/files/local-government/publications/pdf/capitalassets-manualrecords.pdf</a>

Sample electronic forms [xlsx]* are available for the following:
Inventory Sheet
Real Property Record
Personal Property Record
Physical Inventory Worksheet
<a href="http://www.osc.ny.gov/localgov/pubs/lgmg/capitalassets_electronicworksheet.xlsx">*http://www.osc.ny.gov/localgov/pubs/lgmg/capitalassets_electronicworksheet.xlsx</a>

# Appendix B:

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## Historical Cost and How to Estimate It

### Asset Valuation

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All capital assets should be recorded at historical (actual) cost unless acquired through gift or in a service concession arrangement, in which case the value at the time of acquisition should be recorded. The acquisition value is the price that would be paid to acquire an asset with equivalent service potential at the acquisition date or the amount at which a liability could be liquidated with the counter party at the acquisition date. If the actual historical cost is not available, it may be estimated. The established cost of the asset should be reflected in the accounting records until the capital asset is disposed.

### Estimating Cost

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Historical costs of capital assets are often readily determined from contracts, purchase vouchers and other transaction documents from the time of acquisition or construction. However, many local governments are faced with the task of establishing appropriate capital asset accounting records and valuations after many years of operation without any system of capital asset accounting. The original purchase documents may not be available, or an inordinate amount of research may be required to establish original asset costs.

Therefore, it becomes necessary (and more cost-effective) to estimate the original cost of such assets based on the documentary evidence that is available, including price levels at the time of acquisition, and to record these estimated costs in the appropriate capital asset accounts.

Estimating the cost introduces some margin of error into the capital asset accounts compared to the proper recording of cost at the time of acquisition. These “errors” will eventually be eliminated over time, as assets are replaced. When the cost of a capital asset is estimated, both this fact and the basis of such estimate should be noted on the property record.

Direct Costing, Standard Costing and Normal Costing (Back-trending) Several methods can be used to estimate the historical cost of capital assets for which invoices and similar documentation of historical cost (direct costing) are no longer available. One method is to use historical sources, such as old vendor catalogs, to establish the average cost of obtaining the same or a similar asset at the time of acquisition (standard costing). Another approach is to deflate the current cost of the same or a similar asset using an appropriate price index (normal costing or back-trending).

Using these three methods for the same piece of equipment (in 2023):

- Direct Costing – The price paid for a piece of equipment bought in 2010 is \$36,251 according to the original invoice.
- Standard Costing – The equipment manufacturer (or catalog), states that the asset in question sold for approximately \$35,000 in 2010. The quote by the manufacturer could serve as the asset’s estimated historical cost. Another option for standard costing involves using the property records of other governments as a source of historical data. If another local government owns similar property, its recorded figures could be used to support cost estimates for your asset(s).
- Normal costing/back-trending – The current (2023) cost of the same or similar asset is \$48,000. Using a price index for that class of equipment, the estimated historical cost of the capital asset could be calculated by back-trending to be \$33,096, computed as follows:

Calculation						
2023 Replacement Cost		2023 Conversion Factor		2010 Conversion Factor		2010 Estimated Historical Cost
\$48,000	÷	127.111	x	87.642	=	\$33,096

To calculate back-trending estimates, a price index, like the table below, is needed. Many price indexes are available on the Internet.

Table Of Estimated Historical Cost Conversion Factors									
Year	Factor	Year	Factor	Year	Factor	Year	Factor	Year	Factor
1974	17.717	1984	35.65	1994	51.237	2004	69.726	2014	97.804
1975	19.421	1985	37.102	1995	52.602	2005	73.667	2015	97.567
1976	20.369	1986	38.171	1996	53.809	2006	77.406	2016	97.505
1977	21.636	1987	39.953	1997	55.006	2007	81.603	2017	100
1978	23.042	1988	41.289	1998	56.078	2008	85.692	2018	104.126
1979	25.077	1989	43.244	1999	58.231	2009	85.201	2019	105.64
1980	27.821	1990	45.465	2000	61.03	2010	87.642	2020	108.689
1981	30.731	1991	47.13	2001	63.128	2011	90.494	2021	115.792
1982	32.742	1992	48.736	2002	64.538	2012	92.579	2022	124.97
1983	34.189	1993	49.95	2003	66.646	2013	95.654	2023	127.111

Source: This table was prepared using data from the 'Government consumption expenditures and gross investment-State and local' section of Table 1.1.9 (Implicit Price Deflators for Gross Domestic Product), Index numbers 2012 = 100, published by the U.S. Department of Commerce, Bureau of Economic Analysis at [https://apps.bea.gov/iTable/index\\_nipa.cfm](https://apps.bea.gov/iTable/index_nipa.cfm).

# Appendix C:

## Establishing the Estimated Useful Lives of Capital Assets

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Depreciation is a financial reporting concept. Depreciation is the systematic and rational allocation of the historical cost of a capital asset over its useful life. The estimated useful life assigned to a capital asset will directly affect the amount of depreciation expense reported each period in an accrual-based operating statement. Therefore, it is important to the quality of financial reporting that governments establish reasonable estimates of the useful lives of all of their depreciable capital assets.

Reporting depreciation expense **is not required** in the annual financial report to the Office of the State Comptroller (the Annual Financial Report (AFR) filed by local governments, or the ST-3 filed by school districts) **except** for local governments with enterprise funds.<sup>9</sup>

### Factors Affecting Useful Life

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Local governments should benefit, as much as possible, from the experience of other local governments and private-sector enterprises when estimating the useful lives of their capital assets. At the same time, these local governments should make whatever adjustments are needed to any estimates obtained from others to ensure that such estimates are appropriate for their own circumstances. It is especially important that local governments consider the potential effect of each of the following factors on the estimated useful lives of their capital assets.

**Quality** – Similar assets may differ substantially in quality and, therefore, in their useful lives because of differences in materials, design and workmanship. For example, an asphalt road will not have the same useful life as a concrete road. Likewise, the depth of the material used for paving purposes and the quality of the underlying base will also affect the useful life of a road.

**Application** – The useful life of a given type of capital asset may vary significantly depending upon its intended use. For example, a residential street may be expected to have a longer useful life than a major arterial thoroughfare because of differences in the type and volume of traffic.

**Environment** – Environmental differences among localities can have an important impact on the useful lives of their respective capital assets. For instance, the useful life of a road in a climate subject to extremes in temperature is likely to be different from that of a similar road located in a more temperate climate. Also, regulatory obsolescence may shorten the service life of some capital assets used in connection with highly regulated activities (e.g., utilities).

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The potential effect of each of the factors may be mitigated or exacerbated as a consequence of a local government's maintenance and replacement policy. For example, the potential for road damage is increased in a cold environment when cracks are not promptly repaired because water settling in the cracks will expand and contract, thereby accelerating the initial deterioration represented by the crack itself.

Once established, estimated useful lives for major categories of capital assets should be periodically compared with a local government's actual experience, and appropriate adjustments should be made to reflect this experience.

## Using Useful Life Tables

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Useful life tables are provided by the New York State Office of General Services (OGS) and used by the State of New York for depreciation purposes. They are intended as a guide. Local governments should develop their own table based upon their individual experience.

Useful life tables for Capital Assets can be found in Appendix E of the following OGS publication:  
<https://ogs.ny.gov/system/files/documents/2019/01/capitalassetsmanual.pdf>.

# Appendix D:

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## Infrastructure Assets

Infrastructure assets are long-lived capital assets that generally are stationary in nature and can be preserved for a significantly greater number of years than most capital assets. Examples of infrastructure assets include roads, bridges, tunnels, drainage systems, water and sewer systems, dams and lighting systems. Buildings, except those that are an ancillary part of a network of infrastructure assets, should not be considered infrastructure assets. Additionally, land is not considered part of the infrastructure and should be reported separately as land.

### Inventory of Infrastructure Assets

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A complete inventory of infrastructure assets is needed to manage them properly. An inventory should include the asset description, age and condition. Most of this key information is generally available in the department (highway, public works, etc.) that maintains these assets and is often needed for external reporting requirements. For example, local governments are responsible for reporting information on highways to the NYS Department of Transportation (DOT).

### Reporting Infrastructure Assets in Financial Statements

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Generally accepted accounting principles (GAAP) allow several alternatives for establishing initial infrastructure values when historical cost records are inadequate. These include estimating historical cost, estimating average age of assets and reporting only major infrastructure (small networks and subsystems don't need to be reported).

While OSC encourages all local governments to follow GAAP, reporting infrastructure assets **is not required** in the annual financial report to OSC (the Annual Financial Report (AFR) filed by local governments or the ST-3 filed by school districts) **except** for local governments with enterprise funds.

### Depreciating Infrastructure Assets

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While infrastructure assets have a long useful life, they do deteriorate and need to be depreciated. The same procedures apply to depreciating infrastructure assets as apply to other assets. However, GAAP permits an exception to depreciating infrastructure called the modified approach.



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## The Modified Approach

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In theory, many infrastructure assets may function indefinitely if they are adequately preserved and maintained. In effect, the expense of maintaining these assets becomes a surrogate for depreciation expense. Accordingly, GAAP allows for not reporting depreciation expense in connection with networks or subsystems of infrastructure assets, if the local government has made a commitment to maintain them at a predetermined condition level (of its own choosing) and has established an asset management system that is adequate for that purpose. A small number of governments nationwide use this approach.

The modified approach is available for all infrastructure networks and subsystems, including those of “business-type” activities (enterprise funds). If a local government fails to preserve and maintain that network or subsystem at the predetermined condition level (as indicated by the periodic condition assessment), it must then begin to depreciate the affected network or subsystem on a prospective basis. Alternatively, the local government could elect to lower the predetermined condition level.

To qualify for the modified approach, a local government must have an asset management system which ensures that:

- An up-to-date inventory is kept of the eligible infrastructure assets;
- Condition assessments are performed at least every three years; and
- Annual estimates are made of the amount needed to maintain and preserve the assets at or above pre-established condition levels.

A local government that elects to use the modified approach is required to disclose extensive details about its infrastructure assets in its financial statements. Supplementary information schedules must show the assessed physical condition of all eligible infrastructure assets based on at least the three most recent assessments.

The condition assessments must be performed at least once every three years and the dates of the assessments must be disclosed. The schedules must also show, for each of the past five reporting periods, the estimated annual amounts deemed necessary to maintain and preserve the assets at or above pre-established condition levels, compared with the amounts spent.

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Certain disclosures must accompany the schedules, such as:

- The basis for the condition measurement (such as the distress found in pavement surfaces);
- The measurement scale used to assess and report the condition (e.g., from zero for a failed pavement to 100 for a pavement in perfect condition); and
- The condition level at which the local government intends to preserve the infrastructure assets.

Factors that significantly affect trends in the information reported in the schedules such as changes in the measurement scales, bases for condition measurement or condition assessment methods must also be disclosed. If the condition level at which the local government intends to preserve infrastructure assets is changed, an estimate must be made of the effect of the change on the estimated annual amount necessary to maintain and preserve those assets for the current period.

In addition to the supplementary information schedules, the “Management Discussion & Analysis” section of the local government’s audited financial statements should highlight significant changes in the assessed condition of infrastructure assets, compare the current assessed condition with the local government’s intended preservation level and show any significant differences between the estimated amount necessary to maintain or preserve the assets and the actual amounts spent during the year.

The modified approach is not expected to be widely used because it is expensive, requires extensive disclosure and the information needed for reporting depreciation expense must continue to be maintained, so it is available if needed. However, if you already have an asset management system, this approach can provide valuable information for managing assets.

# Appendix E:

## Accounting for Capital Assets

### Capitalization Thresholds

Financial statement reporting needs to focus on higher value assets that exceed a certain amount called a capitalization threshold. While any asset that benefits two or more fiscal years potentially could be classified as a capital asset, as a practical matter, only higher value items are reported in the financial statements. Governing boards need to establish capitalization thresholds that assets must exceed before they are reported in financial statements. These can be different for different classes of assets.

Historically, these thresholds have usually been set at an unrealistically low level in a desire to ensure control over lower-cost assets. However, capitalizing numerous assets can overburden a capital asset system. Therefore, capitalization thresholds should be based exclusively on financial reporting needs. Other methods should be used to ensure control and accountability over lower-cost assets. For example, a government could use a capitalization threshold for inclusion in its financial statements of \$10,000 for equipment (local governments generally range from \$1,000 - \$50,000) and a \$500 threshold for capital assets that it will track/control internally.

To determine whether a capital asset materially affects financial statements, officials need to determine whether reporting the asset is important to those people who use the financial statements. The following questions can assist in this determination:

1. How much did the asset cost? If it isn't reported, will the financial statements be materially misstated?
2. How much is the book value (the undepreciated value) of the asset? If that amount isn't reported as depreciation expense in future financial statements, will they be materially misstated?

In practice, most governments will need to capitalize:

- Work reported in any capital projects funds – When projects are completed (or individual assets are placed into service), assets should be reported and depreciated. Unfinished projects are reported as an asset (construction work in progress) but are not depreciated because the asset hasn't been placed in service yet.
- Donated capital assets – For example, roads and sewer and water lines that are constructed by developers and donated to a municipality.
- Assets acquired through the operating budget that exceed the established capitalization threshold – These expenditures will be reported using the “.2 capital outlay” object of expenditure in the appropriate account code.

As a practical matter, there is no hard-and-fast rule. Local governments need to establish capitalization thresholds that result in their financial statements being fairly presented. But they also need to consider the resources they have available to do this. Each government must establish its own capitalization policy and apply it consistently.

# Notes

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- <sup>1</sup> In this guide, the term “local governments” generally refers to all municipal corporations (counties, cities, towns and villages), school districts and boards of cooperative educational services (BOCES), district corporations (e.g., fire districts), special improvement districts governed by a separate board of commissioners and public libraries.
- <sup>2</sup> See our *Local Government Management Guide* entitled [The Practice of Internal Controls](#) for policy considerations.
- <sup>3</sup> See our *Local Government Management Guide* entitled [Information Technology Governance](#) for additional guidance and information.
- <sup>4</sup> See our publication, [Establishing an Effective Fleet Management System](#) for additional guidance and information.
- <sup>5</sup> See our *Local Government Management Guide* entitled [Shared Services in Local Government](#) for additional guidance and information.
- <sup>6</sup> See our *Local Government Management Guide* entitled [Multiyear Capital Planning](#) for additional guidance and information.
- <sup>7</sup> Any such agreements should be reviewed by legal counsel before being agreed to by the local government.
- <sup>8</sup> Government Finance Officers Association Best Practices at [www.gfoa.org/materials/performance-measures](http://www.gfoa.org/materials/performance-measures).
- <sup>9</sup> Generally accepted accounting principles (GAAP) require that capital assets be depreciated. While the Office of the New York State Comptroller encourages all local governments to implement the provisions of GASB Statement 34, full implementation of this statement is not required to meet the financial reporting requirements of New York State General Municipal Law.

# Contacts



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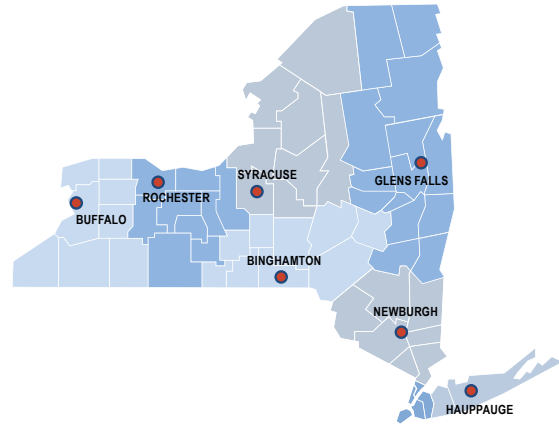
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