Accounting for Capital Assets Including General Infrastructure

Indiana LTAP Road School 2013
Purdue University
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Accounting and Financial Reporting for General Infrastructure

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Accounting for General Infrastructure

- Introduction
- Accounting Standards relate to the financial reporting of general infrastructure
- Significant investment
- Management Issues
Accounting for General Infrastructure

Resources of County, City, Town, State, and recent ending balance examples

- County at $140 M
- County at $500 M
- City at $100 M
- Town at $15 M
Accounting for General Infrastructure

Experience in practice with initial implementation
- ...is GASB the IRS?
- ...this is ok and you’re making it easy and it’s very do-able
- ...this is pretty good information and we probably should have been doing this all along
Accounting for General Infrastructure

Two basic needs

- Initial implementation
- Annual updating of general infrastructure worksheets
Accounting for General Infrastructure

Importance of decisions and preliminary tasks

- Decisions
- Definitions
- Written policy
- Written procedures
Accounting for General Infrastructure

...a government needs a record of its general infrastructure for financial reporting purposes and this record must be maintained annually as of the fiscal year end to reflect changes (additions and retirements).
Task at Hand...

Designing, monitoring, and maintaining an effective, economical, and efficient plan and process for the accounting and reporting of general infrastructure.
Task at Hand…

**Designing** capital asset information

- Process includes ‘defining’ capital vs. expense; repairs vs. improvements; and additions and retirements
- Includes consideration of final format of capital asset information and seeks to be user-friendly
Task at Hand...

**Designing capital asset information**

- Information to include generic asset description, location, department, etc.
- For accounting purposes needs to be auditable
- Information frequency is part of design
- Prospective reporting is part of design
- Database may be in Excel or some other database system
- Reporting mechanism can be on-line input form
Task at Hand...

**Monitoring** capital asset information

- Plan to periodically check integrity of entire database for both property accounting and property control
- An ‘iterative process’
- Large assets including general infrastructure may need to verify existence only
Task at Hand...

Maintaining capital asset information

- Annual update of information to subsequent fiscal year ends taking into account additions and retirements and adjusting information accordingly
- Decision to be made is choosing the logical person to maintain the integrity at the database - both centrally (point person responsible for annual updates) and departmentally (person in charge of additions and retirements for both the property accounting information and the property control information)
Task at Hand...

Maintaining capital asset information

- Centrally (comments)
- Departmentally (comments)
- Responsible person (comments)
What to do in accounting and reporting of general infrastructure

- Importance of Policy
- Clearly defining what’s going on regarding additions and retirements and repairs and maintenance
- Tracking and reporting construction-in-progress
Example – creation of a prospective reporting roadmap for capital assets

Policies and procedures

- Responsible person
  - Centrally
  - Departmentally

- Information required

- Information sources

- Timeframe for completion
Example - defining capital v. expense

- Capital defined
- Expense defined
- Specific written examples of each can help (in procedures documentation)
- Capital to be considered in light of increased capacity or efficiency
- Repairs and maintenance usually restore an asset to original service potential and does not necessarily comprise an improvement
- Potential checklist
Example – Capital v. Expense

- Reference capitalization threshold(s) of, say, $5,000 (or a higher amount) for furnishings and equipment, $100,000 for building improvements, and $250,000 for general infrastructure improvements.

- Concept of improvements vs. maintenance of current service potential (maintain = maintenance).
Example – Capital v. Expense

Common expense items for Roads
- Re-stripe
- Replace culvert
- Replace signage
- Replace guardrail
- Re-surface existing road
- Bridge joint repair
- Replace streetlight
Example – defining asset **additions**

- Only assets at or above capitalization threshold (a separate and increased amount for building and general infrastructure improvements)
- Assets must meet written definition and criteria of an improvement
- Newly constructed assets
- Level of detail with a view to future maintaining information for reporting future additions and retirements
Example – defining capital asset ‘improvement’

- ‘New’ asset defined
- Increased capacity defined
- Increased efficiency defined
- Example from GFOA Capital Asset Seminar
- An improvement generally extends an asset’s estimated useful life beyond the original expectation
- An extended estimated useful life usually involves a significant alteration or structural change
Example – Improvement

- Increase capacity – adding new lanes to an existing road
- Increase efficiency – same size etc., but service provided at less cost (example)
Example – Repair and Maintenance

Roads with a $250,000 capitalization threshold on improvements – does not mean capitalization of re-surfacing because road is still same length and width etc.
Example – defining **retirements** relating to general infrastructure

- General infrastructure
- Full retirement
- Partial retirement (example)
- Estimates and use of indexes to determine amount of historical cost to retire
Example – **Retirements**

- **Full retirements are easy**
- Partial retirement means to isolate retired portion and retired percentage of the total asset and retired percentage of the asset’s historical cost.
- Partial retirement may take current cost of the replacement asset and index to its estimated historical cost and retire that amount.
Example – construction-in-progress

Diamond Bridge – starts at planning and continues on to include design, engineering, environmental, and construction costs, etc.
Original Assistance Manual

Tool

- 2004 IN LTAP GASB 34 Assistance Manual
  - View toward economies
  - Inherent efficiencies
  - Simplicity
  - Provide direction and help
Original Assistance Manual

Tool

- 2004 IN LTAP GASB 34 Assistance Manual
  - No other state in the United States prepared an assistance manual
  - Manual has been used around the country
  - Facilitates accounting and reporting of general infrastructure
  - Interest is ease of use and cost benefit
  - Interest is in updating capability
Original Assistance Manual

**Tool**

- *two-fold* by design
  - Implementation
    - What do we have?
    - When did we acquire what we have?
    - What did we pay historically or for donated assets what would we have paid?
Original Assistance Manual

Tool

- two-fold by design
  - Implementation
    - Inventory
    - Aging
    - Lifing
    - Costing
Original Assistance Manual

Tool

- two-fold by design
  - Implementation
    - Depreciation calculations
    - Rights-of-way
    - All functional classes of roads included
    - All classes of infrastructure included
    - Rights-of-way included
Original Assistance Manual

Tool

- *two-fold* by design
  - Update
    - Additions
    - Deductions
    - Construction-in Progress
2013 Updated Manual

Tool

- 2013 IN LTAP GASB 34 Assistance Manual Revision and Update
  - New narrative section with annual reporting and updating focus
  - General infrastructure worksheets with filled-in examples and blank copies for use in accounting and reporting of assets
  - New and current replacement costs
2013 Updated Manual

Tool

- 2013 IN LTAP GASB 34 Assistance Manual Revision and Update
  - Supporting documentation for current replacement costs
  - Updated Consumer Price Index and Deflators through 12-31-12
  - Recommended Practices of the Government Finance Association
2013 Updated Manual - Worksheet examples

- Inventory
- Allocation and aging
- Costing
- Depreciation
- Rights-of-Way
Inventory example

Inventory columns A, B, C, D, E, G

<table>
<thead>
<tr>
<th>Road Name</th>
<th>From</th>
<th>To</th>
<th>Length (miles)</th>
<th>Width (ft)</th>
<th>Year Constructed</th>
<th>Length x Width (yards²)</th>
<th>* Deflation Cost Total ($)</th>
<th>** Historical Total Cost ($)</th>
<th>Asset Life (years)</th>
<th>*** Annual Depreciation ($)</th>
<th>Accumulated Depreciation ($)</th>
<th>Net Book Value ($)</th>
<th>ROW Area (Acres)</th>
<th>Total Fair Value per Acre for ROW ($)</th>
<th>**** Weighted Average Width of ROW (ft.) (Use 43.4' if value is not known)</th>
<th>ROW for Urban Local Roads Calculations</th>
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### Allocation and aging example

#### Aging column F

#### Urban Local Roads Calculations

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<th>Road Name</th>
<th>From</th>
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<th>Length (miles)</th>
<th>Width (ft)</th>
<th>Year Constructed</th>
<th>Length x Width (yards²)</th>
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<th>ROW Area (Acres)</th>
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<th>**Deflation for Year Acquired for ROW (Used CPI-Deflator)</th>
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## Costing example

### Costing columns H, I, J

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<th>Road Name</th>
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<th>To</th>
<th>Length (miles)</th>
<th>Width (ft)</th>
<th>Year Constructed (before 1900 go to middle of decade)</th>
<th>Length x Width (yards^2)</th>
<th>Replacement Cost Total ($)</th>
<th>* Deflation for Year Constructed</th>
<th>** Historical Total Cost ($)</th>
<th>Asset Life (years)</th>
<th>*** Annual Depreciation ($)</th>
<th>Accumulated Depreciation ($)</th>
<th>Net Book Value ($)</th>
<th>**** Weighted Average Width of ROW (ft.) (Use 43.4' if value is not known)</th>
<th>Total Fair Value per Acre for ROW ($)</th>
<th>ROW Area (Acres)</th>
<th>**** Deflation for Year Acquired for ROW (Used CPI-Deflator)</th>
<th>Historical Cost/Fair Value of ROW ($)</th>
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### Depreciation example

#### Depreciation columns K, L, M, N

| Road Name               | From | To   | Length (miles) | Width (ft) | Year Constructed | Length x Width (yards²) | Replacement Cost Total ($) | Deflation for Year Constructed | * Historical Total Cost ($) | Asset Life (years) | ** Annual Depreciation ($) | Accumulated Depreciation ($) | Net Book Value ($) | ROW Area (Acres) | Total Fair Value per Acre for ROW ($) | Historical Cost/Fair Value of ROW ($) | *** Deflation for Year Acquired for ROW (Used CPI-Deflator) | **** Weighted Average Width of ROW (ft.) | (Use 43.4' if value is not known) |
|-------------------------|------|------|----------------|------------|------------------|--------------------------|-----------------------------|-------------------------------|------------------------|-----------------|-------------------------|-----------------------------|-----------------|----------------|----------------------------------------|-------------------------------------|------------------------------------------------------------|-------------------------------|
| Madison 500E 600E       | 2.2  | 0.0  | 25.555         | 1,431,091  | 2003             | 25,555                   | 1,431,091                   | 1.00                          | $1,431,091             | 50              | $26,622                 | $57,244                     | $1,375,848                   | 4.3               | 11.8                      | $266,687                                                   | 1.000                                      |
| Jersey Union Ch. Hursch | 1.9  | 0.0  | 24.277         | 1,237,178  | 1999             | 24,277                   | 1,237,178                   | 0.91                          | $1,237,178             | 50              | $24,744                 | $148,461                    | $1,088,717                   | 4.3               | 10.0                      | $230,321                                                   | 0.905                                      |
| Akron SR T Ohio Rd.     | 2.5  | 0.0  | 52.772         | 2,939,415  | 2000             | 256,868                  | 1,652,007                   | 0.97                          | $2,939,415             | 50              | $56,788                 | $283,942                    | $2,555,474                   | 4.3               | 19.0                      | $436,397                                                   | 0.936                                      |
| Puff CR 261 Frosh       | 0.9  | 0.0  | 13.068         | 731,808    | 1940             | 13.068                   | 731,808                     | 0.09                          | $85,863                | 50              | $65,863                 | $266,687                    | $1,373,848                   | 4.3               | 4.7                       | $109,099                                                   | 0.102                                      |
| Deer Track Manick Rd.   | 7.9  | 0.0  | 91.766         | 5,138,918  | 1989             | 1,186,021                | 3,700,021                   | 0.72                          | $3,700,021             | 50              | $74,000                 | $1,184,007                  | $2,516,014                   | 4.3               | 41.6                      | $957,649                                                   | 0.674                                      |
| David Hursch Frosh      | 1.5  | 0.0  | 19.166         | 1,072,316  | 1989             | 19.166                   | 1,072,316                   | 0.93                          | $1,072,316             | 50              | $32,200                 | $1,181,352                  | $2,276,662                   | 4.3               | 7.9                       | $181,352                                                   | 0.035                                      |
| Sunflower Treeline 600E | 6.1  | 0.0  | 88.572         | 4,910,432  | 1989             | 88.572                   | 4,910,432                   | 0.99                          | $96,209                | 50              | $96,209                 | $4,915,806                  | $4,916,005                   | 4.3               | 32.2                      | $739,451                                                   | 0.978                                      |
| Farmers 100W SR 34      | 0.7  | 0.0  | 6.944          | 500,882    | 1968             | 6.944                    | 500,882                     | 0.15                          | $75,132                | 50              | $75,132                 | $500,882                    | $500,882                     | 4.3               | 3.7                       | $84,850                                                   | 0.147                                      |
| Waldron Treeline 250S   | 2.7  | 0.0  | 39.204         | 2,195,424  | 1968             | 39.204                   | 2,195,424                   | 0.17                          | $373,222               | 50              | $7,464                  | $276,184                    | $97,038                      | 4.3               | 14.2                      | $327,298                                                   | 0.175                                      |
| S1 SR 40 250S          | 7.9  | 0.0  | 100.943        | 5,652,810  | 1975             | 100.943                  | 5,652,810                   | 0.36                          | $2,035,012             | 50              | $40,700                 | $1,221,007                  | $814,005                     | 4.3               | 41.6                      | $957,649                                                   | 0.285                                      |
| Newton SR 100W          | 1.5  | 0.0  | 17.424         | 976,744    | 1974             | 17.424                   | 976,744                     | 0.36                          | $351,208               | 50              | $7,026                  | $217,766                    | $133,462                     | 4.3               | 7.9                       | $181,352                                                   | 0.285                                      |
| Taylor Frosh Treeline   | 6.1  | 0.0  | 70.858         | 3,968,026  | 1964             | 70.858                   | 3,968,026                   | 0.17                          | $674,564               | 50              | $13,491                 | $553,143                    | $121,422                     | 4.3               | 32.2                      | $739,451                                                   | 0.175                                      |
| Ross Manick Rd. Ohio Rd.| 0.7  | 0.0  | 10.164         | 569,184    | 1932             | 10.164                   | 569,184                     | 0.06                          | $34,151                | 50              | $34,151                 | $500,033                    | $129,034                     | 4.3               | 3.7                       | $84,850                                                   | 0.077                                      |
## Rights-of-Way example

**Rights-of-Way columns O, P, Q, R, S**

<table>
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<th>Road Name</th>
<th>From</th>
<th>To</th>
<th>Length (miles)</th>
<th>Width (ft)</th>
<th>Year Constructed (before 1980 go to middle of decade)</th>
<th>Length x Width (yards²)</th>
<th>Replacement Cost Total ($)</th>
<th>Deflation for Year Constructed</th>
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<th>Asset Life (years)</th>
<th><strong>Annual Depreciation ($)</strong></th>
<th>Accumulated Depreciation ($)</th>
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<th>**** Weighted Average Width of ROW (ft.) (Use 43.4' if value is not known)</th>
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<td>Manick Rd.</td>
<td>Ohio Rd.</td>
<td>0.7</td>
<td>25</td>
<td>1932</td>
<td>10,164</td>
<td>569,184</td>
<td>0.06</td>
<td>$34,151</td>
<td>50</td>
<td>$34,151</td>
<td>$34,151</td>
<td>$163,151</td>
<td>43.4</td>
<td>3.7</td>
<td>$84,859</td>
<td>0.077</td>
<td>$6,559</td>
</tr>
</tbody>
</table>
The end

- Summary
- Conclusion
- Questions
- Comments
- Additional Information
Accounting for Capital Assets Including General Infrastructure

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