

LSL 

WEBINAR

Capital Assets Crash Course

BACK TO BASICS | Earn 1 CPE credit

Tue, Sep 10
1:00PM PST





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Agenda

1. Capital Asset Overview
2. Capital Asset Additions
3. Depreciation of Capital Assets
4. Disposals of Capital Assets
5. Financial Reporting and Rollforward
6. Conclusion and Best Practices



Overview of Capital Assets

- *Capital Assets* are assets that used in operations with a useful life in excess of one year.





Major Classes of Capital Assets

Construction in Progress (CIP)	Costs of projects under construction, not yet in use.
Land	Always capitalized separately, even if associated with another asset like a building.
Buildings	Structures used in operations, typically depreciated over time.
Improvements Other Than Buildings	Permanent enhancements not part of the main building.
Furnishing and Equipment	Movable items with shorter useful lives than buildings. Also referred to as Machinery and Equipment or Vehicles and Equipment.
Infrastructure	Long-lasting assets like roads and bridges that form the backbone of government services.
Other Capital Assets	Miscellaneous assets not included in the above categories.



Capitalization Policies

- Cost Threshold Tangible or Intangible Asset exceeds the **capitalization threshold**.
 - Generally, applies to individual items, but can apply to groups of assets.
- Useful Life: Tangible or Intangible Asset has a useful life extending beyond one year and establishes minimum useful life for different capital asset types.



Polling Question #1

What is your cost threshold for capitalization?

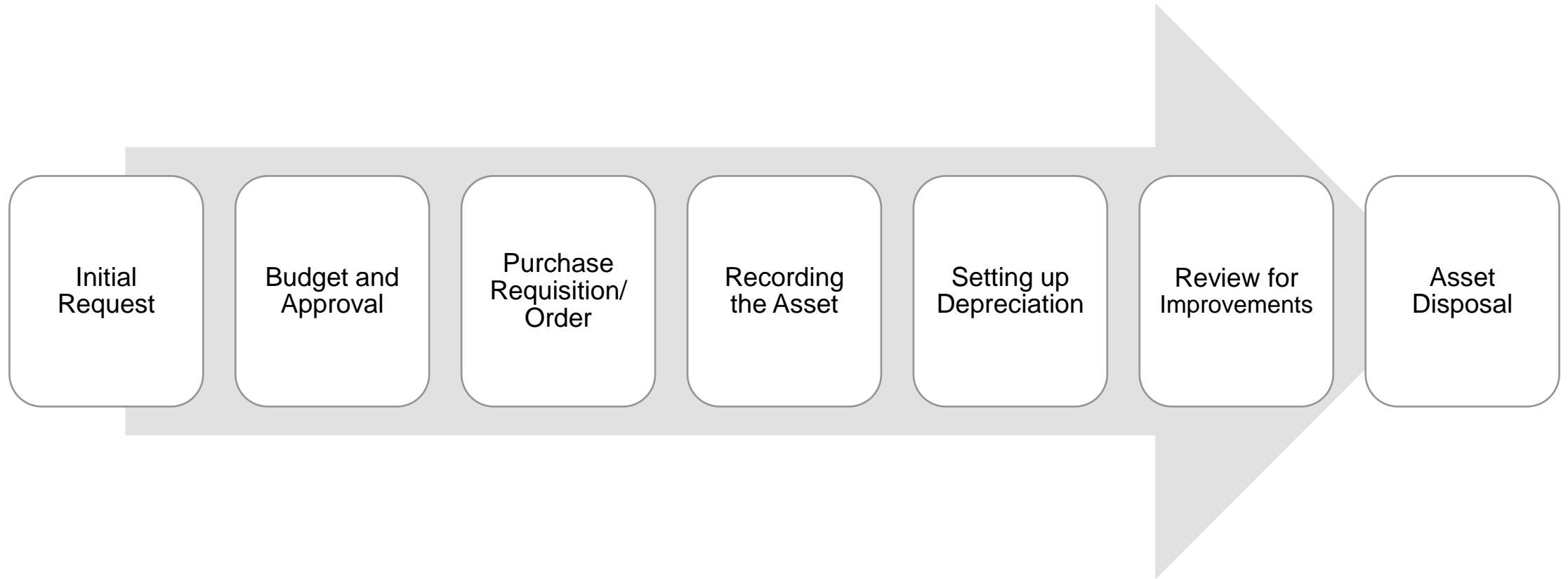
- A. \$1,000
- B. \$5,000
- C. Higher threshold only for infrastructure
- D. Varies depending on the capital asset



Capitalization Audit Notes

- Consider the disposal process when capitalizing groups of assets
- Capitalizing ineligible expenditures/expenses
- Omitting capital outlay expenditure items in comparison to total additions listing
 - Compare total capital outlay per GL to total asset additions prior to audit and scan repairs & maintenance accounts
- Including items unreceived by 6/30 as additions
- Informal policy recommendations
 - Add language/thresholds for GASB 87 and 96 right-to-use assets
 - Incorrectly applying thresholds in other areas
 - Updating verbiage and thresholds to mirror financial statements

Steps in the Acquisition Process



Recording Acquisition Costs



What Costs Should be Capitalized?

Direct Costs:

- Purchase Price
- Legal Fees
- Closing Costs
- Land Preparation

Ancillary Costs:

- Transportation
- Installation and Setup
- Insurance during transit or installation

Costs Not to Be Capitalized:

- Feasibility Studies
- Training Costs
- Interest Costs

Example: Purchase of Equipment

The City's Public Works Department needs new equipment to help with street maintenance tasks and personnel will need training on how to use it.

- The City purchases the equipment for \$50,000
- Delivery and Handling: \$1,500
- Installing a toolbox and safety lights: \$3,500
- Registration and Licensing Fees: \$500
- Initial Training: \$1,000

Total historical cost is \$55,500.

Journal Entries:

Modified Accrual:

Dr. Capital Outlay	\$56,500
Cr. Cash	\$56,500

Full Accrual:

Dr. Equipment	\$55,500
Cr. Capital Outlay	\$55,500

(or cash/liability for Enterprise Fund)



Donated Infrastructure

- **Acquisition Value:** Donated infrastructure should be recorded at its *acquisition value as of the date of donation*.

Capitalization:

- Donated infrastructure is capitalized just like purchased infrastructure.
- Include it in the capital asset records and apply appropriate depreciation over its useful life.

Example: Donated Infrastructure



A developer completed a new residential subdivision and donates the infrastructure to the City. The infrastructure is valued at \$500,000, based on construction costs documented provided by the developer.

Estimated value is \$500,000.

Journal Entries:

Modified Accrual:

No Entry

Full Accrual:

Dr. Infrastructure	\$500,000
Cr. Contribution	\$500,000



Capital Asset Additions – Audit Process

- Depreciable and non-depreciable typically sampled separately.
 - Statement of Net Position ACFR line items.
- Ensure copies of checks, invoices, and receiving documentation are available by request.
 - Compiling supporting documentation on a network drive throughout the year (quarterly) may ease the burden to pull support come fieldwork.
- Ensure accurate expense listing of capitalized Enterprise Fund CIP is available to sample.



“Best Practices” for Additions

1. Regular Reviews and Updates
2. Cross-Department Collaboration
3. Accurate and Timely Recording
4. Managing Large-Scale Projects



“Last Minute” Practices for Additions

1. Prioritize and Categorize
2. Gather Essential Documentation
3. Focus on Audit and Compliance Readiness



Polling Question #2

What frequency do you work on Capital Assets?

- A. Monthly
- B. Quarterly
- C. Periodically (for completed capital projects)
- D. End of the year



Overview of Depreciation

- Depreciation is the process of allocating the cost of a capital asset over its useful life.
- Key Considerations: Useful Life, Salvage Value, and depreciation Start Date.
- Straight-line method is the most common depreciation method.



Depreciation – Audit Notes

- Auditors will perform varying tests over depreciation.
 - Ratios, recalculations, assessment of reasonableness.
- Ensure listing of itemized assets with individual annual depreciation expense calculations are available.
- Review fully depreciated assets as of YE date to have available by request.
- Perform cursory reviews of useful lives to ensure ranges are in line with policy.

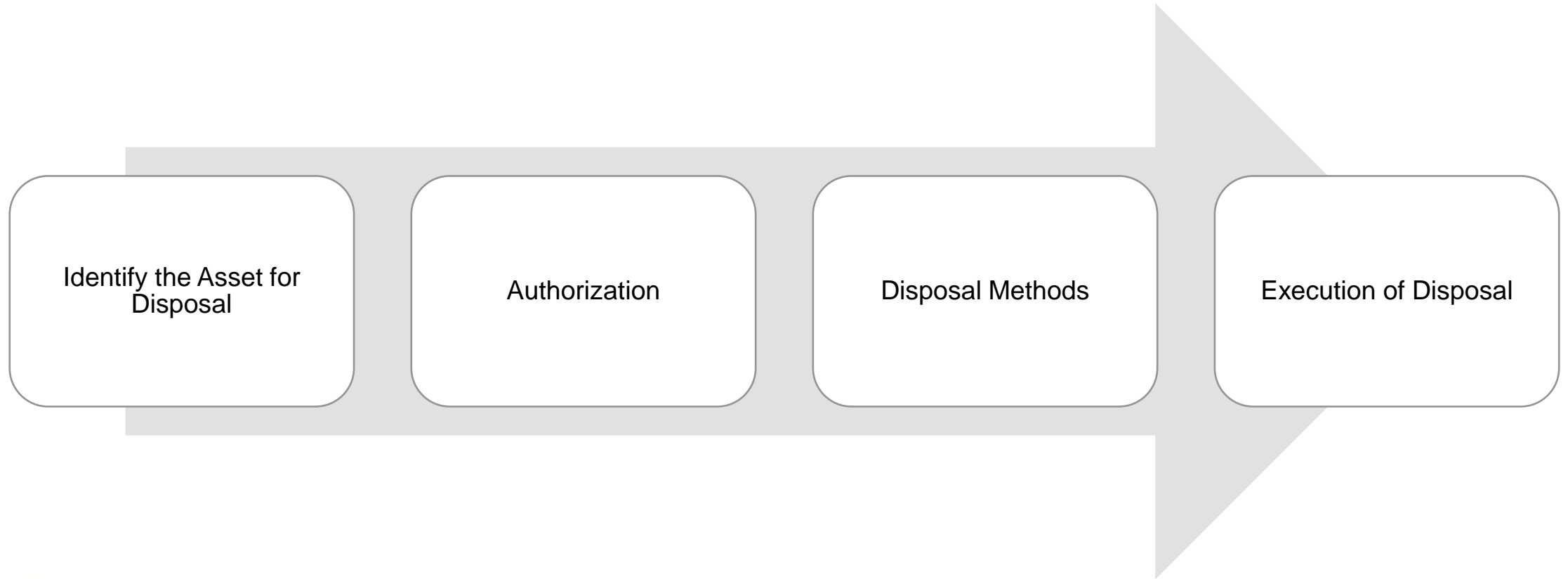


Depreciation Best Practices

1. Regular Reviews
2. Reconciliation
3. Maintain Records



Disposal Process Overview





Disposal Process – Audit Notes

- Retain notice of completion approvals for CIP transfers from CIP into depreciable asset category (commonly infrastructure).
- Ensure supporting documentation is maintained:
 - Oversight approval of surplus equipment designation
 - Auction sale approval
 - Copies of checks, receipt remittance, deposit detail
- Gain/loss support maintained for depreciation to date less sale proceeds.



Example: Disposal

A City vehicle purchased for \$25,000 reaches the end of its useful life after 10 years of service. The vehicle is identified for disposal, approved by the relevant department, and sold at auction. Proceeds of \$1,000 are recorded from the sale.

Journal Entries:

Modified Accrual:

(record cash on sale)

Dr. Cash	\$1,000
Cr. Proceeds from Sale	\$1,000

Full Accrual:

Dr. Vehicle – A/D	\$25,000
Cr. Vehicle	\$25,000



Polling Question #3

How often do you perform a review of capital asset records to identify end of life or disposed assets?

- A. Every Year
- B. About every 3 years
- C. About every 5 years
- D. Only if it seems necessary

Capital Asset Rollforward

	Beginning Balance	Adjustments	Adjusted Beginning Balance	Transfers	Increases	Decreases	Ending Balance	Balance Per GL	Difference
Capital assets, not being depreciated:									
Land									
City	24,621,646	-	24,621,646	-	-	-	24,621,646	24,621,646	-
Land	24,621,646	-	24,621,646	-	-	-	24,621,646		9200-00-00-000000-140100-
Construction/Subscription-in-progress									
City	13,494,388	-	13,494,388	(11,777,887)	6,273,005	616,919	7,372,587	7,372,587	-
City SIP	-	-	-	-	298,413	-	298,413	298,413	-
Information Technology (SIP)	-	-	-	-	259,368	-	259,368	259,368	-
Construction/Subscription-i	13,494,388	-	13,494,388	(11,777,887)	6,830,786	616,919	7,930,368		4100-00-00-000000-140710-
Total capital assets not being depreciated	38,116,034	-	38,116,034	(11,777,887)	6,830,786	616,919	32,552,014		
Capital assets, being depreciated:									
Buildings									
City	106,458,297	-	106,458,297	-	-	-	106,458,297	106,458,297	-
Buildings	106,458,297	-	106,458,297	-	-	-	106,458,297		9200-00-00-000000-140200-
Structures other than buildings									
City	38,561,659	-	38,561,659	166,857	-	-	38,728,516	38,728,516	-
Structures other than buildir	38,561,659	-	38,561,659	166,857	-	-	38,728,516		9200-00-00-000000-140210-
Machinery and equipment									
City	3,996,550	-	3,996,550	-	87,095	466,662	3,616,383	3,616,383	-
Equipment Maintenance (4200)	1,200,436	-	1,200,436	-	89,978	37,979	1,252,435	1,252,435	-
Data Processing (4100)	1,648,112	1,751,909	3,400,021	-	17,160	373,459	3,043,722	3,043,722	-
Machinery and equipment	6,845,098	1,751,909	8,597,007	-	194,233	878,100	7,913,140		9200-00-00-000000-140400- 4200-00-00-000000-140400- 4100-00-00-000000-140400-
Vehicles									
Equipment Maintenance (4200)	5,312,534	-	5,312,534	-	513,766	231,587	5,594,713	5,594,713	-
Vehicles	5,312,534	-	5,312,534	-	513,766	231,587	5,594,713		4200-00-00-000000-140300-
Pipeline in service									
City	217,375	-	217,375	-	-	-	217,375	217,375	-
Pipeline in service	217,375	-	217,375	-	-	-	217,375		9200-00-00-000000-140510-
Utility plant in service									
City	89,080	-	89,080	-	-	-	89,080	89,080	-
Utility plant in service	89,080	-	89,080	-	-	-	89,080		9200-00-00-000000-140500-
Infrastructure									
City	285,366,510	-	285,366,510	7,007,900	-	-	292,374,410	285,366,510.00	-
Storm Drain Infrastructures	44,463,553	-	44,463,553	4,603,130	-	-	49,066,683	49,066,683	-
Infrastructure	329,830,063	-	329,830,063	11,611,030	-	-	341,441,093		9200-00-00-000000-140610- to 9200-00-00-000000-140630 9200-00-00-000000-140640-
Right-to-Use Assets									
City - SBITAs	-	16,390	16,390	-	87,014	-	104,004	104,004	-
Equipment Maintenance - SBITAs	-	-	-	-	38,219	-	38,219	38,219	-
Information Technology - SBITAs	-	400,111	400,111	-	54,427	-	454,538	454,538	-
	-	417,101	16,990	-	179,660	-	596,761		9200-00-00-000000-140900 4200-00-00-000000-140900- 4100-00-00-000000-140900

Rollforward Example (Cont.)

Less accumulated depreciation													
Buildings													
City	35,050,057	-	35,050,057	-	2,890,579		37,940,636		37,940,636		-	9200-00-00-000-000000-149200-	
Buildings	35,050,057	-	35,050,057	-	2,890,579	-	37,940,636						
Structures other than buildings													
City	20,577,514	-	20,577,514	-	1,376,248		21,953,762		21,953,762		-	9200-00-00-000-000000-149210-	
Structures other than buildir	20,577,514	-	20,577,514	-	1,376,248	-	21,953,762						
Machinery and equipment													
City	2,875,035	-	2,875,035	-	277,547	457,715	2,694,867		2,694,867		-	9200-00-00-000-000000-149400-	
Equipment Maintenance (4200)	1,117,634	-	1,117,634	-	71,410	37,980	1,151,064		1,151,064		-	4200-00-00-000-000000-149400-	
Data Processing (4100)	1,216,558	-	1,216,558	-	163,684	373,131	1,007,111		1,007,111		-	4100-00-00-000-000000-149400-	
Machinery and equipment	5,209,227	-	5,209,227	-	512,641	868,826	4,853,042						
Vehicles													
Equipment Maintenance (4200)	4,116,564	-	4,116,564	-	315,193	181,677	4,250,080		4,250,080		-	4200-00-00-000-000000-149300-	
Vehicles	4,116,564	-	4,116,564	-	315,193	181,677	4,250,080						
Pipeline in service													
City	89,334	-	89,334	-	4,565		93,899		93,899		-	9200-00-00-000-000000-149510-	
Pipeline in service	89,334	-	89,334	-	4,565	-	93,899						
Utility plant in service													
City	18,772	-	18,772	-	1,848		20,620		20,620		-	9200-00-00-000-000000-149500-	
Utility plant in service	18,772	-	18,772	-	1,848	-	20,620						
Infrastructure													
City	207,368,710	-	207,368,710	-	9,209,910		216,578,620		216,578,620		-	9200-00-00-000-000000-149610 to 9200-00-00-	
Storm Drain Infrastructures	31,019,073	-	31,019,073	-	977,171		31,996,244		31,996,244		-	9200-00-00-000-000000-149640-	
Infrastructure	238,387,783	-	238,387,783	-	10,187,081	-	248,574,864						
Right-to-Use Assets													
City - SBITAs	-	-	-	-	28,294		28,294		28,294		-	9200-00-99-997-000000-72005	
Equipment Maintenance - SBITAs	-	-	-	-	2,940		2,940		2,940		-	4200-00-00-000-000000-149800-	
Informational Technology - SBITAs	-	-	-	-	129,711		129,711		129,711		-	4100-00-00-000-000000-149800-	
	-	-	-	-	160,945		160,945						
Total accumulated depreciation/amortization	303,449,251	-	303,449,251	-	15,449,100	1,050,503	317,847,848						
Total capital assets being depreciated, net	183,864,855	2,169,010	185,633,754	11,777,887	(14,561,441)	59,184	183,191,127						
Governmental activities capital assets, net	221,980,889	2,169,010	223,749,788	-	(7,730,655)	676,103	215,743,141						

CIP Rollforward Example



Project Name	7/1/2023	Additions	Deletions	6/30/2024	Ongoing as of YE?
Project 1	200,000	350,000	-	550,000	Yes
Project 2	195,000	240,000	-	435,000	Yes
Project 3	375,000	120,000	(495,000)	-	No
Project 4	300,000	500,000	(800,000)	-	No
Project 5	275,000	200,000	-	475,000	Yes
Project 6	400,000	120,000	-	520,000	Yes
	1,745,000	1,530,000	(1,295,000)	1,980,000	



Polling Question #4

What do you find to be the hardest part of managing capital assets?

- A. Recording asset additions
- B. Identifying asset disposals
- C. Calculating depreciation
- D. Managing everything at once

Financial Statements (Display)



	Primary Government		
	Governmental Activities	Business-type Activities	Total
Assets			
Current assets			
Cash and investments	\$ 91,563,683	\$ 21,923,150	\$ 113,486,833
Prepaid items	60	-	60
Receivables			
Taxes	327,784	-	327,784
Accounts	1,553,966	3,768,567	5,322,533
Accrued interest	3,385,891	-	3,385,891
Internal balances	698,134	(698,134)	-
Due from other governments	7,876,708	133,136	8,009,844
Land held for resale	800,000	-	800,000
Total current assets	106,206,226	25,126,719	131,332,945
Noncurrent assets			
Restricted assets			
Cash and investments	9,387,650	936,864	10,324,514
Cash and investments with fiscal agents	1	2,213,477	2,213,478
Notes and loans receivable	16,333,718	-	16,333,718
Leases receivable	5,565,013	-	5,565,013
Capital assets not being depreciated or amortized	74,682,920	54,326,338	129,009,258
Capital assets, net of depreciation and amortization	136,412,530	84,002,771	220,415,301
Equity in California Domestic Water Company	-	14,512,881	14,512,881
Total noncurrent assets	242,379,832	155,791,531	398,171,363
Total assets	348,586,058	180,918,250	529,504,308

Comprise 61% and 76% of total assets for Governmental Activities & Business-type Activities!

Comprise 66% of total assets!



Notes (Disclosure)

Tangible Asset; used in operations, but not depreciated

Tangible Asset; used in operations, being depreciated

Intangible Asset; used in operations, being amortized

	Beginning Balance As Restated	Transfers	Additions	Disposals	Ending Balance
Governmental activities:					
Capital assets, not depreciated					
Land	\$ 62,092,796	\$ -	\$ -	\$ -	\$ 62,092,796
Construction in progress	12,947,484	(3,266,589)	2,909,229	-	12,590,124
Total Capital Assets, Not Depreciated	75,040,280	(3,266,589)	2,909,229	-	74,682,920
Capital assets, being depreciated					
Structures and improvements	122,858,232	-	1,719,212	(414,524)	124,162,920
Equipment	21,396,043	-	2,448,765	(739,302)	23,105,506
Infrastructure	155,516,749	3,266,589	539,848	-	159,323,186
Total Capital Assets Being Depreciated	299,771,024	3,266,589	4,707,825	(1,153,826)	306,591,612
Less accumulated depreciation for					
Structures and improvements	(60,089,465)	-	(2,458,031)	160,895	(62,386,601)
Equipment	(15,604,219)	-	(850,918)	708,156	(15,746,981)
Infrastructure	(87,329,835)	-	(5,099,486)	-	(92,429,321)
Total Accumulated Depreciation	(163,023,519)	-	(8,408,435)	869,051	(170,562,903)
Right-to-use assets:					
Equipment	56,010	-	110,620	-	166,630
Subscription IT asset	246,357	-	84,746	-	331,103
Total Capital Assets Being Depreciated	302,367	-	195,366	-	497,733
Less accumulated amortization for					
Equipment	(28,691)	-	(2,451)	-	(31,142)
Subscription IT asset	-	-	(82,770)	-	(82,770)
Total Accumulated Amortization	(28,691)	-	(85,221)	-	(113,912)
Total Capital Assets Being Depreciated/Amortized, Net	137,021,181	3,266,589	(3,590,465)	(284,775)	136,412,530
Governmental Activities Capital Assets, Net	\$ 212,061,461	\$ -	\$ (681,236)	\$ (284,775)	\$ 211,095,450





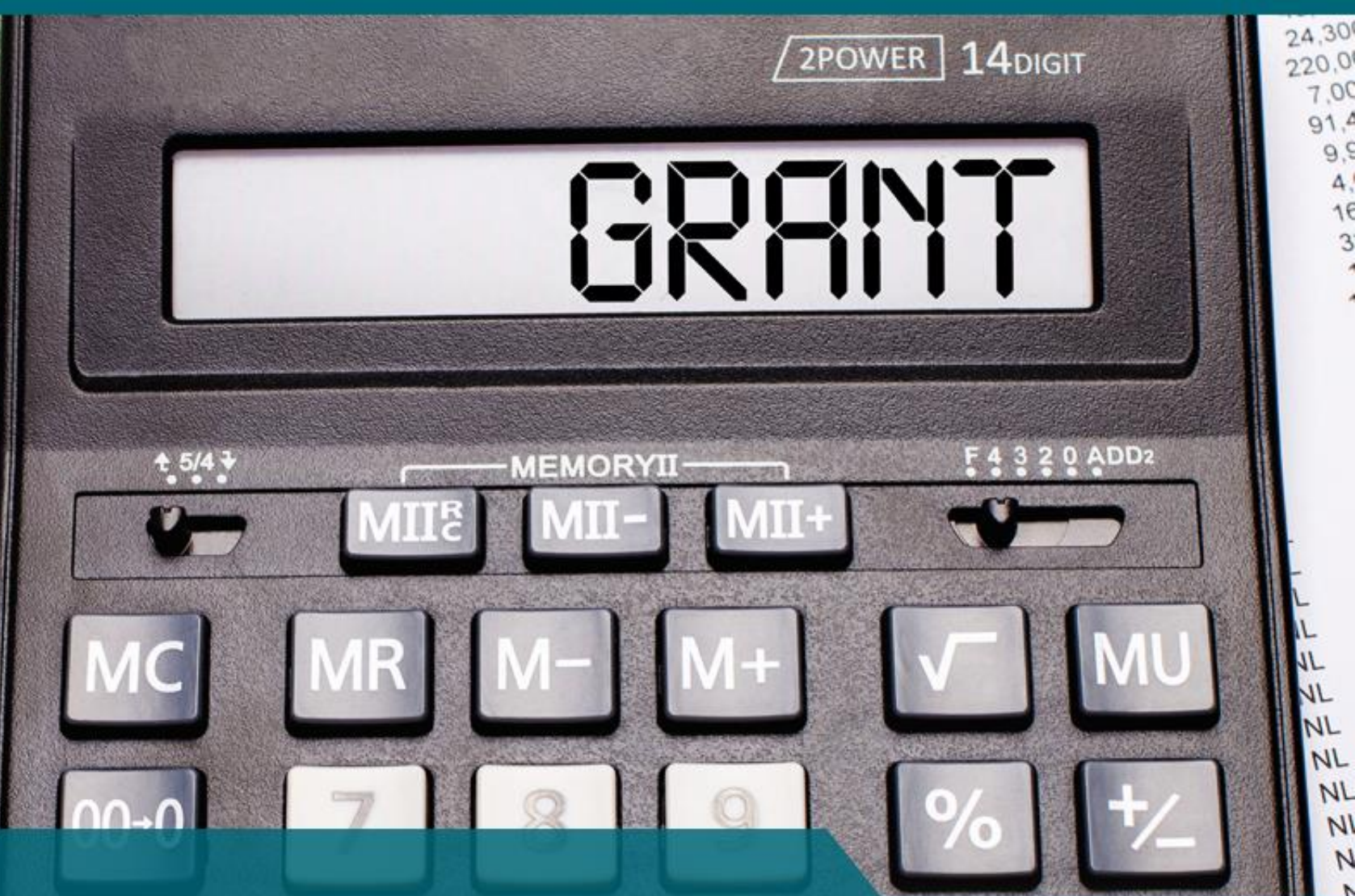
Final Tips and Resources

- GFOA: Capitalization Thresholds for Capital Assets
<https://www.gfoa.org/materials/capitalization-thresholds-capital-assets>
- GFOA: Accounting for Capital Assets: A Guide for State and Local Governments (*available for purchase*)
- GFOA: Estimated Useful Lives of Capital Assets
<https://www.gfoa.org/materials/estimated-useful-lives-capital-assets>
- GFOA: Inventories of Tangible Capital Assets
<https://www.gfoa.org/materials/inventories-tangible-capital-assets>



Questions

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