



Office of the
Washington
State Auditor
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Best Practices for Tracking Capital Asset Information

Starting in about 2002, the Governmental Accounting Standards Board required general-purpose governments to start reporting all capital assets, including infrastructure assets such as roads and buildings. Some were able to report prospectively while others had to add retroactive information. Governments have a tremendous amount of assets, and some may have been rushed to record this information. The manner in which these assets were recorded may have caused later challenges as that information needed to be added to, adjusted, or removed. There are ways to design a capital asset tracking system that ease the burden of managing this information in future years. These best practices aim to help describe some of those methods. This resource largely draws from practices used by public utility districts, as well as that of a few others in the government industry. Consider these best practices as you work to improve your capital asset tracking.



1) Use clear descriptions. Asset descriptions should clearly identify and describe the assets that were purchased or constructed. Asset descriptions need to stand the test of time, as these are long-lived records. For example, descriptions such as “2017 Improvements” do not provide enough information. Vague asset descriptions can make it difficult, if not impossible, to identify a specific asset when an accountant attempts to relate real events to financial records. An accountant might need to locate the original asset record when many different situations arise, such as:

- When an asset (or part of an asset) is replaced, improved, or disposed of
- To evaluate or record a possible impairment
- To confirm an asset’s existence, such as tracing an asset to its physical location during an inventory or for other reasons
- When evaluating an asset’s condition or remaining useful life for budgeting or reporting purposes
- When trying to determine if a specific asset was ever capitalized

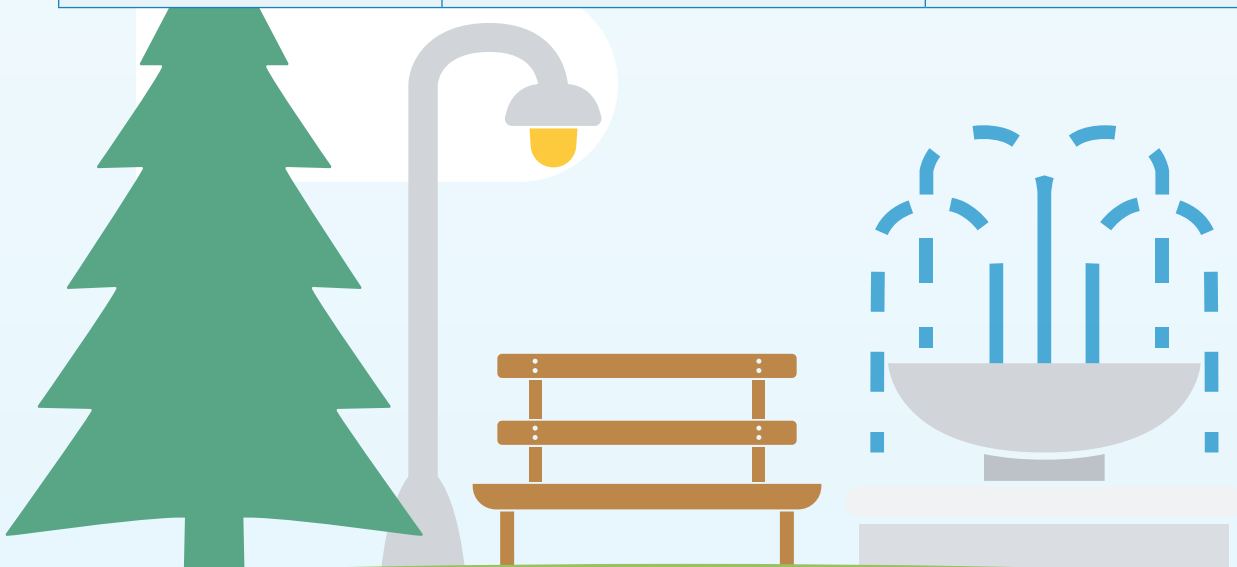
Local governments can facilitate clear asset descriptions by having an overall plan and policy on how they will track their capital assets. This should include how governments identify individual assets and when other alternatives are employed. Local governments can also facilitate asset identification by maintaining supporting records of each capital asset record. Local governments should be aware of state retention requirements for capital asset records found in the [records management program](#) of the Washington State Archives. That guidance does not prescribe the form and content of records, but rather requires how long records with certain purposes should be retained.



2) Record assets, not projects. A project is a set of related capital work – often completed in the same location, or otherwise bid, managed or funded as a group – resulting in one or more assets. Local governments might find it expedient to record each project as a single asset record, but this practice often causes issues later. It is a better practice to record the specific assets constructed. This improves financial reporting by allowing the identification of assets in the capital asset records at the time of replacement or disposal. It also allows the government to better account for and assign the varying useful lives of different assets within a project.

For example, an asset record identified as the “Johnson Creek Project” might include a pump station, water lines, system meters, a decorative fountain and a tank sharing the same site. In Example 1 (table below), the entire project is recorded as one asset, but it is not clear what assets it includes. We assume it does not include land or other non-depreciable assets because these must be classified separately. However, the description contains no further information about the specific assets constructed. Example 2 capitalizes the individual assets, whereas example 3 records some of the assets with other asset types (a group approach). Example 2 will create more asset records than example 3.

Example 1 - project based	Example 2 – individual assets	Example 3 – Composite and by asset class
Johnson Creek project	Johnson Creek pump station	Johnson Creek pump station
	Johnson Creek water lines	Water lines (in miles)
	Johnson Creek system meter	System meters
	Johnson Creek fountain	Fountains



3) Evaluate individual asset tracking. The Governmental Accounting Standards Board (GASB) allows flexibility in how assets are depreciated. GASB describes depreciating assets by class of assets, network of assets, subsystems of a network, or individual assets (GASB Statement 34, paragraph 22). GASB also provides for composite depreciation within the GASB Codification 1400.161-164. It uses this term to describe depreciating assets as a group. However, this is traditionally referred to as “group depreciation” when used for very similar (homogeneous) assets.

In some instances, it is beneficial to record individual assets to more accurately allocate depreciation to the years benefitted. However, this also might result in voluminous records and increased accounting work. Some governments historically have grouped assets for depreciation purposes for this reason, such as for water meters that are depreciated using the group depreciation method.

Here are some possible alternatives for depreciating assets using an infrastructure example:

- *Class of assets:* This might be paved road miles (by road surface or road foundation, separately or combined), sidewalk miles, signage, and traffic lighting. For example, with paved road miles, the asset record would be updated as new roads are built. As road is retired, it could be removed using alternative costing method such as average historical cost per mile.
- *Network:* The road system could be one network with additions/disposals recorded in one asset record. The support for the additions would need to be retained each year.



4) Leverage operational tracking. Operations or departments (such as public works) are ultimately responsible for a local government’s infrastructure assets because they handle everything from purchase to maintenance and eventual replacement. Many local governments are moving to GIS systems for asset tracking. Others might have asset management systems that are more like a database. Local governments can sometimes leverage these detailed records for accounting and reporting purposes if sufficient internal controls are in place to ensure the information is reliable.

In one example, the GIS system tracks the detailed capital assets while the general ledger primarily tracks dollars related to them. In this sense, the GIS system has become essentially a subsidiary ledger to the financial system.

In another example, an integrated asset management system tracks and reports capital assets in two modules that interface and work together to track the same assets for different purposes. A government’s needs, systems, and resources vary; therefore, it is important to consider what options are available and design the approach that works best for your government.

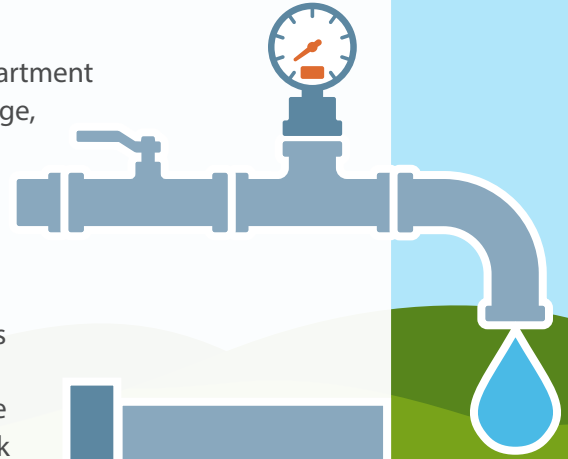


5) Plan for asset retirements. Capital asset accounting records, as well as entity policies, will determine how easy it is for accountants to record asset retirements and replacements. There are three main challenges: (1) notification of all disposals or replacements; (2) locating the asset record to update once notified; and (3) determining how to record the disposal or replacement.

(1) *Notification:* Departments should notify the accounting department when disposals or replacements occur. This can be a challenge, especially when it comes to infrastructure. For example, consider permanently abandoned water or sewer lines or roadwork that result in removal of part of the original asset. Local governments should have well-communicated policies and procedures over disposals and replacements. Inventories can serve as a double-check that reported assets still exist, but the effectiveness varies depending upon the diligence of those conducting the inventory, as well as those overseeing it. In addition, traditional inventories do not work well for some infrastructure assets such as buried water or sewer lines. In these cases, an effective notification process is particularly important.

(2) *Locating the original asset record:* This challenge is best addressed by recording and describing assets in a manner that facilitates an accountant easily accessing the information they need to record the disposal or replacement. In addition, maintaining adequate support for capital asset records can be helpful in case questions arise about the original asset in subsequent years.

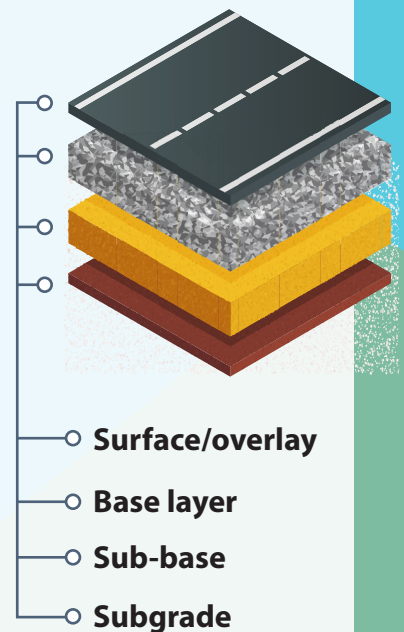
(3) *Recording disposals and replacements:* The third challenge can be especially difficult when a component of a larger asset is replaced. Local governments should decide how to handle these transactions and formalize this decision in policy. As discussed in the Government Finance Officers Association (GFOA) book *Accounting for Capital Assets: A Guide for State and Local Governments* (page 77), several approaches are used in practice. Alternatively, use of group or composite depreciation involves specific guidance for retirements and disposals. An important aspect to one possible approach is determining how the valuation of the component costs removed from the larger, composite asset record will be determined.



6) Decide early about componentization. Componentization involves identifying and separately recording asset components that have different useful lives and depreciating them over their respective useful lives. For example, a building is a composite asset because it consists of many components beyond the building shell and foundation, such as a roof, heating and cooling system and electrical system, that have different useful lives. A road could also be considered a composite asset because of the surface layer and the base/sub-base having different useful lives.

GASB does not specifically address componentization in its authoritative literature, except that it gives the option to track individual assets. It is a preferred method because it more accurately allocates depreciation over the periods benefitted than use of a composite rate. The Budgeting, Accounting, Reporting System (BARS) Manual allows the option for governments to use this methodology.

Componentization can facilitate accounting for replacements of key components and has several other benefits, including relating components more directly to operational records such as replacement schedules (for useful life purposes). However, it also increases the number of records and requires allocation of initial construction costs to the various components. Governments should evaluate the pros and cons of componentization before implementing it. In addition, governments should update policies to include when and how componentization will be used so that accounting practices are consistent over time. From a practical standpoint, it is a practice that is likely best implemented on a going-forward basis for certain types of assets.

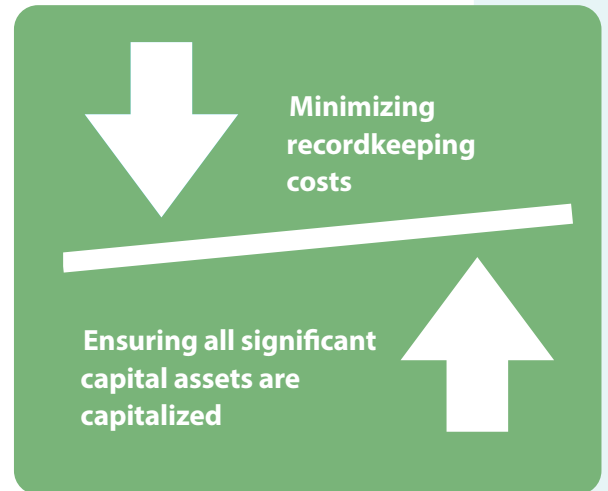


7) Consider information value. Local governments should consider the costs and benefits of maintaining very detailed asset records in the financial system. For example, power poles could be recorded as one asset class and depreciated using group depreciation. Alternatively, the poles could be recorded in different groups determined by length or type of pole. While this example is simple and might not actually result in more accounting costs to manage long-term, it demonstrates accounting decisions that might result in more detailed records.

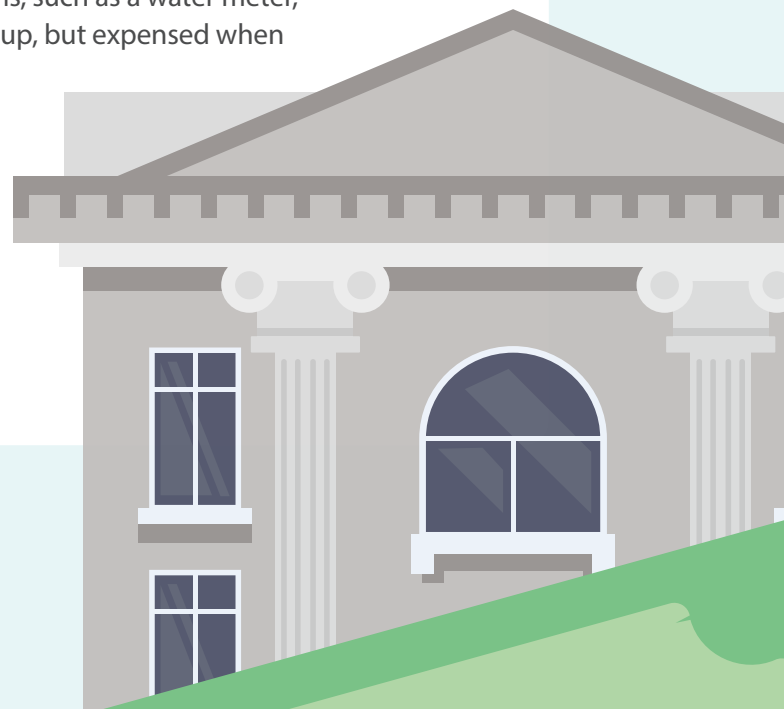
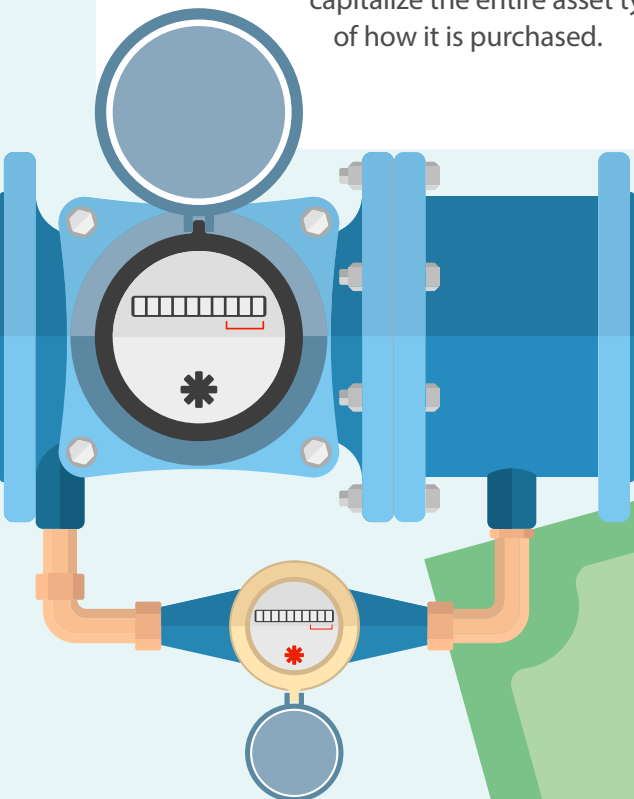
It can also be helpful to consider the overall number of capital asset records using different approaches and determine whether this is a manageable amount.

Example 1	Example 2
Utility poles	Utility pole class 1
	Utility pole class 2
	Utility pole class 3
	Utility pole class 4

8) Consider materiality. A government’s materiality threshold for capital assets is meant to ensure all significant costs are included to fairly represent financial condition and net position, while excluding the small assets that would not make a difference. Materiality thresholds can be changed on a prospective basis if current thresholds result in tracking many small items that do not make a difference for financial reporting purposes (qualitatively and quantitatively). Governments are also permitted to have different materiality levels for various asset types. For example, many governments have deviated from the traditional \$5,000 capitalization threshold for assets such as infrastructure. If a government is tracking small assets because it wants controls over them, this can be accomplished without capitalizing and depreciating them in the financial system. A helpful guide on best practices over non-capital assets (otherwise known as small and attractive or theft-sensitive assets) can be found at <https://portal.sao.wa.gov/Performance-Center/#/address?mid=6&rid=18520>.



A local government also might purchase small items, such as a water meter, that might be capitalized when purchased as a group, but expensed when purchased individually. This occurs because one meter falls under the materiality threshold, but many meters purchased together exceed it. You should consider whether the asset type is significant as a whole to the financial statements and make a policy decision about whether to capitalize the entire asset type, regardless of how it is purchased.

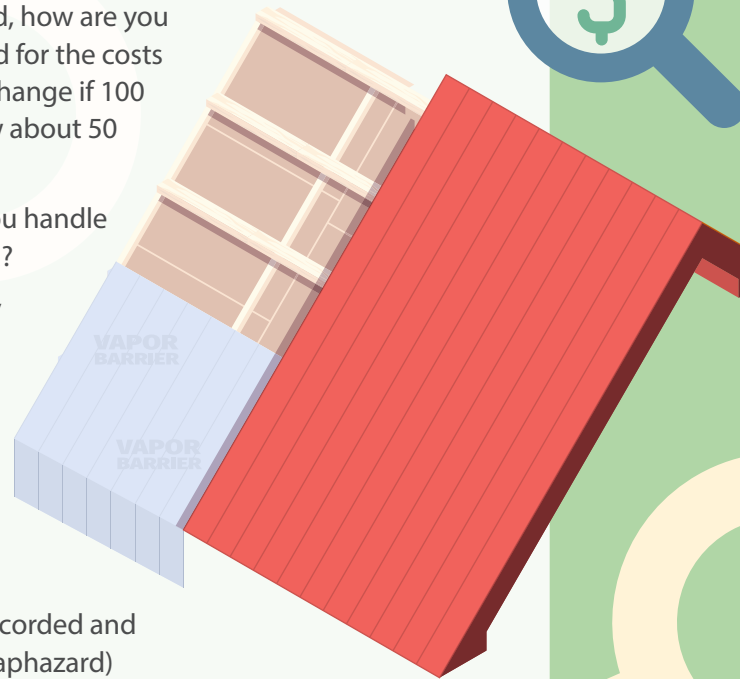


9) Anticipate complexities. Local governments that dig deep into capital asset accounting likely will uncover situations that are more complex. For example, a number of questions can arise when considering asset replacements:

- How and when should a building remodel be capitalized when the original building has remaining useful life? What if there have been multiple remodels?
- When capitalizing overlay that is partially replaced, how are you going to handle updating the original asset record for the costs related to the original overlay? Does the answer change if 100 percent of the original overlay was replaced? How about 50 percent? 10 percent?
- When a roof is replaced for a building, how will you handle the transaction to avoid two roofs being recorded?

It is best to have a plan and provide guidance in policy rather than leaving it up to individual accountants to make determinations on a case-by-case basis. The benefits of anticipating unexpected complexities are:

- Consistent accounting practices
- Prevention of errors and/or omissions
- Organized capital asset records (how assets are recorded and identified is intentional, rather than evolving or haphazard)
- Clearer, robust policies



10) Execute a plan and update financial policies. Designing or redesigning a capital asset system requires considering many options and making policy decisions. If changes occur, they should be part of an overall plan. Asset tracking, capitalization plans, and related decisions should be realistic in light of the government's staffing resources but also fairly present capital asset information for financial reporting purposes. Remember that changes and improvements may be phased in over time, but deadlines and progress tracking should be in place.

Changes to accounting practices should be formalized into written policy. Policies survive organizational change and turnover, ensuring that practices are consistent over time. Policies also reflect long-term thinking and planning and are an effective tool to manage risks, implement best practices, and memorialize management decisions.



Additional resources:

- Governmental Accounting Standards Board (GASB) guidance ([codification 1400 capital assets](#)). *Note: GARS Basic View is an option for free access to the GASB codification.*
- Budgeting, Accounting and Reporting System (BARS) Manual (GAAP): <https://sao.wa.gov/bars-annual-filing/bars-gaap-manual/>

For assistance

This resource has been developed by the Center for Government Innovation of the Office of the Washington State Auditor. For specific accounting questions about capital assets, please use the Helpdesk at SAO Online Services at www.sao.wa.gov.

Please send any other questions, comments, or suggestions to Center@sao.wa.gov.

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