



LOCAL GOVERNMENT MANAGEMENT GUIDE

CAPITAL ASSETS

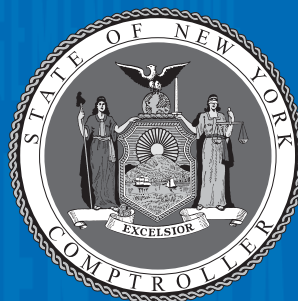


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Capital Assets

Introduction

A local government's 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. It is this value that local managers must maximize through their practices. Managers must ensure that capital assets are protected from loss, that their value is maintained, and that they are used effectively. This chapter will address a number of practices that local officials can use to receive the most value from their government's investment in capital assets.

Overview

For the purposes of this chapter, capital assets are defined as tangible or intangible assets that are used in operations and that have useful lives of more than one year, such as land and improvements to land, buildings and building improvements, vehicles, machinery, equipment, sewer, water and highway infrastructure.

The following sections are designed to help local managers maximize the value received from their government's investment in capital assets:

- Risk Assessment
- Asset Protection
- Asset Maintenance
- Asset Performance

I. Risk Assessment

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

Municipal capital assets, like other assets, are subject to risks of loss, waste or misuse. Unlike other assets, capital assets are also subject to the risk of obsolescence. These risks will vary depending on the nature of the assets involved. For example, computer equipment is generally at a greater risk of loss through theft than a bulldozer or a building! Computer equipment may also have a greater obsolescence risk. (As a related matter, there may be more risk to a local government's ability to function if the computer goes down than if the bulldozer does.) The risk of waste would be greater for those assets (inventories) that are inexpensive or used up in process, such as road salt and other highway materials. The risk of loss is greater when items are indiscernible from each other. Tools, office supplies and vehicle maintenance parts are some of the items that are at greater risk for loss. Misuse may be more likely to occur with those capital assets that can be used for other than municipal purposes. Vehicles and computers are just two examples of these types of assets.

Local managers should assess the significance and likelihood of all of the risks threatening municipal capital assets. Significance should be assessed in such terms as dollar amounts involved, operational importance and public perception. Considerations of likelihood should address such issues as the nature and function of each asset (see examples cited above). Managers must then decide how best to address the significant and likely risks. The costs of each action should be weighed against the benefits. (See also the *Local Government Management Guide Chapter on Internal Controls*.)

II. Asset Protection

Policies

First and foremost, local managers should see to it that municipal capital assets are adequately protected from loss, waste 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 municipality's capital assets. 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. Essentially, a fixed asset policy should address each of the components contained within this section.

Property Control Manager

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 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. Initial and subsequent physical inventories are also the responsibility of the property control manager.

In practice, the governing board would 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 would also be designated. Usually, department heads are designated as departmental custodians with the provision that they may appoint someone to act for them.

Property Records

Capital asset protection begins with quality record keeping. 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. Generally, there are two types of records: the real property record and the personal property record. All property records should be maintained by the property control officer. Appendix A contains sample records for a manual system. Similar information should be recorded in a computer system.

Real property records contain substantial information about a parcel. 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 may include the date of purchase, the price, the assessed and appraised values, and the department using the property.

It is a good practice to use an envelope folder for each property to file a copy of the deed, the resolution of the board authorizing acquisition of the parcel, condemnation papers, correspondence and all other documents relating to the individual parcel.

Personal property records are maintained for each piece of personal property, whether a truck, computer or file cabinet. Sufficient information must be on the card to identify the item. Information to be recorded should include:

- a description of the item, including make, model and serial numbers;
- the assigned identification number (where appropriate);
- the date, amount, vendor and voucher number for the purchase;
- the department having custody and the location within the department;
- the source of funds used to purchase the item and any adjustments to the initial cost.

Lower-priced like items, such as books, can be accounted for as a group, with total costs and counts recorded on a single property record card.

If part of the cost of an item is financed by a trade-in, the gross amount and not the net expenditure should be shown. When an item has been disposed of, that fact should be reflected on the card. The card could also provide space to record depreciation, the loss in service value of the asset due to wear and tear and obsolescence. This is useful information for managers when dealing with asset maintenance and/or replacement.

Should a capital asset appreciate in value, the property manager may want to note this fact on the particular property card for informational purposes. Among other things, this information will be useful in determining insurance coverage.

Capital asset record keeping can be made easier by using current technology such as video cameras, digital cameras, document scanners, computers, barcode technology and other tools. In larger municipalities, computerized record keeping is especially valuable for tracking capital asset inventories. 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

Any accounting system is only as good as the information that it contains. To be of value, property record cards (and related control accounts) must contain a complete and accurate account of the capital assets owned by the municipality. 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. Taking 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 sample forms.

Taking an initial inventory of capital assets can be a daunting task. There are ways to make this necessary action less intimidating. The inventory can be broken into several smaller counts, spread out over time. Managers 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, physical inventories can be delayed with less risk. Where safeguards are lacking (more risk), counts should be scheduled as soon as possible.

Large, expensive assets can be “booked” with minimal effort. Real property, heavy equipment, vehicles, etc., can probably be counted and recorded relatively quickly. Common sources of information for listing real property include: deeds, maps, assessor’s property cards, tax rolls, insurance records, claims, resolutions of the governing body and department records. Sufficient information about each item should be recorded on the property record card to identify it. Dollar-wise, much of the capital asset inventory should be comprised of these few, expensive items. Get an accurate count of these items early, because many of these same items make up the bulk of the insurance coverage and related costs.

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 ability and cost to compile and maintain records. Subject to statutory requirements, the minimum amount could 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.

Also, similar items, even though each item costs less than the minimum may be grouped together and included in the capital assets. For example, steel chairs used in the auditorium may only cost \$25 each. However, if 100 chairs were purchased, the total purchase represents a significant investment that may be included in the capital assets 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. Some information may be obtained from departmental records.

Every effort should be made to list all property 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. Also, it 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

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's office.

Periodically, the property control manager's office should see to it 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 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 in this area.

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.

Additional Safeguards

Once an accurate and complete record of capital assets has been established, additional safeguards can be put in place. The types of safekeeping procedures used should address the risks associated with the capital assets being protected. Some assets, by their very nature (cell phones, laptop computers, gasoline, and others), may need more protection than others. Policies and procedures should be designed to address protection needs unique to particular assets. Additional controls that should be considered include:

- Identification numbers and markings
- Restricted access
- Perpetual inventory records

Identification Numbers and Markings

Each piece of property may be assigned an identification number. By using a metal tag, a decal or stenciling, identification numbers can be affixed to each piece of property. These types of markings, illustrated in Appendix C, 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 calculators, engine numbers, complete descriptions, etc.), decaling is not required. (Managers may also wish to assign numbers to each property card for filing purposes.)

Some local governments use a single series of numbers for all property; 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. Thus, for the clerk'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 – 3120-39-1-02.

Any identification tag or decal should also have the name of the municipality on it. Whenever possible, the municipality's name should be prominently displayed on the property or equipment. Stenciling the name on to 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 a number of 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 to usage logs to 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, managers can track the type, quantity and frequency of items used. Returned items would also be noted in these records. Usage records also allow managers 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 managers) that track the use of these passwords by individual.

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.

In summary, the components of this key control are:

Authorized access – this makes certain individuals accountable

Limited access – this keeps certain individuals accountable

Segregation of duties (between access to assets and access to records) – this preserves the integrity of recorded amounts/accountability

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 municipalities use perpetual inventory records to maintain control over their capital assets. Perpetual inventory records are detail records that are continually updated as items are added or removed from supply. This inventory system provides managers with direct access to reliable information on current capital assets throughout the year.

In order to be effective, a perpetual inventory system needs timely information. As new assets are acquired, sufficient information has to be forwarded to the property records manager so that detail records can be properly completed (see above). (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 manager. 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 manager in a timely manner. Improvements to assets, deterioration of assets, trade-ins,

sales of assets, anything that affects asset value or count should be communicated to the property 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 municipality. 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 to 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 municipal property. This information will allow managers 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 means excess 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.

III. Asset Maintenance

Many capital assets require significant resources to retain their value. After a considerable initial investment, municipalities 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 municipality'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 record manager so that the increased value can be recorded.

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 it 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), while adding a new lane constitutes an addition (a cost that would be added to the cost basis).

Asset maintenance records can provide municipal managers with information needed to make key decisions. A maintenance history can provide managers with the frequency and types of services performed to-date. It can show the cumulative cost of those services (in terms of materials, staff time and overhead, if so tracked). These records can reveal instances where routine maintenance was missed. They can show that maintenance costs are growing, a possible indication of bigger problems. A maintenance record can also support higher values for assets traded-in to acquire new assets. A higher sale price may also be realized when routine maintenance can be documented.

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

Detailed maintenance records can provide managers 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 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.

IV. Asset Performance

An investment in a capital asset is only as valuable as the return on that investment, the performance received from that asset. To maximize that return, local managers should actively manage the performance of these high-priced assets. Managers need information on the results of their efforts. If capital assets are under-performing, remedial actions should be taken.

While most municipal assets are not acquired for the purposes of generating profits, their performance should still be measured against the purpose for which they were acquired. A capital asset that is not performing as planned can end up costing a government in terms of productivity and dollars. Actions to improve productivity will vary depending upon the specific circumstances encountered. Actions to improve the financial component of asset performance are more universal and are discussed below. Also included are several practices that can be used to improve the efficiency of asset use.

A complete inventory of capital assets provides managers with the big picture. The scope and breadth of municipal property can be better understood with proper asset records. This perspective can help managers target areas for further investigation. They can select (groups of) capital assets to examine for performance issues. Such issues to

review may 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 under-utilized. Where feasible, managers 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 (delivery, legal) associated with the arrangement. When it is determined that an asset has minimal value for operations, consider selling it to generate some one-time revenues. For those assets intended to produce revenue, there are countless ways to improve the bottom-line. At a minimum, consider increasing the number of paying “customers” using the asset.

There are also countless 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 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 (and 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 sometimes-substantial replacement cost. Also, when sold or traded-in at the end of its extended life, a well-maintained asset should be worth more.

Managers 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 come up with a larger down payment, either through the use of capital reserve monies or through general appropriations. The time can also be used to seek the best price and best financing for the planned acquisition. These steps should result in a lower initial cost for the municipality and reduced financing costs over the term of any debt issued for the purchase. (See also our *Local Government Management Guide Chapter on Multi-Year Capital Plans.*)

Asset performance can also be improved by sharing ownership of the asset. Where feasible, local governments may enter into cooperation agreements to acquire capital assets. Such agreements are authorized by Article 5-G of the General Municipal Law, §§119-m through 119-oo. 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 translates into lower costs and higher usage rates (i.e. increased productivity and increased performance).

To ensure that capital assets are truly performing as intended, performance measures should be developed and implemented. There are any number of measures that can help managers gauge the efficiency and effectiveness of capital asset performance. Managers should develop those cost-effective measures that best give them the information that they need. The Government Finance Officers Association (GFOA) offers the following guidelines for developing meaningful performance measures.¹ GFOA recommends that performance measures:

- Be based on program goals and objectives;
- Be monitored and used in decision-making processes;
- Be reliable, valid, verifiable and understandable;
- Be reported internally and externally;
- Measure effectiveness, efficiency and service delivery;
- Measure program results;
- Provide an efficient and meaningful way to assess the effectiveness, efficiency and service delivery of key programs; and,
- Provide a basis for comparison over time.

Specifically, for capital asset performance, local managers might consider measures that track asset usage, return on investment (for revenue -producing assets), operating costs, maintenance/repair costs and costs per unit produced (road miles paved, tons of garbage collected). For inventory-type assets, managers should 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. For example, when food supplies (gallons of milk, pounds of meat, etc.) are compared to inmate populations, managers can get “per inmate” data that can be analyzed for reasonableness and trends over time. Are the amounts reasonable or do they seem excessive? Have the amounts changed significantly over time? Managers should investigate any unusual items. Similar measures can be developed for any inventory item.

¹ “An Elected Official’s Guide to Performance Measurement” by Salomon A. Guajardo and Rosemary McDonnell, GFOA 2000.

APPENDIX A

Property Records

Initial Inventory Sheet

Real Property Record Card

Personal Property Card

Register of Identification Numbers

Property Acquisition Record

Property Disposition Record

Physical Inventory Worksheet

Marking Devices

REAL PROPERTY RECORD CARD

Description: _____ Identification No.: _____

_____ Date Prepared: ___/___/___

Location:

Remarks:

Tax Map #:

Original Cost:

Source of Funds:

Acquisition (Construction)	\$ _____	Current Appropriations	\$ _____
Legal	_____	Bonds	_____
Engineering	_____	Notes (Specify Type)	_____
Other (Specify):	_____	State Aid	_____
_____	_____	Federal Aid	_____
_____	_____	Gift	_____
_____	_____	Other (Specify)	_____

Total \$ Total \$

Current Value:

Disposition:

Original Cost (Total) \$ _____ Sold To _____

Additions: (Specify)

_____ Transferred To _____

Sub-Total \$ _____

Deductions: (Specify) Other _____

Total \$ _____

Insured Value \$ _____ Policy #: _____

PERSONAL PROPERTY CARD

Form No. _____	PROPERTY CARD	Identification No. _____
Date Prepared _____	MACHINERY, TOOLS AND EQUIPMENT	
Description: _____		
Make: _____		Model: _____
Dept: _____	Year: _____	Serial No: _____
Location: _____		Date: ____/____/____
Purchased From: _____		
Maintenance Contract With: _____		Contract No: _____
Purchase Order No: _____	Cost: \$ _____	Voucher No: _____
Estimated Life: _____	Freight: _____	Voucher No: _____
Condition: _____	Other: _____	Voucher No: _____
	Total: _____	

Front

Source of Funds: _____			
Current Revenues: \$ _____	Bonds \$ _____	Notes \$ _____	Gift \$ _____
State Aid \$ _____	Federal Aid \$ _____	Other (Specify) \$ _____	(Amount) \$ _____
CURRENT VALUE		DISPOSITION	
Original Cost: \$ _____		Sold <input type="checkbox"/>	Traded <input type="checkbox"/>
* Appreciation: \$ _____			Junked <input type="checkbox"/>
Sub-Total \$ _____		Transferred To: _____	
* Depreciation: \$ _____		Amount \$ _____	Date: ____/____/____
Depreciated Value: \$ _____		Trade-in Purchase Order No: _____	
Insured Value: \$ _____		Approved By: _____	
		(Date)	
		Policy No: _____	
*Remarks: _____			

Back

MARKING DEVICES

PROPERTY OF
LOCAL GOVERNMENT:
NO.

PROPERTY OF
LOCAL GOVERNMENT:
NO.

C. STENCIL

PROPERTY OF
LOCAL GOVERNMENT:
NO.

PROPERTY OF
LOCAL GOVERNMENT:
NO.

APPENDIX B

HISTORICAL COST AND HOW TO ESTIMATE IT

Asset Valuation

All capital assets should be recorded at historical (actual) cost unless acquired through gift, in which case, the fair market value at the time of acquisition should be recorded. 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 of.

Estimating Cost

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 on the basis of such documentary evidence as may be 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 card.

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:

Direct Costing – The price paid for a piece of equipment bought in 1991 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 1991. In that case, 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 municipality owns similar property, its recorded figures could be used to support cost estimates for your asset(s).

Normal costing/back-trending – the current (2001) 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 (see price index and calculation below) to be **\$35,980**.

Table Of Estimated Historical Cost Conversion Factors

Year	Factor	Year	Factor	Year	Factor	Year	Factor	Year	Factor	Year	Factor	Year	Factor
1940	5.3	1950	9.8	1960	14.2	1970	22.3	1980	48.2	1990	86.4	2000	118.0
1941	5.4	1951	10.6	1961	14.6	1971	23.8	1981	52.5	1991	90.4	2001	120.6
1942	5.7	1952	11.1	1962	15.1	1972	25.2	1982	56.1	1992	94.8		
1943	6.0	1953	11.4	1963	15.6	1973	27.0	1983	58.7	1993	98.1		
1944	6.3	1954	11.7	1964	15.8	1974	29.7	1984	61.6	1994	100.0		
1945	6.5	1955	12.0	1965	16.3	1975	32.6	1985	64.4	1995	102.5		
1946	7.1	1956	12.6	1966	17.2	1976	34.8	1986	66.3	1996	105.2		
1947	8.2	1957	13.2	1967	18.2	1977	37.4	1987	74.4	1997	107.9		
1948	9.2	1958	13.5	1968	19.2	1978	40.2	1988	79.3	1998	109.8		
1949	9.5	1959	13.8	1969	20.6	1979	43.8	1989	82.7	1999	113.0		

Source: This table was prepared using the State and Local Government Purchase of Goods and Services Implicit Price Deflators for Gross National Product published by the U.S. Department of Commerce, Bureau of Economic Analysis.

Calculation:

2001		2001		1991		1991
Replacement Cost		Conversion Factor		Conversion Factor		Estimated Historical Cost
\$48,000	÷	120.6	X	90.4	=	\$35,980

To calculate back-trending estimates, price level change factors, like the ones above, are needed. Many are available on the Internet. The New York State Office of General Services maintains a **current list of back-trended multipliers**. A copy of the list may be obtained by contacting:

Bureau of Capital Assets
Mayor Erastus Corning 2nd Tower
Empire State Plaza
Albany, New York 12242
(518) 473-4902

APPENDIX C

ESTABLISHING THE ESTIMATED USEFUL LIVES OF CAPITAL ASSETS

(For Enterprise Funds and those local governments complying with GASB 34)

We believe that GASB Statement 34 will result in improved financial reporting by local governments. However, we realize that implementation may involve additional resources, which may not be cost-benefit justified. Consequently, while we encourage all local governments to implement the provisions of GASB Statement 34, full implementation will not be required to meet the financial reporting requirements of General Municipal Law. Therefore, reporting depreciation expense is not required in the annual financial report to OSC (the Annual Update Document (AUD) filed by municipalities or the ST3 filed by school districts), except for municipalities with enterprise funds (schools don't have enterprise funds). Local governments should be aware that full implementation may be required in order to receive an unqualified opinion on their financial statements.

Background

Depreciation is a financial reporting concept. Therefore, all of the considerations discussed in this section are only of concern to the extent that they could have a material impact on a government's financial statements. Generally accepted accounting principles (GAAP) require that capital assets be depreciated. 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.

Factors Affecting Useful Life

Local governments should benefit, as much as possible, from the experience of other governments and private-sector enterprises when estimating the useful lives of their capital assets. At the same time, these governments should make whatever adjustments are needed to any estimates obtained from others to ensure that such estimates are appropriate to their own particular circumstances. It is especially important that municipalities 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 hence, 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, as well as 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).

The potential effect of each of the factors just described may be mitigated or exacerbated as a consequence of a municipality'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. The chart below gives examples, but each local government needs to consider its experience in adopting useful lives of assets.

Estimating the Useful Lives of Assets

The following useful life table provided by the New York State Office of General Services is used by the State of New York for depreciation purposes. It is intended as a guide. Municipalities should develop their own table based upon their individual experience.

Major Class Short Description	General Description (Short Desc. for Minor Class)	Life in Years	SALVAGE Percentage
AMBULANCE	AMBULANCE	08-00	10
AUTO	AUTO	05-00	10
AUTO	AUT COMPCT	05-00	10
AUTO	AUT FUL SZ	05-00	10
AUTO	AUT MID SZ	05-00	10
AUTO	AUT LIMO	06-00	10
AUTO	AUT STNWGN	05-00	10
AUTO	AUT SBCMPT	05-00	10
AUTO	AUT 4WHLDR	05-00	10
AVIATION	AVIATION	06-00	10
AVIATION	AIRPLANE	06-00	10
AVIATION	HELECOPTER	06-00	10
BUS	BUS	08-00	10
BUS	BUS 5/9 P	08-00	10
BUS	BUS 10/15 P	08-00	10
BUS	BUS 16/24 P	08-00	10
BUS	BUS 25/35 P	08-00	10
BUS	BUS 36/44 P	08-00	10
BUS	BUS45/55 P	08-00	10
BUS	BUS TRANST.	08-00	10
CONSTRUCTION VEH	CONST. VEH.	05-00	10
CONSTRUCTION VEH	BOOM TRUCK	08-00	10
CONSTRUCTION VEH	BACKHOE	08-00	10
CONSTRUCTION VEH	BULLDOZER	08-00	10
CONSTRUCTION VEH	CHERRYPKR	08-00	10
CONSTRUCTION VEH	CRANE	08-00	10
CONSTRUCTION VEH	EXCAVATOR	08-00	10
CONSTRUCTION VEH	GRADER	08-00	10
CONSTRUCTION VEH	LINEMARKER	08-00	10
CONSTRUCTION VEH	LOADER	08-00	10
CONSTRUCTION VEH	MULTI-HOE	08-00	10

Major Class Short Description	General Description (Short Desc. for Minor Class)	Life in Years	SALVAGE Percentage
CONSTRUCTION VEH	PAVER	08-00	10
CONSTRUCTION VEH	PAYLOADER	08-00	10
CONSTRUCTION VEH	PWR SHOVEL	08-00	10
CONSTRUCTION VEH	ROLLER	08-00	10
CONSTRUCTION VEH	ROOTER	08-00	10
CONSTRUCTION VEH	SCRAPER	08-00	10
CONSTRUCTION VEH	TRACT CRAW	08-00	10
CONSTRUCTION VEH	TRACT 4WHD	08-00	10
CONSTRUCTION VEH	TRACT OTHR	08-00	10
CONSTRUCTION VEH	TRCK COMPR	06-00	10
CONSTRUCTION VEH	TRCK CONCR	06-00	10
CONSTRUCTION VEH	TRCK OTHER	06-00	10
CONSTRUCTION VEH	TRLR WELDR	08-00	5
CONSTRUCTION VEH	TRLR COMP	08-00	5
FIRE TRUCK	FIRE TRUCK	07-00	10
FIRE TRUCK	REG PUMPER	07-00	10
FIRE TRUCK	RAP PUMPER	07-00	10
FIRE TRUCK	SUP PUMPER	07-00	10
FIRE TRUCK	LADDER AER	07-00	10
FIRE TRUCK	LADDER TWR	07-00	10
FIRE TRUCK	RESCUE	07-00	10
FIRE TRUCK	SUPPORT	07-00	10
MARINE CRAFT	MARINE CFT	30-00	10
MARINE CRAFT	BARGE	30-00	10
MARINE CRAFT	DERRICK	30-00	10
MARINE CRAFT	FERRY	25-00	10
MARINE CRAFT	FIRE BOAT	30-00	10
MARINE CRAFT	HRBR SURVY	30-00	10
MARINE CRAFT	LAUNCH	20-00	10
MARINE CRAFT	PILE DRVR	30-00	10
MARINE CRAFT	SLUDGE VSL	30-00	10

Major Class Short Description	General Description (Short Desc. for Minor Class)	Life in Years	SALVAGE Percentage
MARINE CRAFT	TUGBOAT	30-00	10
POLICE VEHICLES	POLICE VEH	05-00	10
POLICE VEHICLES	BOMB TRACT	20-00	10
POLICE VEHICLES	BOMB BASKT	20-00	10
POLICE VEHICLES	PATROL CAR	05-00	10
POLICE VEHICLES	PATR WAGON	05-00	10
POLICE VEHICLES	HQ TRUCK	10-00	10
POLICE VEHICLES	HQ TRAILER	10-00	10
POLICE VEHICLES	EMER SERV	08-00	10
SANIT, VEHICLES	SANIT VEH.	04-00	10
SANIT, VEHICLES	COLL TRUCK	04-00	10
SANIT, VEHICLES	FLUSHER	07-00	10
SANIT, VEHICLES	LEAF LOADR	04-00	10
SANIT, VEHICLES	REF DUMPER	09-00	10
SANIT, VEHICLES	ROLL ON/OFF	06-00	10
SANIT, VEHICLES	SWEEP MACH	05-00	10
SANIT, VEHICLES	SWEEP VAC	10-00	10
SANIT, VEHICLES	WALK TRACT	04-00	10
TRUCK, GENERAL	TRUCK	04-00	10
TRUCK, GENERAL	CARGO VAN	04-00	10
TRUCK, GENERAL	CON TRUCK	04-00	10
TRUCK, GENERAL	DUMP TRUCK	08-00	10
TRUCK, GENERAL	FLATBED	04-00	10
TRUCK, GENERAL	FORKLIFT	05-00	10
TRUCK, GENERAL	PICKUP	04-00	10
TRUCK, GENERAL	REFRIG TRK	20-00	10
TRUCK, GENERAL	SNOW PLOW	08-00	10
TRUCK, GENERAL	STAKEBODY	08-00	10
TRUCK, GENERAL	STEPVAN	04-00	10
TRUCK, GENERAL	TOW TRUCK	08-00	10
TRUCK, GENERAL	TRACTOR	04-00	10

Major Class Short Description	General Description (Short Desc. for Minor Class)	Life in Years	SALVAGE Percentage
TRUCK, GENERAL	UTIL VAN	04-00	10
TRUCK, GENERAL	WATER TRCK	04-00	10
TRUCK, GENERAL	WINDOW VAN	04-00	10
TRAILER, GENERAL	TRAILER	06-00	5
TRAILER, GENERAL	2WHL TRALR	06-00	5
TRAILER, GENERAL	4WHL TRALR	06-00	5
TRAILER, GENERAL	BRUSH	06-00	5
TRAILER, GENERAL	CLOSED TOP	06-00	5
TRAILER, GENERAL	FIELD OFFC	10-00	5
TRAILER, GENERAL	5TH WHEEL	08-00	5
TRAILER, GENERAL	LOWBOY	08-00	5
TRAILER, GENERAL	OPEN TOP	08-00	5
TRAILER, GENERAL	PLATFORM	10-00	5
OTHER EQUIPMENT	OTHR EQUIP	10-00	0
AIR RAID SYSTEM	AIR RAID S	10-00	0
ATHLETIC EQUIPMENT	ATHLTC EQ	10-00	0
AUDIO VISUAL EQUIPMENT	AUD VIS EQ	08-00	5
AUTO SVC	AUTO SRVC	06-00	0
AUTO SVC	DYNAMOMETR	06-00	0
AUTO SVC	ENG/ELEC T	06-00	0
AUTO SVC	FUEL PUMP	06-00	0
AUTO SVC	LIFT CAR	15-00	0
AUTO SVC	LIFT TRUCK	15-00	0
AUTO SVC	CASHWASH	15-00	0
AUTO SVC	BUSHWASH	15-00	0
BROADCAST EQUIPMENT	BROADCAST	08-00	0
BROADCAST EQUIPMENT	CAMERA	08-00	0
BROADCAST EQUIPMENT	VIDEO TAPE	08-00	0
BROADCAST EQUIPMENT	AUDIO EQUIP	08-00	0
COMMUNICATIONS	COMMUNCTNS	10-00	0
COMMUNICATIONS	ALARM BOX	10-00	0

Major Class Short Description	General Description (Short Desc. for Minor Class)	Life in Years	SALVAGE Percentage
COMMUNICATIONS	CENTRL COM	10-00	0
COMMUNICATIONS	MOBILE COM	10-00	0
COMMUNICATIONS	PHONE COM	10-00	0
COMMUNICATIONS	MICROWAVE	10-00	0
COMMERCIAL ART EQUIPMENT	COMRCL ART	08-00	0
CONSTRUCTION	CONSTRUCTN	08-00	0
COPY & PRINTING	COPY/PRNTG	10-00	5
COPY & PRINTING	BINDING/FIN	10-00	5
COPY & PRINTING	LETRPRESS	10-00	5
COPY & PRINTING	MIMEO/DUPL	10-00	5
COPY & PRINTING	OFFSET PRN	10-00	5
COPY & PRINTING	TYPESET PR	10-00	5
COPY & PRINTING	XEROX CPYG	10-00	5
COPY & PRINTING	MICROFILM	10-00	5
COPY & PRINTING	PRINT MACH	10-00	5
CUSTODIAL EQUIPMENT	CUSTOD EQ	08-00	0
DATA PROCESSING	DATA PROC	08-00	10
DATA PROCESSING	CPU	08-00	10
DATA PROCESSING	SECD STORG	08-00	10
DATA PROCESSING	TAPE DRIVE	08-00	10
DATA PROCESSING	TAPE CONTR	08-00	10
DATA PROCESSING	DISK STORG	08-00	10
DATA PROCESSING	DISK CONTR	08-00	10
DATA PROCESSING	DRUM STORG	08-00	10
DATA PROCESSING	DRUM CONTR	08-00	10
DATA PROCESSING	IN/OUT DEV	08-00	10
DATA PROCESSING	TERMNL SHP	08-00	10
DATA PROCESSING	MAGTAPE	08-00	10
DATA PROCESSING	PRINTER	08-00	10
DATA PROCESSING	XRGRAPHIC	08-00	10
DATA PROCESSING	VIS DISPLY	08-00	10

Major Class Short Description	General Description (Short Desc. for Minor Class)	Life in Years	SALVAGE Percentage
DATA PROCESSING	PLOTTER	08-00	10
DATA PROCESSING	OPT SCANNR	08-00	10
DATA PROCESSING	CARD READR	08-00	10
DATA PROCESSING	CARD PUNCH	08-00	10
DATA PROCESSING	CARD SLTTR	08-00	10
DATA PROCESSING	DECOLLATOR	08-00	10
DATA PROCESSING	BURSTER	08-00	10
DATA PROCESSING	KEYBD/CON	08-00	10
ELECTRICAL	ELECTRICAL	10-00	0
FILING AND RETRIEVAL	FILE RETRV	15-00	0
FIRE FIGHTING EQUIP	FIRE EQUIP	15-00	0
FOOD PROCESSING	FOOD PRCS	12-00	0
FOOD PROCESSING	CUTTING/SLC	10-00	0
FOOD PROCESSING	MIXING	12-00	0
FOOD PROCESSING	OVEN/STOVE	15-00	0
FOOD PROCESSING	REFRIGRTN	15-00	0
FOOD PROCESSING	SRV/DSP PK	10-00	0
LAB, HEALTH	LAB HEALTH	10-00	0
LAB, HEALTH	AMINO ANAL	10-00	0
LAB, HEALTH	AUTO ANALYZ	08-00	0
LAB, HEALTH	DATA PROC	08-00	0
LAB, HEALTH	GAMMA CTR	10-00	0
LAB, HEALTH	LIQ SCNTLR	10-00	0
LAB, HEALTH	EL MICRSCP	12-00	0
LAB, HEALTH	SPECTROPH	10-00	0
LAB, HEALTH	LINR ACCEL	10-00	0
LAB & TEST	LABB/TEST	10-00	0
LAB & TEST	CHEM ANAL	10-00	0
LAB & TEST	ENVIR MONT	12-00	0
LAB & TEST	OR EQUIP	15-00	0
LAB & TEST	PATIENT MO	08-00	0

Major Class Short Description	General Description (Short Desc. for Minor Class)	Life in Years	SALVAGE Percentage
LAB & TEST	RADIOLOGY	08-00	0
LAB & TEST	POLICE/FRE	10-00	0
LAB & TEST	XRAY PKG	10-00	0
LAUNDRY	LAUNDRY	15-00	0
LAUNDRY	DRY CLEAN	15-00	0
LAUNDRY	CLTHES STR	15-00	0
LAUNDRY	FOLDERS	10-00	0
LAUNDRY	MANG/IRON	15-00	0
LAUNDRY	STEAMER	15-00	0
LAUNDRY	WASHER	10-00	0
MAINTENANCE & REPAIR	MAIN RPAIR	15-00	0
MAINTENANCE & REPAIR	BLACKSMITH EQ	15-00	0
MAINTENANCE & REPAIR	CRPNTRY EQ	15-00	0
MAINTENANCE & REPAIR	ELCTRCL EQ	15-00	0
MAINTENANCE & REPAIR	IRON EQ	15-00	0
MAINTENANCE - MASONRY EQUIP	MASONRY EQ	15-00	0
MAINTENANCE - PAINTING EQUIP	PAINTING EQ	12-00	0
MAINTENANCE - PLUMBING EQUIP	PLUMING EQ	12-00	0
MATERIAL HANDLING EQUIPMENT	MAT HNDLNG	10-00	0
MACHINE & POWER TOOLS	POWERTOOLS	12-00	10
DRILLING MACHINE	DRILL MACH	10-00	10
DRILL, UPRIGHT	DRILL UPRT	10-00	10
DRILL, RADIAL	DRILL RAD	10-00	10
DRILL, NUMERICAL CONTROL	DRILL NUM	10-00	10
WELDER	WELDER	10-00	10
MILLING MACHINE	MILL MCHNE	18-00	10
MILLING MACHINE	COLMN/KNEE	18-00	10
MILLING MACHINE	BEDTYPE	18-00	10
MILLING MACHINE	NMRCL CONT	18-00	10
BORING MACHINE	BORE MACH	12-00	10
GRINDER	GRINDER	12-00	10

Major Class Short Description	General Description (Short Desc. for Minor Class)	Life in Years	SALVAGE Percentage
GRINDER	CYLN GRNDR	12-00	10
GRINDER	CHKG GRNDR	12-00	10
GRINDER	UNIV GRNDR	12-00	10
GRINDER	SURF GRNDR	12-00	10
GRINDER	NUM GRNDR	12-00	10
LATHE	LATHE	12-00	10
LATHE	LTHE ENGNE	12-00	10
LATHE	LTHE SPEED	12-00	10
LATHE	LTHE GAP	12-00	10
LATHE	LTHE TURRT	12-00	10
LATHE	LTHE NUM	12-00	10
POLISHING EQUIPMENT	POLISH EQP	10-00	10
JOINTER/PLANER	JOINT/PLAN	10-00	10
ROUTER	ROUTER	10-00	10
SAND BLASTING EQUIPMENT	SAND BLAST	12-00	10
SAW	SAW	12-00	10
SAW	SAW BAND	12-00	10
SAW	SAW CIRCUL	12-00	10
STITCHER	STITCHER	10-00	10
SHAPER	SHAPER	12-00	10
SCREW MACHINE	SCREW MAC	12-00	10
CHUCKING MACHINE	CHUCK MAC	12-00	10
EDM - ELECTRICAL DISCHARGE	MACHELEC DISCH	10-00	10
PARADE STANDS	PARADE SDT	15-00	0
PHOTOGRAPHY	PHOTOGRAPH	08-00	0
POLICE EQUIPMENT	POLICE EQP	15-00	0
POLLING - ELECTION MACHINES	POLLS MACH	15-00	0
POWER SUB STATION EQUIPMENT	SUB STATN	15-00	0
POWER SUB STATION EQUIPMENT	SUBST ROT	15-00	0
POWER SUB STATION EQUIPMENT	SUBST MERC	15-00	0
POWER SUB STATION EQUIPMENT	SUBST SS	15-00	0

Major Class Short Description	General Description (Short Desc. for Minor Class)	Life in Years	SALVAGE Percentage
PRESSES	PRESSES	12-00	10
PRESSES	HAND STMP	12-00	10
PRESSES	BRAKE PRSS	12-00	10
PRESSES	SHEAR PRSS	12-00	10
SANATATION EQUIPMENT	SANIT EQUIP	15-00	0
SANATATION EQUIPMENT	REFRCT INC	15-00	0
SANATATION EQUIPMENT	PLANT PROC	15-00	0
SANATATION EQUIPMENT	RECOV MTL	15-00	0
SANATATION EQUIPMENT	RECOV STM	15-00	0
SANATATION EQUIPMENT	AIRPOL CTR	10-00	0
SANATATION EQUIPMENT	ELC DIGGER	10-00	0
SANATATION EQUIPMENT	STM DIGGER	10-00	0
SANATATION EQUIPMENT	BARGE CTL	10-00	0
SANATATION EQUIPMENT	PNEUM COLL	15-00	0
TOLL BOOTH EQUIPMENT	TOLLBOOTH	25-00	0
WEIGHING EQUIPMENT - TRUCK SCALE	WEITH EQP	15-00	0
WORD PROCESSING	WORD PROC	08-00	0
DEFENSE EQUIPMENT	DEFENSE EQ	10-00	0
DEFENSE EQUIPMENT	EQ MOTOR	10-00	0
DEFENSE EQUIPMENT	FIREARMS	10-00	0
DEFENSE EQUIPMENT	COMPUTER	10-00	0
PERFORMING ARTS EQUIPMENT	PRFORM ART	12-00	0
POSTAL/DELIVERY EQUIPMENT	POSTAL EQ	12-00	0
NUCLEAR POWER EQUIPMENT	NUCLEAR EQ	15-00	0
FLIGHT SIMULATOR	FLIGHT SIM	10-00	0
RECREATIONAL VEHICLE	REC VEHCLE	08-00	0

APPENDIX D

INFRASTRUCTURE ASSETS

(For Enterprise Funds and those local governments complying with GASB 34)

We believe that GASB Statement 34 will result in improved financial reporting by local governments. However, we realize that implementation may involve additional resources, which may not be cost-benefit justified. Consequently, while we encourage all local governments to implement the provisions of GASB Statement 34, full implementation will not be required to meet the financial reporting requirements of General Municipal Law. Therefore, reporting infrastructure assets is not required in the annual financial report to OSC (the Annual Update Document (AUD) filed by municipalities or the ST3 filed by school districts), except for municipalities with enterprise funds (schools don't have enterprise funds). Local governments should be aware that full implementation may be required in order to receive an unqualified opinion on their financial statements.

Definition of Infrastructure – 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. Land (for example, land under highways) is not considered part of infrastructure and should be reported as land, other than infrastructure.

Inventory of Infrastructure – 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 probably already available in the department (highway, public works, etc.) that maintains these assets. For example, local governments report information on highways and bridges to the NYS Department of Transportation (DOT) and it is available on DOT's website (www.dot.state.ny.us).

Reporting Infrastructure in Financial Statements – The Governmental Accounting Standards Board (GASB) allows several options to make getting started easier:

Governments with total revenues **less than** \$10 million can elect to **not** report any infrastructure acquired **before** GASB Statement 34 takes effect. For this size government, GASB 34 applies to financial statements for periods beginning after June 15, 2003. In short, they need to report only the infrastructure they acquire after GASB 34 takes effect and go from there.

Governments with total revenues of \$10 million or more can elect to report **only** infrastructure assets acquired **after** June 30, 1980. They also have an option to delay reporting this information for up to four years after they implement GASB 34. However, few governments are expected to use this option because they would report infrastructure debt and no related infrastructure asset in their financial statements.

To gather infrastructure information, consult with the operating departments to see what assets are in their inventories and what assets were acquired since June 30, 1980. Look at capital projects records, board minutes, and especially look at outstanding debt that is related to infrastructure. Also, look for federal and state aid (for example, CHIPS capital projects) that financed infrastructure, and assets that may have been donated. This information can be used to report infrastructure acquired, constructed, or substantially reconstructed from June 30, 1980 to the date GASB 34 is implemented. Even though there are options for not reporting some infrastructure, if there is outstanding debt related to that infrastructure, report the infrastructure asset to avoid showing a negative net assets number in the financial statements.

There is also the option to take a physical inventory and then determine the historical cost, or estimated historical cost, of the infrastructure assets (road, bridge, sewer line, water line, etc.) in excess of your capitalization threshold (see Appendix E) and calculate the accumulated depreciation. This approach is probably more costly than using the options described previously. The important goal is to start reporting infrastructure assets. It may be that assets acquired before 1980 do not materially affect your financial statements.

Depreciating Infrastructure – 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, GASB Statement 34 permits an exception to depreciating infrastructure called the modified approach.

The Modified Approach

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 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 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 actually spent.

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 (from zero for a failed pavement to 100 for a pavement in perfect condition), and

The condition level at which the 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 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’s Discussion & Analysis” section of the municipality’s annual financial report 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 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 also be maintained, so it is available if needed. However, if you already have an asset management system, it can provide valuable information for managing assets and can be used as an alternative for reporting depreciation if you implement GASB 34.

Estimating the Useful Life of Infrastructure Assets

The following useful life table provided by the New York State Office of General Services is used by the State of New York for depreciation purposes. It is intended as a guide. Municipalities should develop their own table based upon their individual experience.

MINOR CLASS DESCRIPTION	GENERAL DESCRIPTION (MINOR CLASS SHORT DESC.)	LIFE IN YEARS	SALVAGE Percentage
PAVING & SURFACING	PAVING	15-00	0
PAVING & SURFACING OFF-STREET PARKING FAC.	PARKING	15-00	0
PAVING & SURFACING SIDEWALKS & COURTYARD	SIDEWALKS	15-00	0
PAVING & SURFACING GRAVEL LOT	GRAVEL LOT	15-00	0
SITE APPURTENANCES	SITE APPUR	25-00	0
SITE APPURTENANCES FENCES - SITE	FENCES	20-00	0
SITE APPURTENANCES RETAINING WALL	RET WALL	20-00	0
SITE UTILITIES - ELECT	ST UTL ELE	20-00	0
SITE UTILITIES - ELECT TRANSFORMER	TRANSFORMR	20-00	0
SITE UTILITIES - ELECT PARKING LOT LIGHTING	LOT LGHTNG	20-00	0
TANKS (STORAGE)	TANKS - STRG	20-00	0
TANKS (STORAGE) TANK - ABOVE GROUND	TANK ABVGR	20-00	0
TANKS (STORAGE) TANK - UNDERGROUND	TANK UNDGR	25-00	0
TANKS (STORAGE) - WATER TANK	WATER TANK	30-00	0
PARKS	PARKS	00-00	0
PARKS UNDEVELOPED PARK	PARK UNDL	00-00	0

MINOR CLASS DESCRIPTION	GENERAL DESCRIPTION (MINOR CLASS SHORT DESC.)	LIFE IN YEARS	SALVAGE Percentage
PARKS DEVELOPED PARK	PARK DEVL	20-00	0
BANDSHELL	BANDSHELL	20-00	0
AMPHITHEATRE	AMPHTHTRE	20-00	0
COURTS	COURTS	20-00	0
PLAYING FIELDS	PLYNG FLDS	20-00	0
PLAYING FIELDS RUNNING TRACK	RUNNING TR	20-00	0
MULTI USE PARK AREA	PARK MULTI	20-00	0
NATURE STUDY AREA	NATURE STD	20-00	0
RECREATIONAL AREAS	RECR AREA	20-00	0
RECREATIONAL AREAS SHOOTING RANGE	SHTNG RNGE	20-00	0
RECREATIONAL AREAS GOLF RANGE	GOLF RANGE	20-00	0
RECREATIONAL AREAS PUTTING GREEN	PUTT GREEN	20-00	0
RECREATIONAL AREAS ROLLER RINK	ROLLER RNK	20-00	0
SWIMMING POOL OUTDOOR	POOL OUTDR	12-00	0
AQUEDUCT	AQUEDUCT	20-00	0
WOOD SHELTER	WD SHELTER	20-00	0
GOLF COURSE	GOLF CRSE	20-00	0
FOUNTAINS	FOUNTAINS	20-00	0
PICNIC PAVILION	PICNIC PAV	20-00	0

MINOR CLASS DESCRIPTION	GENERAL DESCRIPTION (MINOR CLASS SHORT DESC.)	LIFE IN YEARS	SALVAGE Percentage
WILDLIFE IMPROVEMENTS	WLDLFE IMP	20-00	0
WILDLIFE IMPROVEMENTS FISH LADDER	FISH LDDR	20-00	0
WILDLIFE IMPROVEMENTS WILDLIFE REARING ENCLOSURE	WLDLFE ENC	20-00	0
WILDLIFE IMPROVEMENTS STREAM IMPROVEMENT	STREAM IMP	20-00	0
WILDLIFE IMPROVEMENTS FISH REARING POND	FISH R PND	20-00	0
OTHER STRUCTURES			
OTHER STRUCTURES LEAN TO	LEAN TO	20-00	0
OTHER STRUCTURES POLE BARN	POLE BARN	20-00	0
BOAT LAUNCH/PIER	LNCH/PIER	20-00	0
BOAT LAUNCH/PIER LAUNCH RAMP	LNCH RAMP	20-00	0
BOAT LAUNCH/PIER FLOATING DOCK	FLTNG DOCK	20-00	0
BOAT LAUNCH/PIER FIXED DOCK	FIXED DOCK	20-00	0
BOAT LAUNCH/PIER SHEET PILING	SHT PILING	20-00	0
BOAT LAUNCH/PIER TURNAROUND ROAD	TRNARND RD	20-00	0
TOWER	TOWER	20-00	0
TOWER COMMUNICATIONS	COMM TOWER	20-00	0
TOWER FIRE	FIRE TOWER	20-00	0
TOWER OBSERVATION	OBSERV TWR	20-00	0
TOWER WATER	WATER TWR	20-00	0
EMPIRE STATE PLAZA LAND IMPROVEMENT	ESP L.I.	20-00	0
DOCS SECURITY	DOCS SECUR	20-00	0

Shortcuts for Reporting Infrastructure for the First Time

GASB 34 allows several shortcuts 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).

Estimating Historical Cost Using Current Replacement Cost

A government may estimate the historical cost of general infrastructure assets by calculating the current replacement cost of a similar asset and deflating this cost through the use of price-level indexes to the acquisition year (or estimated acquisition year if the actual year is unknown). There are a number of price-level indexes that may be used, both private and public sector, to remove the effects of price-level changes from current prices. Accumulated depreciation would be calculated based on the deflated amount, except for general infrastructure assets reported according to the modified approach.

The following illustration demonstrates how historical cost may be estimated using current replacement cost deflated by a price-level change factor. (See GASB 34 Implementation Guide, page 244.)

Summary of Facts

The county is focusing on recording its rural access road network at the transition date of June 30, 2003.

Current construction cost per lane-mile for a rural access road is approximately \$500,000.

The county has elected to limit its transition capitalization to road projects that resulted in acquisition, construction, or significant reconstruction or improvement of county roads since June 30, 1980. During this period, 87 miles of rural access roads were constructed, reconstructed, or significantly improved.

Because the county has had a consistent, ongoing construction program, an average age for these projects was determined to be 11.5 years – the average of the oldest road (23 years) and the newest road (0 years). (See the next example for additional methods of calculating average age).

Price-level changes, per the table of Price Trends for Federal-aid Highway Construction, published in Price Trends for Federal-aid Highway Construction by the U.S. Department of Transportation, Federal Highway Administration, Office of Program Administration, Office of Infrastructure.

Year	Composite Index
1991	107.5
o	o
o	o
o	o
2003	131.9

Estimation of Historical Cost

Lane-miles x average cost per lane-mile x (year of acquisition index ÷ current year index), rounded:

$$87 \text{ lane-miles} \times \$500,000 \times (107.5 \div 131.9) = \$35,453,000$$

Calculation of Accumulated Depreciation as of June 30, 2003

Estimated useful life: 25 years

Estimated historical cost ÷ estimated useful life x average age, rounded:

$$\$35,453,000 \div 25 \text{ years} \times 11.5 = \$16,308,000$$

Estimating the Age of General Infrastructure Assets

Using an average age of assets can simplify the calculation of accumulated depreciation at transition. The example above uses a simple average age to calculate accumulated depreciation at transition. The following demonstrates two methods of calculating weighted-average age. (See GASB 34 Implementation Guide, page 246.)

Summary of Facts

A state government has a 35-mile arterial road that has been subject to multiple construction projects that overlap earlier projects since 1980, as shown in the schedule below:

Year	Project	Mileposts
1980	1	1 - 15
1982	2	16 - 25
1984	3	26 - 30
1988	4	6 - 12
1989	5	26 - 35

If construction costs are known, weighted-average age may be computed based on the proportion of costs to the total. Alternatively, weighted-average age may be calculated in proportion to the number of miles constructed.

Year	Project	Mileposts	Age in 2002	Age Weighted by Cost		Age Weighted by Miles	
				Cost (in 000's)	Cost X Age	Number of Miles	Miles X Age
1980	1	1 - 15	22	\$15,000	\$330,000	15	330
1982	2	16 - 25	20	10,300	206,000	10	200
1984	3	26 - 30	18	5,500	99,000	5	90
1988	4	6 - 12	14	10,500	147,000	7	98
1989	5	26 - 35	13	<u>16,000</u>	<u>208,000</u>	<u>10</u>	<u>130</u>
				<u>\$57,300</u>	<u>\$990,000</u>	<u>47</u>	<u>848</u>
Average age:					<u>17.28</u>		<u>18.04</u>

Neither method of computing an average age is recommended over the other. Governments should consider their own facts and circumstances including the costs of obtaining the information needed for each method.

Reporting only “Major” General Infrastructure Assets Acquired since 1980

GASB 34 states that general infrastructure assets at transition may be limited to major general infrastructure assets acquired since 1980. Small networks and subsystems don't need to be reported. GASB 34 includes this description:

Governments with total revenues of \$10 million or more are required to capitalize and report major general infrastructure assets that were acquired (purchased, constructed, or donated) in fiscal years ending after June 30, 1980, or that received major renovations, restorations, or improvements during that period.

The determination of major general infrastructure assets should be at the network or subsystem level and should be based on these criteria:

- a. The cost or estimated cost of the **subsystem** is expected to be at least **5 percent** of the total cost of all general capital assets reported in the first fiscal year ending after June 15, 1999, or
- b. The cost or estimated cost of the **network** is expected to be at least **10 percent** of the total cost of all general capital assets reported in the first fiscal year ending after June 15, 1999.

Reporting of non-major assets is encouraged but not required (Governments with revenues under \$10 million don't need to report any infrastructure acquired before GASB 34 implementation dates).

Illustration (see also GASB 34 Implementation Guide, page 247)

The county in this illustration would determine its major general infrastructure assets in the following manner using gross cost estimates:

	*Preliminary Estimated Cost	**Percentage of General Capital Assets at December 31, 1999 (\$45,524,000)
Roadway Network:		
Rural Access Subsystem	\$35,453,000	77.9%
Rural Arterial Subsystem	55,395,000	121.7%
Urban Access Subsystem	3,432,000	7.5%
Urban Arterial Subsystem	1,500,000	3.3%
Total Roadway Network	<u>\$95,780,000</u>	210.4%
Bridge Spans Network:		
20 to 40 Feet Subsystem	\$4,875,000	10.7%
41 to 60 Feet Subsystem	2,500,000	5.5%
Greater than 60 Feet Subsystem	15,387,000	33.8%
Total Bridge Spans Network	<u>\$22,762,000</u>	50.0%

* Preliminary cost estimates may be made in various ways and need only be precise enough to permit determination of whether the network or subsystem would be considered major. For example, the estimate of the urban arterial subsystem could be made by multiplying the number of lane-miles by current replacement cost per lane-mile. Estimation of the acquisition date and deflation of the replacement cost to this date are unnecessary because the preliminary estimate was sufficient to determine that the subsystem would **not** be considered major.

** \$45,524,000 was reported in the general fixed asset account group on December 31, 1999.

If the determination of major general infrastructure assets is made at the network level, both networks – roadway and bridge spans – are considered major because their preliminary estimated costs each exceed 10% of the cost of other general capital assets. If the determination is made at the subsystem level, then all subsystems, except the urban arterial subsystem, would be considered major because their preliminary estimated costs exceed the 5% threshold. Initial capitalization at transition is not required for the urban arterial subsystem, although it is encouraged. Nevertheless, the county is required to capitalize acquisition, construction, or significant reconstruction or improvement of urban arterial roads prospectively.

Appendix E

ACCOUNTING FOR CAPITAL ASSETS

Capitalization Thresholds

Financial statement reporting needs 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 rate in its financial statements of \$10,000 for equipment (In practice, some use a rate as low as \$1,000, some use a rate as high as \$50,000) and a \$250 threshold for tracking/controlling capital assets internally.

To determine whether a capital asset materially affects financial statements, managers need to determine whether reporting or not reporting the asset is important to those people who use the financial statements, by answering these two questions:

- 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 capital projects funds. When projects are completed (or individual assets are placed in service), assets should be reported and depreciated. Unfinished projects are reported as an asset (work in process) but are not depreciated because the asset hasn't been placed in service yet.

Donated capital assets. For example, roads, 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 in the object of expenditure code for capital outlay (.2 capital outlay).

For assets that meet capitalization thresholds for financial reporting, the State Comptroller's **Accounting and Reporting Manual** includes the following general ledger accounts for capital assets and accumulated depreciation:

<u>Class of Capital Asset</u>	<u>Asset Account</u>	<u>Accumulated Depreciation</u>
Land	101	Not depreciated
Buildings	102	112
Improvements Other Than Buildings	103	113
Equipment	104	114
Construction Work in Progress	105	Not depreciated
Infrastructure	106	116
Other Capital Assets	107	117

Additional Guidance

The Government Finance Officers Association recommends:

- Do not capitalize items with a useful life of less than 2 full years.
- Maintain control over non-capitalized assets at the department level.
- Never set a threshold below \$5,000.

The Association of School Business Officials recommends that the threshold for equipment be no lower than \$1,000 and no higher than \$5,000.

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 need to consider the resources they have available to do this. Each government must establish its own capitalization policy and apply it consistently.

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