SUBSIDIARY RECORDS AND CONTROL ACCOUNTS

Subsidiary records and control accounts are necessary to properly account for assets and liabilities and to analyze revenues and expenditures. In a full accrual system the control accounts are a part of the general ledger accounts and separate subsidiary records must be established. Some areas in which subsidiary records are required are described in the following paragraphs.

A. Interest Bearing Deposits and Investment Record:

This subsidiary record is used to account for individual interest bearing deposits and investments, and should support the respective general ledger accounts.

A suggestion would be to show each individual interest bearing deposit or investment on a separate sheet which should indicate any and all of the following information which is pertinent to the particular interest bearing deposit or investment:

(a) The type of interest bearing deposit or investment.

(b) An identifying number.

(c) The date purchased.

(d) The maturity date.

(e) The cost.

(f) The face value if different than cost.

(g) The amount of discount or premium.

(h) The fund which provided the amount for the interest bearing deposit or investment. (This would indicate the amount of ownership of all funds involved.)

(i) The bank, in the case of interest bearing deposits, in which the deposit has been made.

(j) The interest rate.

(k) The interest payment periods.

(l) The method of interest payment.

(m) The amount of interest received or credited.

(n) The receipt number which recognized the interest revenue.

(o) The dates interest was received.

(p) The amount received when sold.

(q) The date sold or redeemed.

The municipality should also provide a means by which the date and amount of interest received from the payor can be tested for propriety. This can be accomplished most efficiently within this control record.

This record also serves as a control for the interest bearing deposits and investments held by the municipality in the event one is lost.

A sample suggested format for this record is shown at Illustration 1. A different format from the one illustrated may be maintained by the municipality to best suit its individual needs as long as all the pertinent information summarized above is indicated in the record.

The municipality should establish a written policy concerning the deposit and investment of municipal funds. (SDCL 4-5-8)

The deposits must be made in qualified public depositories as defined by SDCL 4-6A-1, 9-22-6, 9-22-6.1 and 9-22-6.2. Qualified depositories are required by SDCL 4-6A-3 to maintain at all times, segregated from their other assets, eligible collateral having a value equal to at least 100 percent of the public deposit accounts which exceed deposit insurance such as the FDIC and NCUA.

Therefore, the municipality should be aware of what deposits are uninsured but collateralized or uninsured and uncollateralized. Deposits are reported at cost plus interest, if the account is of the add-on type. The interest should be recorded as earned or at least annually for proper report presentation.

In general, SDCL 4-5-6 permits municipal funds to be invested in (a) securities of the United States and securities guaranteed by the United States government either directly or indirectly; or (b) repurchase agreements fully collateralized by securities described in (a); or in shares of an open-end, no-load fund administered by an investment company whose investments are in securities described in (a) and repurchase agreements described in (b). Also, SDCL 4-5-9 requires that investments shall be in the physical custody of the political subdivision or may be deposited in a safekeeping account with any bank or trust company designated by the political subdivision as its fiscal agent.

Investments are stated at fair value.

Bank Statements – An extra copy of monthly bank statements and cancelled checks may be arranged with the bank to be sent to the home of a member of the governing board. This internal control is an excellent step to strengthen checks and balances in smaller municipalities that do not receive regular audits. As an alternative, a board member may be given online access to the same bank account information. When implementing this process, a governing board member may catch and serve

as a deterrent to duplicate payments, unauthorized transfers, excessive payments and other obvious errors and irregularities.

Bank Confirmations – To further strengthen internal controls in smaller municipalities that do not receive regular audits, it is suggested that a governing board member(s) at least annually confirm and compare bank balances to the balances stated on a monthly treasurer's report. This process is as straight forward as taking the monthly treasurer's report to the bank and comparing the cash balances on that report (CD's, money market accounts) to the amounts the banks confirm as existing.

B. Taxes Receivable:

After the tax requests have been approved by the county auditor and the State Department of Revenue, the taxes are considered to be measurable and a general ledger control should be established to account for taxes receivable. Before entering amounts in the general ledger for taxes receivable, the actual amounts approved and computed by the county auditor should be obtained and used as the amount of taxes requested in the budget will usually vary slightly from the county's final computation. The two source documents from which taxes receivable information is obtained are the tax list recap, maintained by the county auditor, and the monthly tax remittance form received from the county auditor. Occasionally, and especially at the end of the year, the general ledger control of taxes receivable and the balance maintained by the county auditor should be compared as added taxes and abatements might not be recorded by the municipality.

The Municipal Accounting Manual in Interpretation No. 7 in Section XII explains the accounting treatment needed to control the general ledger taxes receivable and applicable revenue accounts.

C. Accounts Receivable Record:

The subsidiary record for individual accounts receivable (general ledger account 115) should be maintained and contain columns for the date, description, debits (charges), credits (collections) and balance. An example of an individual water accounts receivable control is shown at Illustration 2. To properly establish and maintain individual accounts receivable records the following steps are necessary:

(a) Establish a balance as of a given date.

(b) Debit billings as they are made.

(c) Credit collections as they are received.

(d) Reconcile the unpaid balance in individual accounts receivable records with the general ledger control account monthly.

The municipal official should, at least on a quarterly basis, furnish the governing body with a list of delinquent accounts receivable.

Every municipality may assign for collection any or all delinquent accounts receivable. After reasonable collection efforts the governing body may determine that an account is uncollectible, and shall by formal action direct that the uncollectible amount be removed from the records and disclosed on that year's financial report. Evidence of the debt removed from the records by the formal action of the governing body shall be retained by the municipality to support possible subsequent collection of that debt. (SDCL 9-22-4)

For improved internal control, the accounts receivable subsidiary records should on occasion be independently reconciled to the general ledger control by another municipal employee. Through this process the total billings for services, cash collections and respective adjustments to accounts should be compared with the general ledger control. In addition, where practical, adjustments to individual receivable accounts should be approved by another municipal employee before posting.

D. Special Assessments Receivable Record:

The general ledger control account for special assessments receivable will be the same as described under accounts receivable. The unpaid balance in the general ledger should equal the amount of unpaid special assessments in the special tax book required by SDCL 9-43-24.

E. Inventory Record:

All inventory amounts used should be supported by a detailed inventory listing of items showing the number of items and value.

F. **Capital Asset Records**:

Municipalities have a substantial investment of tax dollars in the various lands, buildings, equipment and other assets owned by them. The responsibility of stewardship involved in safeguarding such a large investment is of the utmost importance to sound financial administration. The protective custody of these assets can only be accomplished through adequate accounting procedures and records. In addition to stewardship or protective custody of a governmental unit's property, a good system of fixed asset accounting permits the fixation of responsibility for custody and proper use of specific **capital assets** on individual public officials.

Initially, the municipality should develop and prescribe accounting policies governing **capital asset** accounting. These policies should address:

(a) the person(s) responsible for maintaining **capital asset** control records;

(b) the minimum values for classes of fixed assets required to be accounted for **(capitalization policy)**;

(c) estimated useful lives;

(d) whether an accounting for public domain or "infrastructure"

capital assets is required; e.g., roads, bridges, sidewalks and similar assets.

From a generally accepted accounting principles (GAAP) standpoint, a capital asset is an asset which possesses three attributes:

(a) tangible in nature

(b) a life longer than the current fiscal year

(c) a significant value

Capitalization Policy - A capitalization policy is a policy set by each municipality to establish a dollar threshold(s) for WHEN to call an item a capital asset. Different dollar amounts may be established in the policy for different classes of capital assets. For example, buildings might be capitalized as capital assets when the amount exceeds $50,000 while items that are smaller in value and more numerous, such as equipment, might be capitalized if the amount exceeds $5,000.

The State of South Dakota, in ARSD 10-02-01-01 has established $5,000 as the lower limit for capital asset recognition for its' assets.

For infrastructure, such as roads and bridges, a capitalization policy will help draw a line that decides when an expenditure goes beyond "maintenance" and should be capitalized (added to the capital asset listings). A capitalization policy for a road might be a dollar amount, such as $50,000, or it might be a measurement, such as projects greater than one-half mile in length.

How high should the equipment capitalization policy be? Federal regulations have established a maximum of $5,000, so it is recommended not to exceed that level. The focus for setting your capitalization policy should be less on accountability (a deterrent to theft) and more on financial statement presentation.

Financial statement presentation is impacted by the use of depreciation to feather the cost of an asset over its useful life. A higher capitalization threshold results in more expenses being absorbed in the current year.

As a deterrent to theft, high risk assets such as computers, guns and tools may be tracked through the use of alternative listings. These listings may be much simpler in design then a standard capital asset listing since it would be focused on description and location instead of cost, useful life or depreciation expense.

It is advisable to consult with your insurance carrier to determine the extent of documentation needed in case of a disaster. The results of this consultation will then affect the extent and detail of the capital asset records maintained. A backup copy of all inventory listings should be stored offsite.

Personal Property Listings - SDCL 5-24 requires all municipal departments to file a property inventory with the finance officer by January 10th of each year. By law this list should include all items over $5,000 in original cost but may include smaller

items to coincide with your capitalization policy or the needs of your insurance carrier. It is a good chance to verify or update your capital asset listings when the personal property listings are filed once a year from the various departments.

Why keep track of capital assets at all??? Following are a few of the reasons why:

Accountability - Tracking capital assets is a surefire deterrent to theft. Without records, capital assets could be taken and not detected.

Grants - Certain grant programs require the maintenance of capital asset records.

Decision Making - When a governing board is adopting their budget they may ask for lists of similar assets to get a feel for quantity or age of an item.

Full Costing - Are your water rates high enough? How about sewer, or liquor? One of the larger expenses on an enterprise fund's operating statement is depreciation. Therefor, the first step in providing an accurate financial statement is a completed capital asset record.

The general fixed assets, representing the assets of general government, are reported in their own separate set of self-balancing accounts. Under GASB 34, general fixed assets will be called general capital assets. Also, reference to the "general fixed asset account group" will be phased out under GASB 34, but municipalities are still encouraged to maintain this account group on your accounting system to act as a central place to aggregate values for reporting purposes.

Capital assets of enterprise funds are reported within each enterprise fund. For example, the Water Fund capital assets are reported in the Water Fund, the Sewer Fund capital assets are reported in the Sewer Fund, and so on.

Because of the separate funds, there may be three accounts established for "Land". Land that is a general capital asset, land that is for the Water Fund and land that relates to the Sewer Fund.

How are values established for capital assets and secondly how do I document these values? Accounting principles indicate that capital assets should be recorded at **original cost** or an estimate thereof. Estimated costs should be recorded when it is not feasible to locate the original cost of a capital asset. Donated capital assets should be recorded using the fair market value at the time of acquisition. The following comments will give you ideas in researching capital asset costs:

Land - Try locating deeds in safety deposit boxes, vaults, etc... As a last resortyou may go to the register of deeds office at the court house to obtain copies of deeds. Document the legal description (lot, block and subdivision) to facilitate referencing specific properties.

Buildings – Try to approximate the year the building or addition was built by talking with officials or looking at the cornerstone or plaque to obtain the year the

building was built. Then go to the minutes of that year to secure the bid amounts. **Maintenance** vs. **capitalizing.** Capitalize only when the useful life is extended and/or dollar amount is significant. Painting, tuckpointing, carpeting and minor repairs are all considered maintenance and do NOT increase the capital asset value.

Improvements Other Than Buildings - The water/sewer systems will be the hardest to document. I would probably start with a map of the system. Then use color coding on the map to indicate the size of the lines. Try to obtain years when sections of the town were installed. Research the costs in the minutes. Estimate the rest. Considerable help will have to come from the public works employees. Electric lines are also reportedin this account. (See the explanation of specific examples in the following text.) Infrastructure are long-lived capital assets that normally can be preserved for a significantly greater number of years than most capital assets and that are normally stationary in nature. This could include roads, bridges, curb and gutter, drainage ditches, street lights, etc. These were not required to be inventoried prior to GASB 34, but will soon be required to be inventoried by many municipalities. Infrastructure is a "class" of capital asset in the same manner that vehicles and technology equipment are classes of equipment. Infrastructure in some states will also be a general ledger account. In South Dakota, infrastructure should be reported within the Improvement Other Than Buildings general ledger account.

Equipment/Vehicles - Go back several years securing the original costs of equipment and vehicles. Document these costs obtained by making copies of the purchase invoices. You may go back even further in the minutes to obtain bids of larger vehicles. Photocopy the page of the minutes to document the cost. Estimate the smaller/older items using a committee or other approach.

Researching these values is a lot of work, but if it is done right, it only needs to be done once. Document, document, document. If you find the original cost in the minutes or locate the voucher make a photocopy of it. Place these copies into a file folder or three ring binder. Provide page numbers for these copies. Then when the capital asset listing is created on the computer, a column can be established that references back to the page number of the supporting documentation.

Costs such as freight, installation, architect fees and engineering costs are referred to as ancillary costs and should be added to the capital asset values that are recorded.

Estimating Costs – Estimates of the original cost of smaller assets may be determined by researching old catalogues or consulting with individuals that have worked in that field for a number of years. Larger assets may be estimated by using a CPI (consumer price index) approach. The CPI approach is initiated by first establishing the current cost of the item. Then CPI charts are obtained to provide the "deflation" percent per year. The current cost is then deflated to arrive at the estimated original cost.

For example, the CPI tables (found on the legislative audit WEB site) have a factor of 177 for the year 2000 and 112.3 for the year 1990. So if a sewer line currently

costs $10,000 per block in 2000, then a new line built in 1990 would be estimated to cost $6,345 per block. ($10,000 divided by the current factor of 177 and that result taken times the 1990 factor of 112.3)

Documentation of the process is critical of all items that are estimated. Who was consulted? Where was the current cost obtained? What CPI deflation factors were used?

Groupings - Groups of common assets may be viewed individually or as a group. For example, if a municipality had 400 chairs at $20 each in an auditorium, I would probably lean towards recording them as a group because they were probably all purchased at the same time AND they will always be in that particular location. Individual chairs in various offices would not need to be grouped together and therefor probably would not be recorded. (They would be individually under the capitalization policy)

A computer workstation could include a printer, computer, keyboard, and monitor. If they are always going to be in the same grouping, a finance officer could list them together as one item. If your municipality has many computers and swaps pieces back and forth constantly, then you may want to track individual items or consider them separately when comparing to your capitalization policy.

Subsystem – All of the water lines in a municipality could be valued as one group and identified as a "subsystem". A map could identify the location of the lines. Values and sizes of lines could be researched and detailed. The subsystem would be reported in the enterprise fund using the account "improvement other than buildings". This method could also apply in establishing values for an electrical distribution system or for sewer lines.

In using the composite method of valuing and depreciating the subsystem, no gain or loss is recorded upon the retirement of assets with the group. Accordingly, an average cost is removed from the asset account and charged to the accumulated depreciation account when an asset is removed. The asset record of a water subsystem could appear as follows:

FOUR INCH MAINS:

Year	Cost	Useful Life	Depr Expense	Accum Depr	Length
1997	10,000	40	250	750	800
1995	20,000	40	500	2,500	1700
1993	10,000	40	250	1,750	1000
	40,000		1,000	5,000	3,500

Given the preceding data, the average cost of the four inch mains is $11.43. ($40,000/3500ft). If 100 feet of line were replaced then the average cost could be used to reduce the capital asset account and also reduce accumulated depreciation.

Depreciation - Depreciation is only required to be applied to enterprise capital assets. Under GASB 34, the General Capital Assets will also be depreciated so it would be wise to set up those capital asset listings in a manner to allow them to be depreciated. The simple approach is suggested which is to apply depreciation using the straight line method. Suggested useful lives of various capital assets are listed in this section of the finance officer's Municipal Accounting Manual as Illustration No. 6. Caution should be exercised, in that assets should not be depreciated beyond their useful life. In fact GASB recommends that useful life's should be managed so that capital assets never become fully depreciated if they are still in use.

Capital Asset Listings – Older capital asset listings were on recipe cards, three ring binders and even columnar pads. Current capital asset listing could be set up on an excel spreadsheet. You may even purchase special software from vendors to create capital asset listings.

The capital asset listing should contain fields for date purchased, description, useful life, cost, depreciation expense, accumulated depreciation and an optional column for a serial number. Another column should be utilized to assign a code to the asset that relates to the department that is using the asset. The code could originate from the last two digits of the expenditure function chart of accounts taken from the Municipal Accounting Manual, Section II. For example, a police car could be 21, a fire truck could be 22 and a pickup from the electric department could be 34. By having fields by department, municipalities will be able to compute depreciation by department. A final field should also be included that would reference back to the page number of the supporting documentation..

Record – The column headings of a capital asset record should be laid out as follows:

ITEM # - This column would serve as a reference from the capital asset record to the support for the value of each item listed. It could also be used to list the tag numbers if tagging is used.

G/L ACCOUNT NUMBER – This column would identify the general ledger account number for each item. For example, 160 land or 166 equipment. It will be convenient to sort this column for financial statement reporting.

FUNCTION/DEPARTMENT – This column will enable a municipality to sort by function or department. Sorting by department assists in providing the location. GASB 34 requires that depreciation expense be reported at the functional level. For example, total depreciation expense for "general government" or "public works". The data entered into this column may be in words "general government – finance office" or it may be by expenditure account number "414".
YEAR ACQUIRED – This information is essential for calculating depreciation.

ESTIMATE USEFUL LIFE – These estimates may be obtained from the useful life tables on the legislative audit WEB site or it may be obtained from other sources.

DESCRIPTION – A good description coupled with the function column may save having a column for location. Also, it is optional whether to list the serial number here or in a separate column.

COST – This should include the original cost or an estimate thereof.

ACCUMULATED DEPRECIATION – This column should reflect the depreciation accumulated from the date of purchase through the current date. The amounts in this column should support the general ledger accounts of the same name.

DEPRECIATION EXPENSE 2001 – It is recommended to calculate the depreciation expense for each item listed using the straight-line method of depreciation. The totals listed for this column should tie to the amounts reported on the operating statement. Do not depreciate an item beyond its useful life. For the sake of keeping it simple, you may have a policy of depreciating an item for a full year in the year acquired even if an item is acquired several months after the year has started.

NOTE: Proclaiming a salvage value is optional so it is not listed as a required element above.

A sample capital asset record and depreciation schedule is shown on Illustration No. 3

Tagging of Assets – Tagging of assets to provide specific identification is optional. Most municipalities in South Dakota are of such a size making it hard to justify the extra work of tagging assets. Many assets such as vehicles, transformers and computers already have a serial number or other ID number available.

Street lights – Certain assets are on occasion placed in the wrong account. Street lights are a good example. Some municipalities place street lights in with all their electric system assets because it is the electric department that maintains the lights. The Electric Fund should only include the assets necessary to transport the electricity to the home. Street lights are present for pedestrian and driver safety. They are NOT a part of the electric system. They will eventually be recorded as infrastructure of general capital assets.

Fire Hydrants – Although fire hydrants appear to be associated with the fire department, they should be recorded as a part of the water system. They facilitate getting water from the water tower to the fire.

Ownership - When working with distribution lines, it is advisable to specifically note when the municipality's line ends and the homeowner's responsibility begins. In many municipalities, the municipality will run the water main down the street, but it is the homeowner's cost/responsibility to extend the line from the main to the house. In that case, the line to the house will not be a capital asset of the municipality. In other municipalities, the breakoff point of ownership may be the curbstop/shutoff.

Library Books – GASB 34 suggests that library books are to be viewed as a capital asset. Rather than listing each and every book, they may be listed as one asset. For example, 10,000 books at $23 per book equals $230,000. Then each year the

total is updated for books purchased and discarded. For convenience, all books discarded are considered fully depreciated. Some GASB 34 specialists are suggesting that library books be considered individually and therefor are not expensive enough to be a capital asset. Our preference would be to list significant libraries as a capital asset to be depreciated over their useful life. Hardcover books, softcover books, CD's and audio tapes are all library capital assets if they have a useful life greater than a year.

Software – Most software purchases are merely paying for the right to use someone else's product so they are not listed as capital assets. Only software developed by the entity's own programmers needs to be capitalized.

Sidewalks – Sidewalks that run parallel to the street are generally purchased by the homeowner and are maintained by the homeowner so they are NOT capital assets of the municipality. However, sidewalks that are placed on the entity's land and are paid for by the entity are improvements other than buildings. (Sidewalks through parks or ones that lead up to municipal buildings.)

Developments - Oftentimes developers will put in the water/sewer lines and streets only to be later donated to the municipality. These become capital assets of the municipality at the time that they are donated. If they do not meet municipal code and the municipality is refusing acceptance of the developers assets, then they do not become capital assets of the municipality until some sort of settlement is agreed to.

Roads – There are two approaches to establishing the value of the infrastructure for roads. This process is complicated by the fact that a road contains the base structure and a top surface. Over time the surface is going to have new overlays while the base structure will remain in its standard form. Remember that phase I and II entities only need to list road work performed since 1980. A large portion of the base structures were already completed by 1980 so most of what will be listed as infrastructure are just the new surfaces.

The first step in maintaining the infrastructure listing for roads is to list the road surfaces separate from the base structures. The advantage to this method is that when the road surface is replaced, it is easier to remove the old values and add the new one.

The alternative approach is to record the road and the underlying base structure (if both were installed since 1980) together in the same capital asset listing. The disadvantage to this method is that when a new surface is added, the estimated value of the old surface will have to be formulated and removed from the listings.

Whichever method is used, it is encouraged to track roads using a broad subsystem approach rather than listing values for each individual road.

Culverts - The base structure of a road should include the value of the culverts. Most roads have culverts located through the length of the road. Rather than tracking culverts separately, the cost of the culverts may be considered within the cost estimated for the road base. When individual culverts are replaced, that cost

may be considered maintenance and NOT added to the capital asset listings. Only when a whole section of the road base is redone and the culverts are replaced as a part of that project will the cost of culverts be capitalized resulting in an increase to the value of the base.

Keeping It Simple – For many phase I and II entities, when creating the capital asset detail for infrastructure (roads, street lights) it may be easier to list all of the assets that make up a subsystem rather than trying to determine which ones were built before/after 1980. Since most of the values are estimated based on maps, etc… it would appear that in many instances it would be more efficient to just create values for the entire subsystem.

Road/Land – Beneath each road is land. Land is improved to create a road. The improvement to the land is reported as infrastructure. The land itself is to be reported within the "land" account. The land beneath a road is a public right-of-way. There generally is no deed to reflect ownership or value. The land beneath a road is generally given to a municipality when a subdivision is platted and developed.

Generally accepted accounting principles require that the land beneath the roads be quantified, documented and reported. There are several ways that this can be done. One of these methods will be enclosed as guidance. The focus should be to arrive at a large estimated figure for the whole municipality. It is not necessary to calculate values for each street or each block for each street.

The first step would be to quantify the length of existing streets. This can be done in miles or blocks. The next step is to determine the average width of your streets. (Note that a municipality street generally includes the boulevard and the sidewalk.) Now that we have length and width, we can determine how many square feet of street exists. Then convert the total square feet to acres. (43,560 sq. ft. per acre).

Next, steps need to be taken to establish the year acquired. This can be estimated using the population growth per decade. The logic is that there would be a correlation between the population of a municipality and the miles of streets.

The last step would be to ascertain the current market value of an acre of land on the edge of your municipality. Once the current value of land is know, the CPI table can be used to calculate the value of land added from each decade. From all of the preceding steps, the following table could be prepared to provide a final total for the value of land beneath the streets:

Decade	Population	Percent	Acres	Value/Acre	Total
2000	2000	5%	200	$300	$60,000
1990	1900	2.5%	100	189	18,900
1980	1850	2.5%	100	165	16,500
1970	1800	5%	200	45	9,000
1960	1700	2.5%	100	40	4,000
1950	1650	2.5%	100	35	3,500
1940	1600	5%	200	20	4,000

All Prior	1500	75%	3000	28	84,000
		100%	4000		$199,900

Another approach could be to review the plat maps at the register of deeds office to establish when each subdivision was added to your town. Whatever method is selected, be procedural and document your work.

Bridges - Because each bridge is a different length and many are constructed out of different materials, it is suggested that each bridge should be individually listed in the capital asset records. Bridge data maintained by the DOT will be very useful in estimating the original cost of bridges.

The bridge elements in the DOT bridge data that will be useful are the location, description, year built and estimated replacement cost. An estimated ORIGINAL COST (required by generally accepted accounting principles) can be calculated using the CPI tables located on the Legislative Audit Website and the replacement costs provided by DOT.

For example, a county bridge that was built in 1970 has a replacement cost listed by the DOT of $500,000. The CPI index lists a factor for 1970 (year built) of 33.8 and a factor of 177 for the current (replacement cost) year 2000. Given these numbers, the estimated original cost of the bridge would be $95,480. ($500,000 divided by the current index of 177 and that result taken times the 1970 index of 33.8)

Because of the statutory responsibility of counties to substantially pay for the bridges on secondary roads, the bridges located on secondary roads should be listed right along with the bridges located on county roads. Also, the statutory definition of a bridge (SDCL 31-14, greater than 20 feet) will be used to clarify which structures to list in the bridge capital asset listing.

Firetrucks – A lot of confusion centers around the ownership of firetrucks. Do they belong to the volunteer fire department, the county or the municipality. For capital asset purposes, we should disregard who actually paid for the firetruck and focus on the vehicle title. If it is titled in the municipality's name, then it is a capital asset of the municipality.

Leases – Sometimes municipalities will enter into leases or lease-purchases for capital assets. Leasing is the same as renting in that the municipality is paying for the right to use the asset but will never own the asset. Lease-purchasing on the other hand is just a mechanism to make installment payments towards the eventual ownership of the asset.

In both leasing and lease-purchasing, an analysis must be made to determine if the contract is a capital lease or an operating lease. The contract is a capital lease if ANY one of the following conditions are met:

a. The lease transfers ownership of the property to the municipality by the end of the lease term. (a lease-purchase)

b. The lease contains a bargain purchase option. An option to buy the item for less than its current market value.

c. The lease term is equal to 75% or more of the estimated economic life of the leased property.

d. The sum of the principal lease payments equal 90% of the fair value of the asset. (Are your lease payments, when added together, about the same as buying the item)

If it is determined that a capital lease exists, then that item should be added to your capital asset listings. (long-term debt should also be recognized)

Works of Art and Historical Treasures - Except as discussed in this paragraph, governments should capitalize works of art, historical treasures, and similar assets at their historical cost of fair value at date of donation (estimated if necessary) whether they are held as individual items or in a collection. Governments are NOT required to capitalize a collection whether donated or purchased that meets ALL of the following conditions.
The collection is:

a. Held for public exhibition, education, or research in furtherance of public service, rather than financial gain.
b. Protected, kept unencumbered, cared for, and preserved
c. Subject to an organizational policy that requires the proceeds from sales of collection items to be used to acquire other items for collections.

Capitalized collections or individual items that are exhaustible, such as exhibits whose useful lives are diminished by display or educational or research applications, should be depreciated over their estimated useful lives. Depreciation is not required for collections or individual items that are inexhaustible.

Inexhaustible works of art and historical treasurer, if capitalized, should be reported as "Land and land rights" whereby most exhaustible treasurers (ones that will be depreciated) should be recorded as "machinery and equipment".

G. Revenue Budget Record:

The revenue budget record is to record the summary of each revenue source recognized in the general journal or recorded in the cash receipts journal. The total of this record should equal the revenue control account in the general ledger.

The revenue budget record should be established for each budgeted fund. This record is constructed from the estimated revenue worksheets which were prepared for the provisional and annual budgets. Each worksheet will provide a basis for each fund's revenue budget record. The revenue budget record will provide a comparison of budgeted revenue with actual revenue and will provide a running total of revenues collected to date and will provide projections for future cash flow.

A suggested format is shown at Illustration 4. In the format the first line is used to list the budgeted revenue. The balance of the form is used to record monthly, year-to-date and yearly actual revenue.

H. Expenditure Budget Record:

The expenditure budget record is to record the summary of each object level expenditure classification from the warrant journal or general journal. The total of this record should equal the expenditure control account in the general ledger. An expenditure budget record should be established for each budgeted fund. This record is constructed by taking the departmental budget request (by activity) and providing a separate page(s) in the expenditure budget record for each activity within the fund. The expenditure budget record will serve three purposes. It will show a comparison of budgeted expenditures with actual expenditures and a running total of actual expenditures made to date. The third purpose which this record will serve will be as an appropriation control.

I. Customer Deposit Record:

The customer deposit subsidiary record should contain columns by individual customer for the date, description, credits (new deposits), debits (refunds) and balance. The establishment and maintenance of this record follows the same steps as that for accounts receivable. The balance for all subsidiary accounts should equal the general ledger control account.

J. Subsidiary Bid Surety Record:

When bid deposits are not returned to the successful bidder, but held as surety until a contract is entered into, the checks should be deposited in the bank for safekeeping, and the amount of the check, the name of the bidder/depositor and date of the deposit should be entered in this record.

When the amount of the deposit is returned to the bidder, the date of payment and the warrant number should be entered also.

In addition, the bid deposit should be receipted and recorded as a liability of an agency fund or another appropriate fund. The repayment of the bid deposit should be recorded through a voucher recorded against the liability of the respective fund.