

Recording Developer Contributions

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When new development occurs within your community, typically significant infrastructure construction (roads, street lights, sidewalks) is necessary to make the development usable by citizens. However, as much as this infrastructure is a public good, municipal governments typically are not the ones to build these crucial infrastructure components. Rather, developers build the infrastructure as they construct the new communities and donate the infrastructure to the local government. Municipalities accept these donated assets and account for them annually within their financial statements through the recognition of capital contributions.

While most municipalities record capital contributions for developer donations annually, several shortcomings have been identified through our recent audit test work. Here are a few nuances necessary to master developer contributions for your municipality.

- The underlying land that the infrastructure sits on is sometimes overlooked by municipal financial statement preparers. These preparers usually rely on engineers' estimates, which are based on linear feet or square feet of materials used during construction, to value the physical infrastructure assets. Land value is not necessarily a part of this construction analysis, and, therefore, must be acquired by an alternate means. Preparers should solicit land valuation information from a real estate, planning, or development department to completely value the developer contributions.
- While there is commonly a warranty period associated with these developer donations, municipalities should not wait until the end of the warranty period to capitalize the assets and recognize the capital contribution. As soon as the municipality takes possession or title of the assets, the assets should be capitalized.

- Similar to the first bullet above, municipalities should capitalize infrastructure and the underlying land separately to ensure non-depreciating assets (land) don't become included in the annual depreciation expense analysis.
- A simple comparison between the capitalized value for developer contributions to other available information can serve as good reasonableness check. For example, a financial statement preparer can read Zoning Commission or Town Council meeting minutes to see if information contained within those minutes is consistent with the proposed valuation of the land and infrastructure donated.

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