Asphalt, Fleets, Bricks, and Mortar

By Tim Green, CPA, Margie E. Williamson, CPA, and William L. Endris, Jr.

Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments* (GASB 34), generally requires school districts to capitalize and depreciate their capital assets in their financial statements. This article explains our experience in implementing those requirements for the Vernon Parish (Louisiana) School Board's (district's) June 30, 1999, comprehensive annual financial report (CAFR). A companion article, "Sharpen Your Pencils and Roll Up Your Sleeves: A Case Study in Implementing the GASB's New Financial Reporting Model," which describes other aspects of the district's early implementation of GASB 34, is included on the previous pages in this issue of *School Business Affairs*.

Capital assets include land, land improvements, easements, buildings, building improvements, vehicles, machinery, equipment, works of art and historical treasures, infrastructure assets, and all other tangible or intangible assets that are used in operations and that have initial useful lives extending beyond a single reporting period.

GASB 34 (commonly referred to as the "new financial reporting model") requires the preparation of governmentwide financial statements using the economic resources measurement focus and the accrual basis of accounting. Unlike the present reporting of capital assets acquired through or associated with government funds, the new reporting model generally dictates that the consumption of those assets be reported through a charge in the governmentwide statement of activities for depreciation expense.

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Our discussion of the issues we faced and the ways in which we resolved them is intended to be informative only, not directional. Each district will face myriad issues and may need to solve the ones we discuss differently from the way we did, depending on particular facts, circumstances, and materiality.

Outsourcing Physical Inventory

Early in its implementation process, the district concluded that its capital asset records had shortcomings. The district outsourced a complete inventory of capital assets at all of its 20 sites. The district decided to outsource the work because the vendor could complete the inventory within 30 days and had a database that could provide estimated historical cost for most of the district's capital assets. The vendor also had significant experience and a methodical inventory approach.

Acquisition Dates

The district's previous capital asset records did not include the dates that the assets had been acquired. Acquisition dates are needed to calculate depreciation expense and accumulated depreciation. Ultimately, the missing dates posed no significant problem. We realized that if, for example, a capital asset had a 6-year estimated useful life, it didn't matter whether the asset was purchased in 1985, 1989, or 1991; it would be fully depreciated. The acquisition date would be important only if the estimated time since the asset was acquired was less than the estimated useful life of the asset. The daunting job of establishing acquisition dates quickly became a manageable task when we concluded that probably 75% of the district's capital assets were so old that they had been fully depreciated.

Depreciation Expense by Function

GASB 34 requires depreciation expense for capital assets that can be identified specifically with a function to be included in that function's direct expenses. In most cases, that means that depreciation expense will be recorded, for example, as a cost of regular instruction, special instruction, student transportation, the child nutrition program, or maintenance and operations. The vendor's capital asset inventory identified asset location but did not identify the functions for which the assets were used. The district had to add this information to the vendor's inventory report.

Depreciation Allocation

Another issue in assigning capital assets to functions is allocating depreciation expense for capital assets that benefit two or more functions. For example, the district's school buildings are used for the same several functions. We allocated school building depreciation based on percentages representing the relative square footage use of the buildings for instruction, the child nutrition program, and school administration. All of the depreciation expense for instruction was classified as regular instruction because only an immaterial portion of the time-use of the buildings was dedicated to special or other instruction. It is the only other instructional function the district reports in its CAFR. (If a district were to find that a building or other capital asset is used by "essentially all" of its functions, GASB 34, paragraph 44, permits the district not to allocate the depreciation among functions. Instead, it permits depreciation on that particular building or asset to be included as a separate line item or as part of a "general" function.)

The present method of "rolling forward" the balances of capital asset amounts in the general fixed-asset account group by adding the current year's additions and deletions to prior-year balances will clearly not suffice for GASB 34.

Estimated Useful Lives

To determine estimated useful lives of its capital assets, the district used an Internal Revenue Service (IRS) publication that includes a fairly extensive list of assets and their estimated useful lives. After the district issued its CAFR, the GASB staff released its *Guide to Implementation of GASB Statement No. 34 on Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments: Questions and Answers* (GASB 34 Q&A). The GASB 34 Q&A discourages the use of IRS established lives, stating in item 48 that "schedules of depreciable lives established by federal or state tax regulations are generally not intended to represent useful lives." Item 47 in the GASB 34 Q&A states, "Useful lives should be based upon the government's own experience and plans for the assets. Although comparison with other governments or other organizations may provide some guidance, property management practices, asset usage, and other variables (such as weather) may vary significantly between governments." Consequently, for the 2000 CAFR, we will review the previously assigned estimated useful lives using the guidance in the GASB 34 Q&A and the recently issued *GASB Statement 34 Implementation Recommendations for School Districts.*

Salvage Value

Generally, the district uses its capital assets, except for vehicles, until they are completely worn out and either abandoned or used as parts. Therefore, salvage value was established for vehicles only. Recent experience indicated that the trade-in allowance for district vehicles was approximately 10% of their original purchase price. Accordingly, the district established a 10% salvage value for vehicles.

Depreciation Method

GASB 34, paragraph 161, permits governments to use any established depreciation method. The district adopted the straight-line method because of its ease of use. Also, the district had no compelling reason to use any other method.

Capital Asset Software

The district's new capital assets listing is an electronic spreadsheet that automatically calculates beginning and year-end accumulated depreciation and current year depreciation expense. The disadvantage of the spreadsheet is the ease of adding or deleting items without a record of the changes. Although this record served the district's purposes for the 1999 CAFR, we are concerned about the lack of control over future additions and deletions. The district has not yet addressed this control issue or decided whether to continue to use the spreadsheet.

Infrastructure Assets

Infrastructure assets are long-lived capital assets that are normally stationary in nature and can normally be preserved for a significantly greater number of years than most capital assets. Examples of infrastructure assets are roads, bridges, tunnels, drainage systems, water and sewer systems, dams, and lighting systems. Buildings are not considered infrastructure assets, except those that are an ancillary part of a network of infrastructure assets.

When the 1999 CAFR was prepared, we had not decided whether the district had general infrastructure assets that should be retroactively capitalized. We could address this issue later because GASB 34 permits a 4-year delay for the retroactive capitalization of those assets. (Note that GASB 34 also does not require very small governments to retroactively capitalize those assets.) The district has since concluded that it has no infrastructure assets.

Some asked whether football stadiums and tracks were infrastructure assets. We thought not and classified the tracks as exhaustible land improvements (which are subject to depreciation) and the football stadiums as buildings. We also classified surfaces for driveways and parking lots as exhaustible land improvements.

Summary

A district will likely have to give considerable attention to capital assets as it prepares to implement GASB 34. The present method of "rolling forward" the balances of capital asset amounts in the general fixed-asset account group by adding the current year's additions and deletions to prior-year balances will clearly not suffice for GASB 34. Specifically, districts may need more accurate records and additional capital asset data. Among other tasks, districts will also need to identify functional assignments and allocations for the assets and select a depreciation method.❑

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