GASB 34 GUIDE FOR VERMONT TOWNS

PART 2: TRACKING AND REPORTING CAPITAL ASSETS

Last month, we discussed the reasons to have accounting guidelines and introduced the new requirements in the Governmental Accounting Standards Board (GASB) Statement 34. This month, we discuss the first of the five new requirements - all funds must report capital assets.

Defining Capital Assets and What is Reportable. An important component of your financial reporting when complying with GASB 34 is the accounting of your town's capital assets. Major asset categories include: 1) *Land and Improvements*, 2) *Easements*, 3) *Buildings and Improvements*, 4) *Machinery and Equipment*, 5) *Works of Art and Historical Treasures*, and 6) *Infrastructure*.

Land, *Buildings*, *Machinery and Equipment*, and *Works of Art and Historical Treasures* are self-explanatory. Improvements for both land and buildings, however, require some explanation. Land improvements include any project that prepares the land for its intended use. This could include site improvements like excavation, fill, or utility installation, or it could be removal, relocation or renovation of property belonging to someone else. Other land improvements are retaining walls, fencing, parking lots and landscaping. Building improvements include any project that will add value to the building (renovations and additions); annual maintenance expenses are not considered a capital asset.

Infrastructure is a category of capital assets that may be preserved for much longer than most other capital assets and are stationary in nature. This includes bridges, drainage systems, roads, sidewalks, dams, and lighting systems. It generally does not include buildings or land. Infrastructure will be discussed in the next installment of this series.

Depreciation. Depreciation is a way to spread the cost of the asset over its useful life, rather than expensing the entire value the year the asset is purchased. If any capital asset you purchase is used up over a longer period of time than a single year (a vehicle is a good example), then the true annual cost is a combination of maintenance costs for the item and its capital cost (the depreciation).

A distinction must be made between exhaustible and non-exhaustible assets. An exhaustible asset is one that will be "used up" and needs to be depreciated to capture the cost of that "use." *Land and Improvements*, *Easements*, and *Works of Arts and Historical Treasures* will generally be considered non-exhaustible because their value is not depleted over the years. Exhaustible (depreciable) and nonexhaustible (non-depreciable) assets should always be categorized separately, since accumulated depreciation will be applied against the total value of each depreciable asset category. There may be a portion of a depreciable project that is non-depreciable, such as the excavation on a road improvement (an infrastructure project), and should be categorized separately, or, if appropriate, in the *Land and Improvements* category.

Two additional unique categories to consider as capital assets are library books and construction in progress. *Library Books* are generally depreciable, but can be done as a collection rather than accounted for individually. *Construction in Progress* is non-depreciable until the construction is completed and must therefore be categorized separately.

Capitalization Policy. How do you decide what to report? You will need to develop a capitalization policy that will determine a value over which you will account for the asset. That value may differ for different asset types, depending on what assets your municipality feels are important to keep track of. You might decide to keep an inventory of all land, buildings and improvements owned by the town. For machinery and equipment, you may decide to track anything over $1,000, with the exception of computers. They will be inventoried regardless of value. The rule of thumb is to account for anything that you believe is of sufficient value to inventory.

In your policy, you should also identify by position the staff member(s) responsible for maintaining the inventory and outline the process for collecting and compiling the information needed to maintain it. Someone needs to be responsible for determining the useful life of the asset and the salvage value; that task should probably go to the individual that knows and has experience with the asset.

Accounting for Capital Assets. How do you record your assets, and what kind of information do you need for each asset or class of assets recorded? You should have the date the asset was purchased or acquired, the amount you paid for it, or, if it was donated, the fair market value of the asset at the time it was donated to you (get the donor to give you a written statement of the value of the item). You need to determine the useful life (in years) of the asset, based on either industry standards, or your own experience or knowledge of the asset. If the asset was disposed of or sold, you must have the date of disposal or sale and the amount received if sold. A salvage or residual value should be assigned if you feel there will be some value left in the asset once it has been fully depreciated. A spreadsheet is a great way to account for your capital assets if you don't have a fixed assets computer program or have not contracted an appraisal service to do so.

Keep your asset records divided into governmental type and business type activities. Governmental type activities are funded primarily through taxes and unrestricted state and federal aid. Business type activities are those funded primarily by fees charged for services (enterprise funds such as sewer and water). Also remember to categorize by the major categories discussed above and separate the depreciable from the non-depreciable assets.

Documents such as invoices, land records and town reports can give you most of the values you need to record the original cost of the asset. When recording the cost, include all charges that were incurred to get the asset to its location and prepare it for use.

Depreciation may be calculated for a class of assets or calculated for individual assets. An example of a class of assets may be computers or desks. You may choose not to track a particular asset individually because it is below your capitalization threshold but has enough value as a group to warrant recording. In those cases you may indicate the quantity of items with a total value.

Calculating straight-line depreciation is quite simple. It is your total initial (historical) cost (be sure all associated charges are included) less salvage (residual) value divided by the useful life of the asset. The resulting number is the annual depreciation for the asset. This figure is an expense, and the accumulated depreciation from the year of purchase to the current year for the asset is the number you subtract from the original value to get the current book value of the asset.

Example: You have 10 computers purchased in 2000 at a total cost of $12,000 with consultant's costs of $1,000 to set them up. You figure they have a useful life of four years, and at the end of that time the computers will be worth about $1,000 (you think can sell them for that price to your employees). Your total value less salvage value is $12,000 + $1,000 -
$1,000 = $12,000. Divide that by the useful life of four years and you get a depreciation cost for each year of $3,000.

When reporting at the end of a year, your capital assets disclosure (the GASB compliant report of your assets) should be categorized in two major sections: Governmental and Business-type activities. Within each of these categories, you should list first your non-depreciable assets by major asset type, then your depreciable assets by major asset type. The first column of data should show the book value of each asset at the beginning of the year, the second column the additions or increases (acquisitions made throughout the year), the third column the deletions or decreases (disposals and sales made throughout the year), and the last column the ending book value (beginning plus increases minus decreases).

RESOURCES

- *GASB Statement 34* (1999) by the Governmental Accounting Standards Board, available through GASB. Phone 800/748- 0659 or visit on-line at http://www.gasb.org.
- *GASB Statement 34 Capital Assets & Depreciation Guidance* (2001) available on-line at http://www.lla.state.la.us/gasb34/capas.pdf.
- *Governmental Accounting, Auditing and Financial Reporting (GAAFR)* (2001) by Government Finance Officers Association, available through GFOA. Phone 312/977- 9700 or visit on-line at http://www.gfoa.org.
- *Guide to Implementation of GASB Statement 34* (2000) by the Governmental Accounting Standards Board, available through GASB. Phone 800/748-0659 or visit on-line at http://www.gasb.org.

- Mike Gilbar, Director, VLCT Administrative Services (Please contact Mike at mgilbar@vlct.org with any questions and for sample schedules listing thresholds and estimated useful lives for each asset type and a sample capital assets disclosure.)

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