GASB 34 Manual for Texas Cities and Counties
June 2003

Chapter 12
Capital Assets and Accumulated Depreciation

Capital assets include any real or personal property. Governments must establish a capitalization threshold for each particular class of asset for all capital assets with an estimated useful life of more than one year. [55]

A government should maintain its capital assets records in its capital asset software module. This information should include asset identification numbers, equipment category codes, tag numbers, dates of acquisition, assigned departments, purchase costs and descriptions of each asset.

A government should conduct a physical inventory of its assets each year.

Capitalization threshold on assets—the dollar value above which asset acquisitions are added to the government's capital asset accounts—are usually too low and are not cost-effective. GASB 34 allows governments to establish capitalization thresholds that suit their needs. When the threshold is low the government must track depreciation for more assets. This creates additional work for central administrators and departmental managers. For internal accountability purposes, however, the government should maintain records of assets at a high risk of theft, such as weapons, computers, radios and television sets.

A CFO will need the help of the departments in grouping assets, assigning useful lives and selecting appropriate depreciation methods. Although GASB does not recommend a specific schedule for such calculations, it recommends that governments use general guidelines obtained from professional or industry organizations, information on comparable assets of other governments or internal information such as property replacement policies for equipment or vehicles, property disposal records and budget documents. [56]

An example of the state of Texas' capital assets schedule is located in **Appendix C**.

Under GASB 34, capital assets include:

- inexhaustible capital assets, such as land and land improvements;
- infrastructure, including long-lasting capital assets;
- intangible assets, such as computer software developed by the government for internal use with a useful life of more than one year;
- works of art and historical treasures;
- buildings, building improvements, vehicles, machinery and equipment not included in other categories; and
- improvements to other structures, such as sport stadiums, pavilions, statues, sidewalks, parking lots and landscaping.

Under current practice, when a government purchases an asset with money from any government fund, the entire cost of the asset is recorded as an expenditure at the time of the purchase. GASB 34 requires that these assets, if exhaustible, be depreciated over the useful lives of the assets or their class of assets as determined by the government.

The most important change in reporting the depreciation of capital assets under GASB 34 is governments must include depreciation as a direct expense under each of the programs and functions in the statement of activities. If an asset is shared by more than one functional area, the depreciation expense must be allocated among functions if the government can readily identify them. If an asset serves essentially all of the government's programs, however, as do the government courthouse and information technology resources, the assets do not have to be allocated to program areas. Instead, the related depreciation may be reported as a general government function and labeled an "unallocated depreciation expense." [57]

RECOMMENDATION

Governments should create capitalization policies that include capitalization thresholds.

The Comptroller's office developed a *Capital Asset Guide* to help state and local governments implement the new GASB 34 reporting requirements. This guide includes definitions for different asset categories, capitalization thresholds, depreciation methodologies and examples of assets as defined by the State Property Accounting (SPA) system. In addition, the guide includes guidelines for leasehold improvements and construction in progress. The guide is available at http://www.window.state.tx.us/fm/pubs/capasset/.

A government can choose to use different capitalization thresholds for different classes of assets. For control and accountability purposes, a government may continue to inventory some capital assets costing less than the threshold values that have high incidences of theft, such as computers, audiovisual equipment and weapons. These items should not be accounted for in the capital asset group of accounts.

To implement this recommendation, a government CFO should review the capitalization thresholds developed by the Comptroller's office for different asset categories and solicit input from government department heads to revise the capitalization threshold policy. After the commissioners court approves this revision, the CFO should notify the first assistant CFO of the approved thresholds. The first assistant CFO should remove assets that cost less than the new threshold amounts from the fixed-asset database, but should maintain accountability for these assets in a separate file.

The government's chief financial officer should develop a methodology for depreciating classes of assets for GASB 34 reporting.

The State Property Accounting (SPA) system has class codes for all of the state's fixed assets, based on statewide historical data for each class of asset and information from state and national professional organizations. Each class code in the SPA system contains a default value for both salvage value-expressed as a percentage of historical cost of the asset—and estimated useful life, which is expressed in months.

A recommended list for useful life, capitalization thresholds and percentages of residual values for personal and real property is presented in **Appendix C**. This is one example of one depreciation methodology.

A CFO should use this information to develop a depreciation methodology for assets.

The CFO could substitute information for salvage value or the estimated useful life based on experience. The CFO should present a new fixed-asset class code system to the department heads for approval. Once approved, the departments should implement the new class code system. The

Comptroller's office recommends the straight-line depreciation method—the basis of the asset is written off evenly over the useful life of the asset.

A CFO should develop an index of capital assets by function and program, as required by GASB 34.

A government's capital-asset database lists assets, other than buildings, by department. CFOs should use the functional areas to classify capital assets.

To implement this recommendation, the first assistant CFO should review the program areas proposed in the draft version of the uniform chart of accounts proposed at http://www.cuc.org/CUC/FDAC/working_documents/index.htm and should tie each item in the capital asset database to a specific function or program area. This would allow the government to pull assets by functional/program areas for financial reporting purposes and to produce periodic management reports.

CFOs should develop a methodology for allocating the depreciation of assets shared by more than one program area.

If more than one functional area occupies a single building, depreciation should be allocated based on the square footage occupied by each functional area. If one department occupies more than 80 percent of a building, the total expense can be allocated to that function.

To implement this recommendation, the chief financial officer, in cooperation with the superintendent of Building Maintenance, should prepare a list of government buildings, departments housed in each, the square footage of each building and the percentage of space occupied by each department. Based on this information, the CFO should allocate depreciation expenses for each building to the appropriate area.

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