

GASB 34 REPORTING CHANGES TO SOFTWARE



Software for the Business of Education™

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SUMMARY

This document describes the requirements and functionality of programming changes to allow reporting of school district financial information in accordance with the Governmental Accounting Standards Board, Statement 34. Also included are suggested steps for establishing the capital assets inventory.

The Governmental Accounting Standards Board (GASB) issued *Statement 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments* in June 1999. The statement establishes a new financial reporting model for state and local governments and is the biggest change in the history of public sector accounting. GASB developed the new requirements to make annual reports more comprehensive and easier to understand and use.

The new requirements include:

- A narrative introductory overview and analysis called the Management Discussion and Analysis (MD&A);
- Government-wide financial statements prepared on the full accrual basis that are in addition to, not instead of, the traditional Fund-Based statements; and
- An expanded Budget Comparison that includes the adopted budget, final budget, and actual revenues and expenditures.

It is the Government-wide financial statements requirement that will necessitate programming changes for *Escape* software. Several reports will now need to show expenditures by function, across funds. Also, capital assets need to be included in the statement of net assets, so districts must plan to have their fixed assets valued so the information is available for inclusion in the statement of net assets. Districts will also need to calculate annual depreciation of the assets. Current *Escape* software allows for calculation of accumulated depreciation, but not an annual depreciation expense amount. There are several changes to the software that will be necessary for this area of requirements.

GASB 34 becomes effective in three phases based on the district's total annual revenues. The largest districts must apply the statement for the 2001-02 fiscal year, the next largest districts for the 2002-03 fiscal year, and all remaining districts for the 2003-04 fiscal year.

Total Annual Revenues	Effective
\$100 million or more	2001-2002
\$10 million - \$100 million	2002-2003
Up to \$10 million	2003-2004

SOFTWARE CHANGES

The software changes will be made in two phases, and will be released to customers in February 2002 and April 2002. Listed below are the changes, with the anticipated release date in parentheses.

Fixed Asset Inventory Management (February 2002)

- Ability to distinguish easily between capital, depreciable and inventoried assets will be achieved through the inventory type field. The fixed asset search will be changed to include any value of the inventory type. If the user wishes to restrict the search, they will use the dialog to set the search criteria.
- The Group/Subgroup code record will be changed to allow the useful life to be noted for each subgroup. This will be defaulted into the fixed asset record upon creation, but can be changed by the user.
- In the requisition, the create fixed assets menu choice will have a parameter that allows the user to create only records that have been received. (Currently creates all records, whether or not received, which some customers like.) A partially received line item will count as received.
- The create fixed assets menu choice will create multiple fixed assets records for a line item with a quantity greater than one. For example, if the quantity received is 5, then 5 asset records will be created, each with the quantity of 1.

Fixed Asset Record (February 2002)

- A new field for salvage value will be added to the fixed asset record. It will replace the current replacement cost field in the record.
- The expected life field will be moved to the ACCTG area.
- The description field will be expanded to multiple lines. The field will open up to display three lines of description when the cursor lands in it. When an asset is created from a requisition, the software will use the first 3 lines of line item description for the description field.
- A new account number section will be added to the asset record to allow for multiple accounts to be specified. For each item to be depreciated, the district will need to enter at least one current account number.

Financial Reporting (April 2002)

- Expenditure report by function, for specific funds, must be available.
- Report of Vacation Liability (PSL/PAY) should be changed to include a recap by function.

Depreciation (April 2002)

- The software will continue to use the straight line method of depreciation. Calculation of depreciation will incorporate the Full Month Convention for an asset that was not purchased at the beginning of the fiscal year.
- Each time the depreciation procedure is run, a transaction will be created that shows the depreciation amount calculated, along with the fields associated: received date, unit cost, salvage value and expected life. If there is no change to the asset, a new transaction will not be created. This will allow the user to view the history of the depreciation calculation, and will allow for reporting on depreciation for a specific time.
- A depreciation error log will show any depreciable assets that do not have the necessary fields filled out for calculation of depreciation. The salvage value field will not be validated (a value of 0 is allowed).
- New fields will be added to the Escape Report Writer to include the depreciation record fields and new salvage value field.
- Searching for depreciation transactions will include searching by fiscal year, all or only the most recent transactions.

Depreciation Calculation

To calculate depreciation on a capital asset, the following must be known:

- the date the asset was placed in service this is the received date
- the asset's cost or acquisition value this is the unit cost field
- the asset's salvage value this will be a new field in the fixed asset record
- the asset's estimated useful life this is the expected life field
- the depreciation method we will continue to use straight line depreciation, with the full month convention for assets not purchased at the beginning of the fiscal year.

A sample of the depreciation calculation is shown below:

A \$12,000 copier is placed in service on March 16, 2002. It has an estimated life of 5 years and a salvage value of \$2,000.

Original cost:	\$12,000
Salvage value:	<u>2,000</u>
Adjusted Basis	10,000
Estimated life	5
Depreciation per year	2,000

1st year depreciation would be $1/3 * 2000$ (March, April, May, June = 4/12)

Depreciation Report

A standard depreciation report will be developed for districts. The following items will be included on the report:

- Record #
- Tag #
- Group/Subgroup
- Description
- Received Date
- Unit Cost
- Salvage Value
- Current Year Depreciation Amount
- Accumulated Depreciation
- Amount Remaining to Depreciate

This report will be available as summary or detail, sort by fund/function or group/subgroup. The summary at the end of the report shows ALL capital asset values, with the appropriate depreciation values by inventory type. Other fields of interest if there is room: site, campus, dept, room. The report will be available for all depreciation or only items that have depreciation amount changes in the fiscal year.

BACKGROUND INFORMATION

Inventory vs. Capitalization

Property inventory requirements and capitalization thresholds are different subjects that are commonly confused because of their overlapping terminology.

An *inventory* is an itemized list for tracking and controlling property.

Capitalization is an accounting treatment whereby an item is recorded as an asset on the balance sheet rather than as an expense of the current period.

Capital assets are those assets that meet the estimated useful life and monetary cost criteria and warrant capitalization in the financial statements. All items owned by an organization can rightfully be considered assets, but as a practical matter, organizations do not capitalize all of them. Not all capitalized assets will be depreciated. For example, Land and Construction in progress are capitalized but not depreciated.

Education Code Section 35168 requires districts to maintain an inventory of items costing more than \$500. However, this does not require districts to capitalize those items. Organizations typically maintain inventories, for accountability and internal control purposes, of many items of property they do not capitalize on their financial statements. For example, districts might inventory VCRs and computers for internal control purposes, but not capitalize them due to their low cost. When districts establish capitalization thresholds different from their inventory thresholds, they can still reconcile their inventories to their accounting records. They can distinguish their non-capitalized, but inventoried, property charged to Object 4400, Materials and Supplies.

In *Escape* Fixed Assets, the inventory type field will be used to distinguish between inventoried, capitalized and depreciated assets.

PROCEDURES FOR ESTABLISHING A CAPITAL ASSET INVENTORY

Generally accepted accounting principles (GAAP) require the use of historical cost for valuation of capital assets. Historical cost means the actual cost at the time of acquisition, including any additional sales tax, freight or installation charges. There are accepted methodologies for estimating historical cost if it is not readily available. These include the use of historical sources, such as vendor catalogs, to establish the cost of the same or a similar asset at the time of acquisition; and back-trending, in which the current cost of a similar asset is divided by the appropriate price index to arrive at the historical cost.

The following are the steps to getting your fixed assets database up to date for GASB 34.

1. Define the district's inventory threshold (recommended to be at least \$500).
2. Define the district's capitalization threshold (recommended to be at least \$5,000).
3. Create fixed asset records for all items that meet the threshold amounts. Be sure to set the inventory type field to distinguish the inventory items from the capital assets.
4. For all items that will be capitalized, enter the salvage value, expected life, and at least one current account number. Verify that the unit cost is correct.
5. Run accumulated depreciation for assets for the fiscal year prior to GASB 34. For example, if you will be depreciating for GASB 34 in the 2001/2002 fiscal year, you would run the accumulated depreciation menu choice for fiscal year 2000/2001.
6. Run depreciation expense for the first fiscal year.

LINKS

For more information about implementing GASB 34, please visit the following Web sites.

California Dept of Education
<http://www.cde.ca.gov/fiscal/gasb34/>

Government Finance Officers Association
<http://www.gfoa.org>

Governmental Accounting Standards Board (GASB)
<http://www.gasb.org>

Association of School Business Officials International (ASBO)
<http://www.asbointl.org>

APPENDIX

Page 1 of the current fixed asset record is shown below.

```
Command Prompt - ufa
PURCH <10:PURCH> Oceanview School 15360*0 8:56AM 10/02/01 v3.7 FA_UPD
Fixed Asset Record Asset #484
File Page 1 of 2
Location Received [ 2/19/99 ]
P.O. # [992130 ]
Qty [ 1 ] Inventory Never Updated.
Campus [ ]
Site [700 ] Administrative Servi Room [ ]
Dept [ ]
Tag # [006126 ]
Type Group Code [FAX MACH ] Fax Machines
Subgroup [PURCHASE ] Inventory Type [ ]
Model # [ ]
Serial # [01981200385 ]
Description [UP-770 Plain Paper, Laser Fax W/6 sec ]
Condition [NEW ] Warranty Info<Yes> Service Info<Yes>
History Info< > Audit Info< >
Acctg Unit Cost [ $1,575.04 ] Replace Cost [ $1,575.04 ]
Program [GENERAL ] Accum Deprec [ $0.00 ]
Vendor [000396 ] Business Machines Consultants
Account # [01-64900-40085000-0007 ]
```

Page 2 of the current fixed asset record is shown below.

```
Command Prompt - ufa
PURCH <10:PURCH> Oceanview School 15360*0 8:56AM 10/02/01 v3.7 FA_UPD
Fixed Asset Record Asset #484
File Page 2 of 2
Mfg Warranty Begins [ 2/19/99 ], for [ 365 ] days Ending: 2/19/00
Svc Contract Service PO [ ]
Vendor [000396 ] Business Machines Consultants
Contract Amt [ $95.00 ]
Expires [ 2/19/00 ]
Expected Life <Years> [ 5 ] Until Fiscal Year 2003/04
Disposal Date [ / / ]
Method Code [ ]
Description [ ]
Inventory Info Last Date [ / / ]
```