

# GASB Year End Statements

Recognition of Capital Assets and  
Long-Term Debt

# GASB 34

- Required schools and other government agencies to ...
  - Prepare District Wide (aka Government Wide) financial reports at year end
  - Prepare and include a Management's Discussion & Analysis (MD&A) in annual audit reports
  - Recognize and report long-term assets and liabilities

# GASB Statements

- Used by board members and the public to evaluate a districts' financial standing
- Used by Lenders to assess a district's ability to repay potential debt
- Ensures compliance with Generally Accepted Accounting Principles (GAAP)
- Provides a framework to follow the flow of educational funds (by Resource and Function)

# Objectives of GASB 34

- Prior to GASB 34, schools and other government agencies used the *Modified Accrual* basis of accounting and reporting...
  - Revenues are recorded only when measurable, earned and available to pay current liabilities (Revenues are recorded when cash will be received within one year)
  - Expenditures are recognized only if they will be paid within the current period (1 year)
  - Financial Statements have a short-term focus

# Objectives of GASB 34

- GASB 34 required that schools and other government agencies report at year end using the *Full Accrual* basis of accounting...
  - Revenues are recorded when they are measurable and earned
  - Expenses are recognized when the liability is incurred
  - Financial Statements reflect capital assets and long-term liabilities

# GASB 34-Conversion Entries

- The modified accrual basis is converted to full accrual accounting through **Conversion Entries**
- Common Conversion Entries are for...
  - Capital Assets
  - Long-Term Liabilities
  - Capital Outlay Expenditures
  - Debt Service Expenditures
  - Debt Issuance
  - Disposal of Capital Assets
  - Liability for Compensated Absences
  - Adjustments to Work In Progress
  - Depreciation

# Capitalization

- An accounting treatment whereby an item is recorded as an asset on the balance sheet rather than as an expense of the current period
- Applies only to those assets that meet the estimated useful life and monetary cost criteria



# Capitalization Threshold

- The monetary part of the criteria by which an organization determines whether an asset should be reported on the balance sheet
- The CDE recommends, for most LEAs, a capitalization threshold that includes a per unit acquisition cost criterion of at least \$5,000



# Inventory vs. Capital Assets

- Inventory – an itemized list for tracking and controlling property
- While all capital assets should be inventoried, not all inventoried items should be capitalized
- Inventory items \$500 and up
- Capital Assets \$5000 and up



# Types of Capital Assets:

- Land
- Land/Sites Improvements
- Buildings
- Equipment
- Work In Progress
  - Will be classified into one of the above categories once completed.



# Coding Expenditures

- Supplies – items of an expendable nature that are consumed or worn out, deteriorate in use, or are easily broken. The useful life of supplies is typically less than one year.
  - Cost under \$500
  - Should be coded to object 43XX



# Coding Expenditures

- Non-Capitalized Equipment – items that are greater than the district's inventory threshold but less than the capitalization threshold (\$500-\$5000)
  - Should be coded to Object 44XX
  - Cannot be coded to FN 85XX
  - i.e. computers, furniture



# Coding Expenditures

- Non-Capitalized Improvements/Repairs – repair costs that are necessary to keep an asset in its intended operating condition but that do not materially increase the value, functionality, or life of the asset
  - i.e. Replacing Carpet or Painting
  - Cost is not necessarily below the capitalization threshold
  - Should Be Coded to Object 56XX
  - Cannot be Coded to Function 85XX

# Coding Expenditures

- Capital Outlay Expenditures – result in the acquisition of capital assets or additions to capital assets, such as expenditures for sites, buildings, improvements to buildings, building fixtures, service systems, and purchase of equipment that meet the capitalization threshold
  - Cost per unit over \$5000
  - Should be coded to object 6XXX or Function 85XX



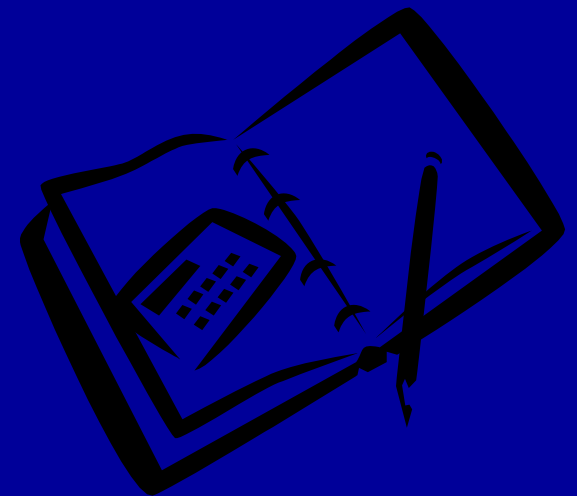
# Coding Capital Expenditures:

## Object Codes:

- 61XX - Sites and Improvement of Sites
- 62XX - Buildings and Improvement of Buildings
- 63XX - Books and Media for New School Libraries or Major Expansion of School Libraries
- 64XX - Equipment
- 65XX - Equipment Replacement

## Function Codes:

- 85XX – Facilities



# Depreciation

- Represents the recognition of the cost of an asset over time, by calculating its estimated loss in value during each accounting period
- A ***depreciation schedule*** tracks historical cost and accumulated depreciation over time



# Depreciation:

- In order to develop a depreciation schedule, the following information about each asset must be known:
  - Purchase Date (month & year)
  - Asset Description
  - Historical Cost
  - Useful Life
  - Depreciation Convention

# Depreciation Convention:

- **Strait Line Depreciation Method** – a method of calculating the depreciation of an asset which assumes the asset will lose an equal amount of value each year.
- **Annual depreciation** is calculated by subtracting the salvage value of the asset (usually \$0) from the purchase price, and then dividing this number by the estimated useful life of the asset.

# Depreciation Example:

- **A bus purchased in July, 2007**
- **Purchase price \$50,000**
- **Useful life = eight years**
  
- *Current year depreciation (2011-12) = \$6,250*
  - \$50,000 (cost) dvd by 8 (useful life)
- *Accumulated Depreciation through June 30, 2011 = \$25,000*
  - [\$50,000 (cost) dvd by 8 (useful life)] x 4 (years owned at 6/30/11)
- *Accumulated depreciation through June 30, 2012 = \$31,250*
  - \$25,000 (Acc. Dep. From 6/30/11) + \$6,250 (Current Dep.)

# Depreciation

- GASB 34 dictates that annual depreciation needs to be allocated to functions based on the asset's use.
- For instance, the most common method for allocating building depreciation is by square footage. In this method, functions are assigned to rooms based on their use.
  - By calculating the square footage of each room, a percentage for each function can be calculated, and these percentages are then applied to the annual depreciation to get depreciation by function.

# Long-Term Debt

- Certificates of Participation (COP's)
- Capital Leases
- General Obligation Bonds
- Compensated Absences
  - (accrued vacation, sick leave, etc)
- State School Building Loans
- Other...



# GASB

- Conversion Entries & Software:
  - Districts provide information regarding capital expenditures, depreciation, debt service and debt issuance to HCOE via Data Requests
  - HCOE uses SACS software to convert district's financial statements from the fund-wide to district-wide format prescribed by GASB 34



# OPEB

- The purpose of GASB 43 & 45 is to require the accrual of liabilities and expenses of Other Post-Employment Benefits (OPEB) over the working career of plan members
- Actuarial Studies are required to determine each districts total liability for OPEB
- OPEB is reported in the annual audit

Thank You for Attending!

