GASB 34

Implementation Guide

- **Infrastructure**
- **Fixed Assets (Depreciation)**
- **Management Discussion, Program Analysis**

Prepared by Arkansas GASB Task Force—
- Arkansas Municipal League
- Association of Arkansas Counties
- State Division of Legislative Audit

December 2001

This booklet was compiled by the "Arkansas GASB Task Force" as listed below. It was our goal to provide the cities and counties of Arkansas with non-technical assistance as they began complying with the requirements of GASB 34.

Sincerely yours,
Linda Bakcr
Chair

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GASB 34 QUESTIONS AND ANSWERS

Q1. Who produced this book?

A. The GASB 34 Task Force is composed of members from the Arkansas Municipal League, Association of Arkansas Counties, and Division of Legislative Audit.

Q2. Why was this book produced?

A. This book was produced by the Task Force to help Municipalities and Counties manage the new requirements of GASB Statement No. 34.

Q3. What is GASB 34?

A. GASB 34 is a statement that established new financial reporting requirements for governmental entities such as Municipalities and Counties.

Q4. What does GASB 34 require?

A. GASB 34 requires some changes in the way financial statements are combined and presented in published reports and requires additional records be kept relative to the government's fixed assets (i.e. Reporting of infrastructure and depreciation).

Q5. Is this a state or federal law?

A. No, the changes in financial report presentations were approved and published by an organization called GASB, which is short for Governmental Accounting Standards Board.

Q6. If GASB 34 isn't a law, why do governmental entities have to comply?

A. In the United States, the primary organization responsible for researching and publishing accounting rules and regulations is the Financial Accounting Foundation (FAF). The FAF is an independent organization, sponsored by accounting and business organizations as well as the Federal Securities & Exchange Commission. The FAF has one division, the Financial Accounting Standards Board (FASB), that oversees accounting standards for commercial entities, and a second division the Governmental Accounting Standards Board (GASB) that oversees accounting standards for governmental entities. The FAF is the recognized "authority" relative to what is and what is not GENERALLY ACCEPTED ACCOUNTING.

Q7. What are the consequences for a governmental entity should it not comply?

A. For those governmental entities that are audited, non-compliance would mean that the auditor could not give a unqualified ("clean") opinion. Non-compliance could impact your organization's ability to receive future grants or other funding.

Q8. When do governmental entities have to "comply" with these new requirements?

A. The new requirements are effective in three phases based on the 1999 annual revenues of the government.

Entity Size	Implementation Dates
Phase (1) governments with $100 million or more in total revenues	2002
Phase (2) governments with $10 million but less than 100 million in total revenues	2003
Phase (3) governments with less than $10 million in total revenues	2004

(See pages 12 & 13 for a list of municipalities and counties and when each must comply).

Q9. In general what does a city or county have to do to comply with GASB 34?

A. To comply with the new requirements of GASB 34, the government must keep records in a manner so that the preparer of the audited financial statements can obtain certain required information from your records. This includes records of infrastructure, fixed assets and depreciation. Additionally, management must prepare a Management Discussion and Analysis letter.

Q10. What are the basic differences between the Phase I, II and III requirements?

A. 1. All governments must report infrastructure acquired or constructed in the year of implementation.

2. Phase I and II governments must also report all major infrastructure acquired or significantly improved in fiscal years beginning January 1, 1980. The government has four years from the date of implementation to add prior year infrastructure assets.

3. Phase III governments are encouraged, but not required, to report prior years' infrastructure.

Q11. If I find out that my municipality or county is a Phase I or Phase II entity that is required to reconstruct some historical infrastructure information, where do I start?

A. DON'T PANIC! ***Please keep in mind that this process should not be exceptionally time consuming or complicated, your honest good faith estimates are acceptable. This task should be completed, by most municipalities or counties in a 4 to 8 hour period.***

You and your fellow city officials will need to construct list all infrastructure constructed or acquired after January 1, 1980. This would include all major assets including roads, sidewalks, traffic lights and other items, some of which are listed on Appendix Pages14 and 15.

You must also estimate the amount of each asset, such as the miles of paved road, the linear feet of sidewalks, curbing etc. With the asset list completed, including the amount of each asset, you can estimate the value of the assets by using the cost data contained on Appendix Pages 14 & 15.

Q12. What dollar value asset is covered under this the asset(infrastructure) record-keeping portion of GASB 34?

A. For accounting purposes, you can set your own dollar threshold. However, we suggest a minimum of $1,000 to $2,500. Higher limits for larger cities might be acceptable.

A memo like inventory of assets under your minimum threshold should be maintained separately for control purposes. (See also pages 8 and 9)

Q13. Is there any other assistance available relative to keeping up with the infrastructure assets?

A. The Division of Legislative Audit has developed a computer program, Fixed Asset Tracking System (FATS), that it offers to all entities free of charge. (More data relative to FATS can be found on pages 10.)

Q14. GASB 34 requires us to begin depreciating infrastructure/fixed assets. What does this mean and how do we do it?

A. The concept of accounting depreciation attempts to allocate the cost of an asset over its estimated useful life. This means that an asset with a estimated useful life of 5 years (original cost of $100) would produce annual depreciation of $20.

Current years depreciation is shown on the Financial Income Statement as an expense. Accumulated year depreciation is shown on the Financial Balance Sheet as an offset to the assets value, and includes current and all prior years depreciation. (See also Appendix Pages 29-37)

Q15. What do I do with accumulated depreciation from 1980 to year prior to year of implementation?

A. Prior year depreciation (01-01-80 to 12-31- of year prior to year of implementation) should be calculated and maintained as a separate figure. In other words depreciation relative to prior period should not impact costs during the year of implementation.

Q16. What is a Management's Discussion and Analysis (MD&A)?

A. The goal of the MD&A is to present an objective and easily readable analysis of a government's financial activities based on currently known facts, decision, or conditions. It presents short and long term analyses of the government's activities, compares current year results with those of the prior year and discusses the positive and negative aspects of that comparison. A comparison is not required for the first year of implementation. (See page 7 for a more complete outline of requirements for an MD&A)

Q17. Who writes the MD&A?

A. In cities, the chief financial officer of the governmental entity (City Clerk, Treasurer or Finance Officer), is required to write the MD&A. In counties, the County Judge or his designee/s should write the MD&A.

It is recommended by the Task Force that the MD&A be signed by the following:

CITY:	Mayor or City Manager/Administrator and Finance Director and/or City Clerk/Treasurer
COUNTY:	County Judge

Q18. When is the MD&A due to the auditors?

A. It must be prepared and submitted to the auditor prior to the release of the audit report.

Q19. Is there a sample MD&A available?

A. Yes. See pages 19 - 28. Please note, however, that your government may not provide all the services that are listed in this sample letter, i.e., airports, golf courses, cemeteries, etc. Report information only for the functions that apply to your government.

Q20. Where should I get the data (numbers) to use in the MD&A?

A. The data will be found in the audited financial statements with accompanying notes.

Q21. Are there other requirements to GASB 34 not addressed previously in this guide?

A. The remaining requirements of GASB 34 relate to the preparation of the audit report and should be addressed by the preparer of that report. If you participate in the preparation of this report, consult with your auditor for additional requirements.

GASB 34

Management's Discussion and Analysis

Outline of Required Information

1. Brief description of the basic financial statements.

2. Condensed government-wide financial statements comparing to prior year. *Not required in the first year of implementation.*

3. Analysis of the overall financial position and results of operations to include reasons for significant changes from the prior year.

4. Analysis of balances and transactions of individual funds.

5. Analysis of significant variations between original and final budget amounts and between final budget amounts and actual budget results for the general fund.

6. Description of significant capital asset and long-term debt activity during the year.

7. Description of currently known facts, decisions, or conditions that are expected to have a significant effect on financial position or results of operations.

8. Description of the modified approach to reporting fixed assets. This method is <u>not</u> recommended by the Task Force.

A sample letter can be found on pages 20 - 28.

FIXED ASSETS

We've all got them--Items that cost over a certain amount and have a useful life over one year. Now we have to add items that have extremely long lives and are stationary (called infrastructure). The Arkansas GASB Task Force recommends that your Council, Board, or Quorum Court adopt a policy of accounting for fixed assets with a minimum value of $1,000. A larger amount may be more practical for your government.

The good news is that we don't have to start reporting infrastructure until we implement GASB 34. The bad news is that if you are a Phase I or Phase II government, you have to report all major infrastructure acquired since January 1, 1980 but you have 4 years after year of implementation to record prior years infrastructure. The best news: Phase III governments do not have to report prior years infrastructure. Phase III governments will begin to report infrastructure acquisitions for the year of implementation and thereafter. Refer to pages 12 & 13 to locate the phase that applies to your government.

The Arkansas GASB Task Force has prepared appendices in the back of this booklet to assist Phase I and Phase II governments in estimating the cost of prior year infrastructure and assigning a useful life to it. (Appendix Pages 14 – 17) We are also including a consumer price index (CPI) to enable you to record the cost at the proper amount for the year you acquired it. (See Appendix Page 18) When using the appendices, remember that these costs are intended to be guidelines. If you do not believe these costs are appropriate for your government, use costs that you can document. Remember to be conservative. If you are estimating, choose the lower cost.

One of the appendices in the back is a detailed instruction on how to account for infrastructure. GASB 34 allows governments to choose between two methods of accounting for the expense related to the reduction in value due to the time and usage: Depreciation or the Modified Approach. The Arkansas GASB Task Force recommends the depreciation method using the straight line method. Under this method, the cost of a fixed asset is charged to depreciation expense over the life of the asset. If a building costs $100,000 and has a useful life of 40 years, each year $2,500 ($100,000 / 40) is charged to depreciation expense over a period of 40 years. Free software that will compute depreciation expense for you is described on page 10.

Remember when capturing a new fixed asset cost that the cost is the total cost required to put the asset in operation. You must include shipping costs and testing costs. If you are building a fixed asset, you must include all labor (contracted and in-house), materials (both purchased and from stock), rented equipment, and any other item that it took to put the asset into service.

HOW DO I GET STARTED ON MY FIXED ASSETS ?

1. Have your City Council, Board of Directors, or Quorum Court adopt a resolution defining fixed assets for your government. The GASB Task Force recommends that the definition be an item that costs more than $1,000 and has a useful life of one year or more.

2. If you are a Phase I or Phase II government, determination of major general infrastructure assets should be at the **network** or **subsystem** level and should be based on these criteria:

   a. Cost/estimated cost of the **subsystem** is expected to be at least 5% of the total cost of all general capital assets reported in the calendar year ending 1999, or
   b. Cost/estimated cost of the **network** is expected to be at least 10% of the total cost of all general capital assets reported in the calendar year ending 1999

   Examples of networks are roadways and bridge spans with subsystems being the various types of roads within the road network and the various lengths of bridge spans within the bridge span network.

3. Phase I and Phase II governments should then identify major infrastructure acquired from January 1, 1980 through December 31 of the year prior to the year you must implement GASB 34.

4. Phase I and Phase II governments should assign a date of acquisition, an estimated cost, and a useful life to the infrastructure you identified.

5. All governments should acquire the Fixed Assets Tracking System (FATS) software or another software that will enable you to record and depreciate your fixed assets. See page 10.

6. Enter all of your fixed assets, (including the infrastructure that you identified in Step 3) into the software.

7. Depreciate your fixed assets through December 31 of the year prior to the year you must implement GASB 34.

8. Add all of the fixed assets (including infrastructure) that were acquired during the year of implementation to your fixed asset software.

9. Depreciate your fixed assets through December 31 of the year of implementation and record the amount in your General Fixed Asset Account Group as a debit to depreciation expense and a credit to accumulated depreciation.

Fixed Asset Tracking System

“(FATS)”

Fixed assets comprise a major portion of the assets of governmental units. In order to assist governments in accounting for these assets, the Division of Legislative Audit is providing **free** software to all counties and municipalities. This free service also includes training with limited follow-up assistance.

The software is flexible enough to allow the user to access information in many formats but rigid enough to require certain procedures in order to validate entries. It can be configured to allow many users with limited access or as a stand-alone system.

Fixed Asset Tracking System (FATS) was created to allow Arkansas' local governments flexibility in maintaining fixed asset records, but would also assist in retaining accountability for those same assets.

FATS is that tool – simple to use yet powerful enough to keep track of a large government's fixed assets.

For further information contact Division of Legislative Audit, 172 State Capitol, Little Rock, AR 72201-1099 (Phone 501-683-8600, FAX 501-683-8605, TDD 501-683-861

APPENDIX

APPENDIX

GASB 34 IMPLEMENTATION DATES FOR FIRST CLASS CITIES

Phase I – January 2, 2002

Little Rock	North Little Rock

Phase II – January 1, 2003

Benton	Jonesboro
Bentonville	Mountain Home
Blytheville	Osceola
Cabot	Paragould
Clarksville	Piggott
Conway	Pine Bluff
El Dorado	Russellville
Fayetteville	Searcy
Forrest City	Sherwood
Fort Smith	Siloam Springs
Hot Springs	Springdale
Jacksonville	Texarkana
	West Memphis

Phase III – January 1, 2004

Alma	Cherokee Village	Gentry	Magnolia	Parkin
Arkadelphia	Clarendon	Gosnell	Malvern	Pocahontas
Ashdown	Corning	Greenwood	Manila	Prairie Grove
Atkins	Crossett	Hamburg	Marianna	Prescott
Augusta	Dardanelle	Harrisburg	Marked Tree	Stuttgart
Bald Knob	DeQueen	Harrison	Maumelle	Trumann
Batesville	Dermott	Heber Springs	McCrory	Tuckerman
Barling	DeWitt	Helena	McGehee	Van Buren
Beebe	Dumas	Hope	Mena	Waldron
Berryville	Earle	Hoxie	Monticello	Walnut Ridge
Booneville	England	Lake Village	Morrilton	Warren
Brinkley	Eudora	Lepanto	Nashville	West Fork
Bryant	Eureka Springs	Lincoln	Newport	West Helena
Camden	Farmington	Lonoke	Ozark	White Hall
Carlisle	Fordyce	Lowell	Paris	Wynne

If your municipality's name does not appear on this list, you are a Phase III government.

GASB 34 IMPLEMENTATION DATES FOR COUNTIES

Phase I – January 2, 2002

None

Phase II – January 1, 2003

Benton	Little River
Craighead	Mississippi
Crittenden	Pope
Desha	Pulaski
Garland	Saline
Independence	Sebastain
Jefferson	Union
Lawrence	Washington

Phase III – January 1, 2004

Arkansas	Crawford	Lafayette	Pike
Ashley	Cross	Lee	Poinsett
Baxter	Dallas	Lincoln	Polk
Boone	Drew	Logan	Prairie
Bradley	Faulkner	Lonoke	Randolph
Calhoun	Franklin	Madison	Scott
Carroll	Fulton	Marion	Searcy
Chicot	Grant	Miller	Sevier
Clark	Greene	Monroe	Sharp
Clay	Hempstead	Montgomery	St. Francis
Cleburne	Hot Spring	Nevada	Stone
Cleveland	Howard	Newton	Van Buren
Columbia	Izard	Ouachita	White
Conway	Jackson	Perry	Woodruff
	Johnson	Phillips	Yell

ESTIMATED COST OF INFRASTRUCTURE IN 2001 DOLLARS

*BRIDGES

Standard bridge: Take area of bridge deck	$65 per sq ft
Box culverts: Take area of box top	$52 per sq ft

**CURB & GUTTER

Vertical (straight) 500 ft or more	$10.00 per linear ft
Vertical (straight) 100 to 500 ft	$11.50 per linear ft
Vertical (straight) less than 100 ft	$12.50 per linear ft
Horizontal (corners) over 100 ft	$12.00 per linear ft
Horizontal (corners) 50 ft to 100 ft	$12.50 per linear ft
Horizontal (corners) less than 50 ft	$15.00 per linear ft

*SIDEWALKS

Sidewalk	$32 per sq yd
ADA ramps	$50 per sq yd

*STREETS & ROADS– New Construction--2 Lanes

Gravel, open ditches	$500,000 per mile
Chip & Seal (Double Bituminous), open ditches	$540,000 per mile
Asphalt, open ditches	$575,000 per mile

*STREETS & ROADS—Overlays –2 Lanes

Single chip & seal	$14,000 per mile
Double chip & seal	$24,000 per mile
Asphalt, 2" thick	$90,000 per mile

*STREET LIGHTING

Add to pole	$1,000 each
With wood pole	$2,000 each
With metal pole	$2,800 each

*TRAFFIC SIGNALS

Per intersection (no turn lanes)	$75,000 each

*Source: Arkansas Highway and Transportation Department
**Source: City of Hot Springs 2001 Curb & Gutter Bid

PUBLIC ROAD INFORMATION
FOR LOCAL GOVERNMENT'S GASB 34 REPORTS

ESTIMATED UNIT COSTS (2001 dollars)*

NEW CONSTRUCTION, NEW LOCATION:
Dirt – not available
Gravel - $500,000 per mile (2 lanes), open ditches
Double Bituminous (chip & seal) - $540,000 per mile (2 lanes), open ditches
Asphalt - $575,000 per mile (2 lanes), open ditches

OVERLAYS (2 LANES):
Single chip & seal - $14,000 per mile
Double chip & seal - $24,000 per mile
Asphalt (2" thick) - $90,000 per mile

BRIDGE CONSTRUCTION:
Standard Bridge: take the square foot area of the bridge deck and multiply by $65
Box Culverts: take the square foot area of the box top and multiply by $52

SIDEWALKS:
Sidewalk - $32 per square yard
A.D.A. ramps - $50 per square yard

STREET LIGHTING:
Add to pole - $1000 each
With wood pole - $2000 each
With metal pole - $2800 each

TRAFFIC SIGNALS:
$75,000 PER INTERSECTION (no turn lanes)

ESTIMATED USEFUL LIFE

Dirt – not available for Arkansas **
Gravel – not available for Arkansas **
Chip Seal – 8 years ***
Asphalt (2") Overlay – 12 years ***
Asphalt (2") New Construction – 20 years ***

* Estimates are based on projects let to contract by the AHTD. Costs are statewide averages and may vary from one area of the state to another.
** May refer to Louisiana web site – http://www.lla.state.la.us/gasb34/capas.pdf
*** Assumes Routine Maintenance (crack sealing, etc.) is performed on a regular basis

Source: Estimated Unit Costs – AHTD Roadway Design & State Aid Divisions
Estimated Useful Life – AHTD Planning and Research Division

Capital Assets of Local Governments
Suggested Useful Lives

AssetType	Examples	Depreciable Life in years
Non-infrastructure		
Furniture, office equipment	Desks, tables, chairs	5
Computer Hardware	Monitors, CPU, printer	5
Telephone Equipment		10
Motor Vehicles		
Cars and light trucks		5
Busses	School, City	8-10
Fire trucks		15
Buildings - Temporary Buildings	T-buildings, other portable	25
Buildings		40
HVAG Systems	Air-conditioners, heating, ventilation systems	20
Roofing		20
Carpet Replacement		7
Electrical\Plumbing		30
Kitchen Equipment	Appliances	12
Heavy Construction Equipment	Backhoes, Trucks, Dozers, front-end loaders, Large Tractors	5-10
Engineering, Scientific Equipment	Lab Equipment	10
Firefighting Equipment	Ladder, hoses	10
Police Special Equipment		10
Medical Equipment		5
Traffic Control Equipment	Stoplights	10
Radio, communications equipment	Mobile, portable radios	10
Recreational\ Athletic Equipment	Weight machines, mats, golf carts, treadmills, tackling sled, pitching machines	10
Library Books	Collections	5-7
Artwork	Collections	5-7
Outdoor Equipment	Playground equipment, scoreboards, bleachers, radio towers	20
Custodial Equipment	Floor scrubbers, vacuums, other	12
Grounds Equipment	Mowers, tractors and attachments	15
Land Improvements – structure	Parking lots, sidewalks, bus ramp, fencing, running track, flagpole	20
Land Improvements - ground work	Golf Course, Ball field, park landscaping	30
Landfill Disposal Systems		25
Land		no depreciation
Sewerage treatment plants		25
Infrastructure		
Easements		no depreciation
Drainage Systems		25
Water systems		25
Sewerage disposal Works System		25
Waterway		
Levees and canals (unlined)		no depreciation
Canal lining		30
Dams		
Concrete		50
Steel, Sheetpile		30
Earthen embankment		no depreciation

AssetType	**Examples**	**Depreciable Life in years**
Infrastructure, Continued		
Roads		
Paved		40
Asphalt – rural		40
Asphalt – urban		20
Non-paved		50
Bridges		
Steel and Concrete		25
Wooden		10

CONSUMER PRICE INDEX (CPI) FROM 1980 THROUGH 2000

To determine what a 2000 dollar amount would be in dollars of another year, simply multiply the year 2000 amount by the conversion factor for that year. For example, $1000 dollars of 2000 would be $625 in 1985 dollars. ($1000 x 0.625).

YEAR	CPI
1980	0.479
1981	0.528
1982	0.560
1983	0.578
1984	0.603
1985	0.625
1986	0.637
1987	0.660
1988	0.687
1989	0.720
1990	0.759
1991	0.791
1992	0.815
1993	0.839
1994	0.861
1995	0.885
1996	0.911
1997	0.932
1998	0.947
1999	0.968
2000	1.000

EXAMPLE OF HOW YOU MIGHT USE THIS TABLE

You have a road that is 3 miles long in your city and it is asphalt (2" thick). You look at the chart on page 25 entitled "Public Road Information". You'll see that 2" Asphalt is $90,000 per mile. Multiply $90,000 by 3 (miles) to get your cost in Year 2000 dollars ($270,000). You built the road in 1987 so you look at the CPI Conversion Factor for 1987, which is 0.660. Multiply $270,000 by 0.660 to get thc approximate cost of the road in 1987 - $178,200.

NOTE:

PHASE III CITIES/COUNTIES WILL NOT NEED TO USE THIS TABLE.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following (page 20 – 28) is an example of an MD&A written for a city with several functions (services). It is intended for informational purposes only and is to be used as a guide in helping you prepare the MD&A for your community. County government should follow the same format. Please note that the numbers, i.e. 1), corresponds with the *Outline of Required Information* on page 7.

The first page of the letter should be printed on your government's letterhead stationary.

Your City's Letterhead

MANAGEMENT'S DISCUSSION AND ANALYSIS

The discussion and analysis letter will provide an overview of the City's financial activities for the fiscal year.

USING THIS ANNUAL REPORT

1) This annual report consists of a series of financial statements. The statement of Net Assets and the Statement of Activities provide information about the activities of the City as a whole and present a longer-term view of the City's finances. For governmental activities, these statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds. The remaining statements provide financial information about activities for which the City acts solely as a trustee or agent for the benefit of those outside the government.

Reporting the City as a Whole.

The Statement of Net Assets and the Statement of Activities.

3) One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information about the City as a whole and about its activities in a way that helps answer this question. These statements include ALL assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the City's net assets and changes in them. You can think of the City's net assets - the difference between assets and liabilities - as one way to measure the City's financial health, or financial position. Over time, increases or decreases in the City's net assets are one indicator of whether its financial health is improving or deteriorating. You will need to consider other non-financial factors, such as changes in the City's property tax base and the condition of the City's roads, to assess the overall health of the City.

In the Statement of Net Assets and the Statement of Activities, the City will be divided into two kinds of activities:

- ❖ Governmental Activities - Most of the City's basic services are reported here, including the police, fire, general administration, streets, parks and ambulance. Sales taxes, franchise fees, fines, and state and Federal grants finance most of these activities.

- ❖ Business-Type Activities - The City charges a fee to customers to help it cover all or most of the cost of certain services it provides. The City's water, sewer, sanitation, and natural gas systems are reported here.

Reporting the City's Most Significant Funds

Fund Financial Statements

4) The fund financial statements provide detailed information about the most significant funds - not the City as a whole. Some funds are required to be established by State law and by bond covenants. However, the City Council establishes many other funds to help it control and manage money for particular purposes or to show it is meeting legal responsibilities for using certain taxes, grants, and other money. The two kinds of funds - governmental and proprietary - use different accounting approaches.

- ❖ Governmental funds - Most of the City's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. We describe the difference between governmental activities and governmental funds in reconciliation at the bottom of the fund financial statement.

- Proprietary funds - When the City charges customers for the services it provides, these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Assets and the Statement of Activities. The City's enterprise fund is the same as the business-type activities that will be reported in the government-wise statements but provides more detail and additional information, such as cash flows.

The City as Trustee

Reporting the City's Fiduciary Responsibilities

The City is the trustee, or fiduciary, for the municipal court bond fund and the bid deposit fund. All of the City's fiduciary activities are reported in a separate Statement of Fiduciary Net Assets. We exclude these activities from the City's other financial statements because the City cannot use these assets to finance its operations. The City is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

THE CITY AS A WHOLE

For the year ended June 30, 1999, net assets changed as follows:

	Governmental Activities	Business-type Activities	Total
Beginning net assets	9,325,102	15,090,851	24,415,953
Increase in net assets	153,677	586,454	740,131
Ending net assets	9,478,779	15,677,305	25,156,084

That reflects a slight increase of 1.6% for governmental activities and 3.9% for business-type activities. It should be noted that $630,415 of the total net asset increase is related to the dedication of streets and utilities to the City.

Since this is the first year to report all activities on the accrual basis of accounting, a comparison to the prior year is not possible. However, in future years, this section will explain the differences between the current and prior year assets, liabilities, and changes in net assets.

Governmental Activities

Again, because this is the first year to report governmental activities on the accrual basis of accounting, a comparison to the prior year is not possible. However, in next year's discussion this section will show a condensed financial comparison of revenues and expenses and provide explanations for significant differences.

To aid in the understanding of the State of Activities, some additional explanation is given. Of particular interest is the format that is significantly different from a typical Statement of Revenues, Expenses, and Changes in Fund Balance. You will notice that expenses are listed in the first column with revenues from that particular program reported to the right. The result is a Net (Expense) Revenue. The reason for this kind of format is to highlight the relative financial burden of each of the functions of the City's taxpayers. It also identifies how much each function draws from the general revenues or if it is self-financing through fees and grants. Some of the individual line item revenues reported for each function are:

General government	Building permits, alley cut permits, occupational licenses, and plumbing/electric inspection
Ambulance	Ambulance run charges
Police	Fines and 911 county charges for services; COPS and COPS More grants are categorized as operating grants
Fire	Outside city limits fire run charges; state grant is classified as operating grant
Civil Emergency Mgmt.	FEMA operating grant

Airport	Hangar lease charges; state grant used to rehabilitate a runway
Streets	Estimated value of streets in a mobile home park dedicated to the City
Golf	Golf fees
Library	Fines; operating grants; capital grants for computer equipment
Cemetery	Grave opening/closing fees; individual donations for capital purposes
Swimming pool	Swimming fees
Parks	Fishing licenses; grants for trees and walking trails
Community development	Operating grants include emergency shelter; capital grants from CDBG were for water system improvements

All other governmental revenues are reported as general. It is important to note that all taxes are classified as general revenue even if restricted for a specific purpose.

Business-type Activities

In reviewing the departmental net (expense)/revenue, there are two departments that need to be examined more closely. While the sewer department is showing a net revenue of $685,958, next year this will not be as large. A portion of that net revenue (approximately $470,000) is attributable to the wastewater treatment plant that was sold. Therefore, next year this amount will be significantly less, which will ultimately affect the total net revenue. Also, it is important to note that the sanitation department shows a ($362,350) net expense. For a few years now this has been the trend, and since the sewer department may have been helping make up for the deficit here, this problem may need to be addressed next year.

Natural gas rates were decreased by 5% in the last quarter. The rates were reduced because the City's cost to obtain natural gas had declined by 5%. The trustees have begun to review these rates on an annual basis and make minor adjustments as necessary.

THE CITY'S FUNDS

With the implementation of two new accounting standards, an analysis of current and prior year governmental fund (in particular the general fund) balance sheets are difficult to do. In subsequent years, this section will discuss and analyze significant differences. However, some individual funds were not affected by these new accounting standards, and a review of those funds follows.

Some funds have seen a decrease in fund balance due to various reasons. The E-911 Fund reports a significant decline in fund balance due to the purchase of a new 911 system. That is expected to turn around next year. The Airport Fund did not receive a transfer from the general fund this year, and so its fund balance is less.

One additional item of interest regarding the decrease in sales taxes deserves some attention. In analyzing the history of sales tax collections, a majority of the decline can be traced first to wholesale trade (1/3 of the decrease can be found here) and then to various retail trade establishments (most of the remaining decrease is equally distributed here).

5) GENERAL FUND BUDGETARY HIGHLIGHTS

Over the course of the year, the City Council revised the General Fund budget one time. This budget amendment was a decrease to appropriations as a result of over estimating ending fund balance.

The budget relied heavily on the expectation of a moderate increase in sales taxes. However, sales taxes actually showed a moderate decrease that made a revenue shortfall of approximately $460,000. To compensate for this shortfall, several capital purchases were deferred to a later period: $834,000 fire substation lease purchase; $111,000 ambulance lease purchase; $100,000 street department motor grader, and $138,000 street sweeper. These spending cutbacks allowed the City to close the year with a fund balance that was $500,000 greater than what was budgeted.

6) CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of June 30, 1999, the City had $25.8 million invested in capital assets including police and fire equipment, buildings, park facilities, roads, and water, sewer, and gas lines. (See table below). This represents a net increase of just under $440,000 or 1.7% over last year.

	Governmental Activities		Business-type Activities		Totals	
	1999	1998	1999	1998	1999	1998
Land	196,832	196,240	557,374	557,374	754,206	753,614
Buildings	800,666	755,861	4,062,279	4,185,777	4,862,945	4,941,638
Improvements	2,417,135	2,362,137	16,821	222,444	2,433,956	2,384,581
Equipment	1,249,975	1,201,894	1,220,727	1,278,716	2,470,702	2,380,610
Infrastructure	2,525,001	2,148,739	-0-	-0-	2,525,001	2,148,739
Utility Property	-0-	-0-	12,661,268	12,634,628	12,661,268	12,634,628
Construction in Progress	119,250	168,503	25,429	1,512	144,679	170,015
TOTALS	7,308,859	6,833,374	18,543,898	18,580,451	25,852,757	25,416,825

This year's major additions included:

Runway 7 Rehabilitation project completed and placed in service, paid for with state grant funds and airport revenues	184,136
Streets in the mobile home addition were dedicated to the City of Westfork	412,410
Armory building was renovated to house the police department, paid with general fund revenues	80,269
Trash truck paid for with enterprise fund revenues	105,001
Reworking several wells paid for with Oklahoma Water Resources Board loan proceeds and some enterprise fund revenues	110,464
Water and sewer utility lines in the mobile home addition were dedicated to the City	211,063
	$1,103,343

Debt

At year-end, the City had $7,396,630 in outstanding notes and a capital lease compared to $8,246,336 last year. That's a decrease of 9.7% as shown in the following table.

	Governmental Activities		Business-type Activities		Totals	
	1999	1998	1999	1998	1999	1998
Revenue notes (backed by fee Revenues)	-0-	-0-	7,378,169	8,180,754	7,378,169	8,130,754
Capital Lease Obligations (backed by City)	-0-	-0-	18,461	-0-	18,461	115,584
Totals	-0-	-0-	7,396,630	8,149,215	7,396,630	8,246,336

The only new debt issued this year was a capital lease of $31,115 used to purchase new computer equipment. Other obligations of the city include accrued compensated absences and a judgment. Both the capital lease and the judgment will be retired next year as will $4,012,600 of notes payable balance from proceeds of the sale of the primary wastewater treatment plant.

7) ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

With the decrease in sales taxes experienced this year, next year's general fund budget was determined based on another decrease. While hopes are that this does not occur, we are making plans to be prepared. A new transportation system is planned for next year with 80% funding from state and federal grants and other outside sources. The ambulance rate structure will be significantly changed in October 1999, and rates will be raised. Some of the significant capital asset items deferred in this year's budget are being planned for next year, such as: $105,000 motor grader, $250,000 fire truck (lease purchased), and $130,000 street sweeper (lease purchased).

The business-type activities will see a major change due to the sale of the wastewater treatment plant. Also plans are being made to review sanitation rates with a proposal to increase expected. Major capital additions planned in this area will be: $658,000 for water rights; $190,000 wastewater outfall extension; $145,000 for North Wastewater pump station; $105,000 trash truck; $341,500 for gas delivery improvements and $340,000 for gas distribution improvements.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Business Manager, Mayor, Financial Officer or County Judge. This would be the person who actively keeps the financial records and the chief officer who is responsible for the records.

Mayor, City Manager, or County Judge	City Clerk, Treasurer, or Finance Director

The following is intended to be informative ONLY, not directional. Each government entity may face different issues/situations that should be resolved based on the particular facts, circumstances, and materiality levels of that entity.

GASB Statement 34
Capital Assets & Depreciation Guidance

January 19, 2001

1. Capital Assets Definition

Capital assets include: land, land improvements, buildings, building improvements, construction in progress, machinery and equipment, vehicles, infrastructure, easements, and works of art and historical treasures. A capital asset is to be reported and, with certain exceptions, depreciated in government-wide statements. In the government-wide statements, assets that are not capitalized are expended in the year of acquisition.

Infrastructure assets are long-lived capital assets that normally can be preserved for a significant greater number of years than most capital assets and that are normally stationary in nature. Examples include roads, bridges, tunnels, drainage systems, water systems, and dams. Infrastructure assets do not include buildings, drives, parking lots or any other examples given above that are incidental to property or access to the property.

2. Information Needed for an Inventory Record

Governmental entities should develop strategies to ensure they have an accurate, complete, and up-to-date record of capital assets. Each government entityt should have such an inventory beginning in 1980 when NCGA Statement No. 1 created the General Fixed Asset Account Group. Completeness and accuracy should be ensured through physical counts, review of purchase records, prior inventory count records, listings maintained by other government agencies, and other methods deemed necessary.

Governmental entities will need to devise a method to determine historical costs or estimated historical cost of capital assets on hand. Future asset acquisition will be valued at the acquisition cost for purchased items and donated items will be capitalized at fair market value on the donated date.

Each governmental entity should have an inventory of all capital assets. Each inventory record should include: description, year of acquisition, method of acquisition (e.g., purchase, donation, etc.), funding source, cost or estimated cost, salvage value, and estimated useful life. The inventory record will also need to identify the function(s) that use the asset.

3. Record Land

Land is to be capitalized but not depreciated. It is recorded at historical cost and remains at that cost until disposal. If there is a gain or loss on the sale of land, it is reported as a special item in the statement of activities.

4. Recording Land Improvements

Land improvements include items such as excavation, non-infrastructure utility installation, driveways, sidewalks, parking lots, flagpoles, retaining walls, fencing, outdoor lighting, and other non-building improvements intended to make the land ready for its intended purpose. Land improvements can further categorized as non-exhaustible and exhaustible.

> Non-Exhaustible – Expenditures for improvements that do not require maintenance or replacement, expenditures to bring land into condition to commence erection of structures, expenditures for improvements not identified with structures, and expenditures

for land improvements that do not deteriorate with use or passage of time are additions to the cost of land and are generally not exhaustible and therefore not depreciable.

Exhaustible – Other improvements that are part of a site, such as parking lots, landscaping and fencing, are usually exhaustible and are therefore depreciable. Depreciation of site improvements is necessary if the improvement is exhaustible.

5. Recording Buildings

Buildings should be recorded at either their acquisition cost or construction cost. The cost of new construction should be carefully evaluated. Usually projects consist of major components such as land, land improvements, building construction (including professional fees and permits), furniture, fixtures and equipment. In addition, buildings include components (e.g., roof, air conditioner system, etc.) that should be recorded separately when significant because these building components have different useful lives. The value of each component needs to be determined and placed within its own category.

6. Recording Building Improvements

Building improvements that extend the useful life should be capitalized. Governmental entities should therefore review major maintenance projects for the last several years to determine those that should become part of the restatement of assets for purposes of complying with Statement 34.

Examples of building improvements include roofing projects, major energy conservation projects, or remodeling and replacing major building components. A governmental entity will need to determine the practicality of identification of these projects and prepare and inventory. The inventory will need to include a project description, the year completed, funding source and dollar amounts. Only those projects that meet the capitalization threshold need to be included. Further, as a practical matter, governmental entities should establish a cut off date fro retroactive recognition of site and facility improvements. **It is recommended that governmental entities review projects for the last three to five years unless meaningful data are readily available for preceding years.**

7. Recording Construction in Progress

Construction in progress should be capitalized and not depreciated. It should be reported with land and other non-depreciating assets at the government-wide level. Unspent debt proceeds from capital assets related debt should be reported in the net assets section of the statement of net assets as "restricted for capital projects."

8. Recording Machinery and Equipment

Assets such as furniture, machinery and equipment (that meet threshold levels) should be identified and inventoried. Some assets, individually, may fall below the capitalization threshold but may be purchased in large quantities by the governmental entity. Examples include library books, textbooks and computers. Governmental entities should aggregate such assets and consider the materiality and significance of them and if material or significant capitalize such items either individually or in the aggregate. (See question number 12 for applying threshold levels.)

9. Recording Vehicles

Vehicles should be identified, inventoried, and if applicable depreciated.

10. Recording Easements

An easement is an interest in land owned by another that entitles its holder to a specific limited use or enjoyment (right to use the land). Therefore, easements are not required to be reported in the financial statements unless the entity paid for the easement.

1. Recording Works of Art and Historical Treasures

Works of Art and Historical Treasures should be recorded at historical costs. Depreciation is not required for collections or works of art that are inexhaustible.

12. Establishing and Setting the Threshold Levels for Recording Capital Assets

GASB Statement 34 does not give a "complete" definition of a capital asset. Paragraph #19 is a good beginning in that it lists the many categories. But that is not enough. Estimated useful life, asset cost, associated debt, and exceptions must also be considered. An explanation of the other criteria and the threshold levels (1) for tracking and inventory purposes and (2) for capitalizing and depreciating are

Estimated Useful Life – The first criterion is useful life. An asset must have an estimated useful life greater than one reporting period to be considered for capitalization and depreciation. Assets that are consumed, used-up, habitually lost or worn-out in one year or less should not be capitalized.

Estimated useful life means the estimated number of months or years that an asset will be able to be used for the purpose for which it was purchased. In determining useful life, governmental entities should consider the asset's present condition, use of the asset, construction type, maintenance policy, and how long it is expected to meet service demands.

Asset Cost – The second criterion for determining depreciable capital assets is cost. Governmental entities do not need to capitalize every asset with a useful life greater than one year. To do so is an unnecessary burden and will not materially affect financial results. Governmental entities may wish to establish a dollar threshold. A threshold that is too low may result in a burdensome record-keeping system. A threshold that is too high could cause material misstatement of the governmental entity's financial condition. **It is recommended that each government entity use Exhibits A-1 through A-3 for various capitalization thresholds for large, medium and small governmental entities.**

Exhibit A-1 Governmental Entities with Revenues Less Than $10 million

	Tracking and Inventory	Capitalize and Depreciate
Land	$1	Capitalize Only
Land Improvements	$1	$12,500
Building	$1	$25,000
Building Improvements	$1	$25,000
Construction in Progress	$1	Capitalize Only
Machinery and Equipment	$500	$2,500
Vehicle	$500	$2,500
Infrastructure	$25,000	$100,000

Exhibit A-2 Governmental Entities with Revenues Between $10 and $100 Million

	Tracking and Inventory	Capitalize and Depreciate
Land	$1	Capitalize Only
Land Improvements	$1	$25,000
Building	$1	$50,000
Building Improvements	$1	$50,000
Construction in Progress	$1	Capitalize Only
Machinery and Equipment	$1,000	$5,000
Vehicle	$1,000	$5,000
Infrastructure	$50,000	$250,000

Exhibit A-1 Governmental Entities with Revenues Exceeding $10 million

	Tracking and Inventory	Capitalize and Depreciate
Land	$1	Capitalize Only
Land Improvements	$1	$50,000
Building	$1	$100,000
Building Improvements	$1	$100,000
Construction in Progress	$1	Capitalize Only
Machinery and Equipment	$1,000	$5,000
Vehicle	$1,000	$5,000
Infrastructure	$100,000	$3,000,000

Associated Debt – The third criterion is associated debt. Governmental entities should carefully consider the merits of capitalizing assets purchased with debt proceeds. Doing so may minimize the potential of negative net assets being reported in the statement of net assets.

Exceptions – The capitalization policy should address all exceptions. For example:

- Unique items that you want to track and inventory regardless of the cost (e.g., weapons for police).
- Groups/classes of assets where individual asset items are less than the capitalization limit, but when all assets of that group are added together the dollar amount far exceeds the capitalization limit. These groups/classes of assets should be capitalized and depreciated, (e.g., library books in a public library).

13. Depreciation Definition

In accounting terms, depreciation is the process of allocating the cost of tangible property over a period of time, rather than deducting the cost as an expense in the year of acquisition. Generally, at the end of an asset's life, the sum of the amounts charged for depreciation in each accounting period (accumulated depreciation) will equal original cost less salvage value. Good accounting and financial management practices require that a government entity take both the cost expiration and the declining value of an asset into consideration. The cost expiration of a government entity's assets must be recognized if the cost of providing services is to be realistically reported. Also, the decline in the value of those assets must be considered if the government entity's net assets are to be stated correctly.

14. Information Needed to Calculate Depreciation

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

- the date the asset was placed in service
- the asset's cost or acquisition value
- the asset's salvage value
- the asset's estimated useful life, and
- the depreciation method.

15. Obtaining an Asset's Cost or Acquisition Value

Capital Assets should be reported at historical cost and should include the cost of freight, site preparation, architect and engineering fees, etc. If something other than cash is used to pay for the asset, then the fair-market value of the non-cash payment or consideration determines the asset's cost or acquisition value. When the value of the consideration paid can't be determined, the asset's fair-market value determines its cost.

With few exceptions, an asset's cost should also include necessary costs incurred to place the asset in service. Costs include the invoice price plus incidental costs (insurance during transit, freight, capitalized interest as described earlier, duties, title search, registration fees, and installation costs). Exceptions to this rule include interest expenses associated with deferred payments and real estate taxes paid, if any, in the acquisition of property.

16. Asset's Salvage Value

The salvage value of an asset is the value it is expected to have when it is no longer useful for its intended purpose. In other words, the salvage value is the amount for which the asset6 could be sold at the end of its useful life. This value can be based on (1) general guidelines from some professional organizations such as GFOA, ASBO, etc., (2) information from other governmental entities, (3) internal experience, or (4) professionals such as engineers, architects, etc.

17. Asset's Estimated Useful Life

Estimated useful life means the estimated number of months or years that an asset will be able to be used for the purpose for which it was purchased. Capital assets should be depreciated over their estimated useful lives and based on (1) Suggested Useful Lives table; (2) general guidelines from some professional organizations such as GFOA, ASBO, etc; (3) information from other state agencies such as DOTD and other governmental entities; (4) internal experience; or (5) professionals such as engineers, architects, etc.

It is difficult to come up with a "laundry list" of estimated useful lives for equipment when condition and usage are a factor. Let's take for example a school bus. A diesel bus is expected to last 250,000 miles. One school board could put 250,000 on that bus in seven years, while another school board will take 10 years. Therefore, **it is recommended that each government entity develop such a list from the 5 methods shown above.**

18. Depreciation Methods to Calculate an Asset's Depreciation

There are many different methods used to calculate depreciation. Some methods allow more depreciation in early years than in later years. Some apply the same percentage each year while the basis declines. Others apply different percentages each year while the basis remains the same.

Straight-line, sum-of-the-years'-digits, and some other depreciation methods require that the salvage value be subtracted from an asset's acquired value to determine its depreciable basis. Other methods, such as declining-balance, do not subtract the salvage value to determine the basis. However, the asset will not be depreciated below its salvage value.

The same depreciation method is not required for all capital assets. Further, depreciation may be calculated for a class of assets, a group of assets or individual assets. Once a method for a particular asset is chosen, however, it must generally be used for the life of the asset. **It is recommended that all governmental entities use the straight-line depreciation method.**

However, any established method of depreciation is acceptable by Statement 34. The straight-line depreciation method is described in greater detail below.

The straight-line method is the simplest and most commonly used for calculating depreciation. It can be used for any depreciable property. Under the straight-line depreciation method, the basis of the asset is written off evenly over the useful life of the asset. The same amount of depreciation is taken every year. In general, the amount of annual depreciation is determined by dividing an asset's depreciable cost by its estimated life.

The total amount depreciated can never exceed the asset's historical cost less salvage value. At the end of the asset's estimated life, the salvage value will remain.

For example, a $12,000 copier is placed in service on March 16, 2000. It has an estimated life of five years and a salvage value of $2,000. The depreciation calculation for the straight-line method would be:

Original cost	$12,000
Salvage value	2,000
Adjusted basis	$10,000
Estimated life	5
Depreciation per year	$ 2,000

19. Depreciating an Asset that was not Purchased at the Beginning of a Fiscal Year

To avoid the complications of depreciating each asset from the specific date on which it was placed in service, GAAP supports guidelines that assume various assets are placed in service or disposed of at designated dates throughout the year. These guidelines are called averaging conventions.

There are five averaging conventions: (1) Full-Month convention, (2) Half-Year convention, (3) Modified Half-Year convention, (4) Mid-Month convention, and (5) Mid-Quarter convention. **It is recommended that governmental entities use the full-month convention.** The other conventions are described so business officials have an understanding of the available options.

20. Full-Month Convention

Under a full-month convention, property placed in service at any time during a given month is treated as if it had been placed in service on the first day of that month. This allows depreciation to be taken for the entire month in which the asset is placed in service. If the property is disposed of before the end of the estimated useful life, no depreciation is allowed for the month of disposition.

21. Half-Year Convention

Under the half-year convention, as asset is treated as though it were placed in service or disposed of on the first day of the seventh month of the fiscal year. One-half of a full year's depreciation is allowed for the asset in its first year placed in service, regardless of when it was actually placed in service during that year. The half-year convention may be most appropriate for grouped assets such as library books or computers purchased throughout the year.

22. Modified Half-Year Convention

Under the modified half-year convention, assets placed in service during the first half of the year are considered to have been placed in service on the first day of the year. Therefore, they receive a full year's depreciation in the acquisition year. Assets placed in service during the second half of the year are considered to have been placed in service on the first day of the following year. Therefore, they receive no depreciation in the acquisition year but receive a full year's depreciation in the subsequent year.

Caution should be taken with adopting this averaging convention for large capital assets due to the possibility that misstatement of asset values and depreciation could occur.

Applying the modified half-year convention in the disposal year is slightly more complicated because the disposal-year allowance depends on the acquisition year allowance. The following table summarizes the relationships:

If Asset was place in Service in the	And disposed of in the	Depreciation allowed in the disposal year
first half of the year	first half of the year	No depreciation
first half of the year	second half of the year	50% of a full year's depreciation
second half of the year	first half of the year	50% of a full year's depreciation
second half of the year	second half of the year	Full year of depreciation

23. Mid-Month Convention

Under the mid-month convention, property is treated as though it were placed in service or disposed of in the middle of the month. A half-month's depreciation is allowed both in the month of acquisition and in the month of disposition. Generally, this means that is the asset is placed in service after the 15th of the month, no depreciation is taken for that month. If the asset is placed in service on or before the 15th of the month, a full month's depreciation is allowed. Similarly, if the asset is disposed of on or before the

15^{th} of the month, no depreciation is taken for that month. If the asset is disposed of after the 15^{th} of the month, a full month's depreciation is allowed.

24. Mid-Quarter Convention

The mid-quarter convention treats property as though it was placed in service in the middle of the quarter in which it was purchased.

25. Reporting Depreciation Expense in the Financial Statements

For general capital assets, depreciation is reported only on government-wide financial statements. Depreciation expense is reported on the Statement of Activities. Statement 34 requires that depreciation for assets specifically identified with specific functions is to be included in the direct expenses of those functions. Capital assets that serve essentially all functions are reported on a separate line or reported as part of the general administration (or its counterpart) function. If depreciation is reported as a separate line item, the face of the statement must clearly indicate that this line item excludes depreciation expense charged to functions.

It is recommended that a government entity not allocate the depreciation of a building that serves multiple (that is, more than just a few) functions or departments. However, if the government entity chooses to allocate, it is recommended that the allocation be based on square footage for the time used.

Depreciation expense for general infrastructure assets should not be allocated to the various functions. It should be reported as a direct expense of the function (for example, public works or transportation) that the reporting government normally associates with capital outlays for, and maintenance of, infrastructure assets or as a separate line in the statement of activities.

26. Reporting Capital Assets in the Financial Statements

Capital assets and the associated accumulated depreciation are reported in the Statement of Net Assets. Accumulated depreciation may be reported separately, or capital assets may be presented net of accumulated depreciation on the statement. Capital assets that are not being depreciated, such as land or infrastructure assets reported using the modified approach should be reported separately if the government has a significant amount of these assets. Capital assets also may be reported in greater detail, such as by major class of asset (for example, Infrastructure, buildings and improvements, vehicles, machinery and equipment). **It is recommended that all governmental entities report both the historical cost and accumulated depreciation in the face of the statement.**

27. Infrastructure Assets – Determining Historical Cost or Estimated Historical Cost

Roads and Bridges (police juries and municipalities) –
Louisiana Department of Transportation and Development (DOTD) has available for parishes and municipalities the following:

- A summary of road types, inclusive of road miles, current replacement cost, estimated useful lives, and estimated depreciable costs
- A detail listing of roads
- Road inventory map of each parish
- A detail list of bridges with structure type, replacement type, length, width, year built, useful life, and estimated replacement cost

After receiving the information from DOTD, review it to ensure all roads/bridges are included and the road type (gravel, asphalt, concrete, etc.) and bridge type is accurate.

To determine the estimated historical cost, use the approximate dates the road/bridges were built (agencies will have to estimate these dates for "roads" but may use the DOTD dates for "bridges") and use the Highway Price Trends Index to deflate the estimated replacement cost, as provided by DOTD, to the estimated historical cost at the time or original construction. The web site where you can find the Highway Price Trend Index information is www.fhwa.dot.gov/////ohim/hs99/tables/pt1.pdf.
[**Note:** An age which represents the average age for all roads and/or bridges of a similar sub-group (i.e., a grouping which has the same replacement cost and the same useful life) may be used to calculate the

total historical cost of that sub-group. That sup-group may then be depreciated, as a sub-group, using that sub-group's useful life.]

Other infrastructure –

- Obtain a description/inventory of the asset.
- The initial capitalization amount should be based on historical cost. If determining historical cost is not practical because of inadequate records, estimated historical cost may be used.
- See GASB 34 paragraphs 158 through 160 for determining estimated historical cost – current replacement cost.

Entities with total revenue of less than $10 million

A determination must be made whether to retroactively report infrastructure assets. GASB 34 paragraph 148, provides that governments with total annual revenues of less than $10 million are encouraged but are not required to report major general infrastructure assets retroactively. This means that infrastructure assets that were acquired or significantly reconstructed, or that received significant improvements in fiscal years ending after June 30, 1980 to the beginning of the effective date of GASB 34 are encouraged to be reported but are not required to be reported.

Your consideration as to report these infrastructure assets should include:

- The omission of infrastructure assets may omit significant assets.
- There may be significant related debt for the infrastructure assets and it would be advantageous to include them.

28. Infrastructure Assets Not Required to be Depreciated

GASB 34 offers an exception to depreciation reporting for infrastructure assets (modified approach for reporting infrastructure assets) that are part of a network or subsystem of a network as long as two requirements are met.

- First, the government must manage the eligible infrastructure assets using an asset management system as follows:
  - Have an up-to-date inventory of eligible infrastructure assets
  - Perform condition assessments (should be documented in such a manner that they can be replicated) of the eligible infrastructure assets and summarize the results using a measurement scale
  - Estimate each year the annual amount to maintain and preserve the eligible infrastructure assets at the condition level established and disclosed by the government.
- Second, the government must document that the eligible infrastructure assets are being preserved approximately at (or above) a conditional level established and disclosed by the government.
- If any of the conditions are not met, reporting must revert back to the depreciation method.
- Using the modified approach, expenditures that increase the capacity or efficiency of an infrastructure asset are capitalized, while all other expenditures that preserve the useful life of the assets are expensed.

29. Reporting and Recording Adjudicated Properties

Cities and parishes share a concern with adjudicated titles to real property. Adjudication of title takes place when unpaid ad valorem taxes exist and the property is offered at tax sale, but is not purchased. The city and/or parish then hold a perfected tax lien on the property to the extent of the taxes, penalties and interest. Subsequent ad valorem taxes accrue against the property while it is adjudicated to the public body. This property is always subject to redemption by the original owner. The public body must receive a court judgment to be placed in physical possession of the property should it be needed for governmental use. Even if the public body takes physical possession, it can never obtain a clear title that is not subject to redemption by the original owner. Since title to adjudicated properties effectively consists of a tax lien only, as opposed to clear title, such properties should not be recorded or reported as assets of the governmental entity.

30. Implementation Dates for GASB 34

The requirements of this Statement are effective in three phases based on total annual revenues in the first fiscal year ending after June 15, 1999 (earlier application is encouraged).

- Phase 1 governments – total annual revenues of $100 million or more should apply the requirements of this Statement in financial statements for periods beginning after June 15, 2001. Should retroactively report all major general infrastructure assets for fiscal years beginning after June 15, 2005.
- Phase 2 governments – total annual revenues of $10 million or more but less than $100 million should apply the requirements of this Statement in financial statements for periods beginning after June 15, 2002.
- Phase 3 governments – total annual revenues of less than $10 million should apply the requirements of this Statement in financial statements for periods beginning after June 15, 2003.

Prospective reporting of general infrastructure assets in the statement of net assets is required beginning at the effective dates above. Retroactive reporting of all major general infrastructure assets is encouraged at that date. However, the following dates are allowed to retroactively report infrastructure assets:

- Phase 1 governments should retroactively report all major general infrastructure assets for fiscal years beginning after June 15, 2005.
- Phase 2 governments should retroactively report all major general infrastructure assets for fiscal years beginning after June 15, 2006.
- Phase 3 governments are encouraged but are not required to report major general infrastructure assets retroactively.