

Fixed Assets for School Districts

Background

In the old days, tracking historical costs of fixed assets wasn't a major concern for many school districts. While districts maintained detailed records of fixed assets and likely engaged appraisal companies to perform annual inventories for insurance purposes, the focus was mainly on replacement costs. In reporting historical costs of fixed assets on the districts' annual financial statements, auditors were able to qualify their opinions by clearly stating that the opinion covered all financial information in the annual report except fixed assets. Overall, the districts and their auditors were comfortable with this approach.

Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements- and Management's Discussion and Analysis-for State and Local Governments* (GASB 34), changed the way fixed assets are reported in governmental financial statements. Beginning with the effective date of the statement, which varied depending on the entity's total annual revenue, historical costs of fixed assets are now reported in the entity-wide financial statements rather than separately reported in a general fixed asset account group. In addition, governmental entities are now required to report accumulated depreciation and annual depreciation expense in their financial statements.

Since many districts lacked complete and accurate records of historical costs of fixed assets, a district's decision to implement GASB 34 often required the district to obtain an estimate. Appraisal companies were engaged to take inventory of the district's fixed assets and estimate the original purchase prices. The appraisal companies also estimated annual and accumulated depreciation based on the estimated useful lives of the assets.

The appraisal companies' reports provided a starting point for the districts to maintain historical cost records from that point forward. What the appraisal reports did not do is eliminate a district's responsibility for tracking purchases or other additions and disposals of fixed assets on an on-going basis.

Accuracy

Some districts elect to have an annual historical cost and depreciation report prepared by their appraisal company. Quite often, the appraisal company does not perform an annual inventory, but updates its original report based on information provided by the district. This can be an efficient approach that saves the district money, but it's important to remember that the report will be only as good as the information the district provides. If accurate information on purchases/additions and disposals/deletions is not provided to the appraisal company in a timely manner, then the appraisal report will not be correct.

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Bookkeeping

There are various procedures a district can and should implement to assure that proper information is being reported:

- Make sure that all fixed asset purchases are properly recorded as capital outlay (object 5) expenditures. Resist the urge to record payments to architectural firms and construction contractors in purchased services (object 3). If the expenditure is going to result in a fixed asset (land, building, equipment, etc.), then the proper classification is object 5. Proper classification facilitates reporting of additions to the appraisal company.
- Assign one person the responsibility for monitoring and reporting additions and deletions to the appraisal company. That individual should keep a detailed record, including copies of invoices, of all object 5 expenditures and provide updates to the appraisal company on a regular, periodic basis. Assigning this task to numerous individuals could result in no one knowing exactly what has and has not been reported.
- Disposals or sales of fixed assets should be timely reported to the person responsible for monitoring fixed assets and updating the appraisal company.

Other Procedures

When the district receives its annual appraisal report, whether new or updated, the report should be checked for reasonableness. Anyone can make a mistake, including the appraisal company. It's essential for the district to check the report to make sure there are no unexplained omissions or duplicated items.

- Compare the report to last year's. If the balance in an asset category is higher or lower than the prior year, be sure you understand the reason why.
- Check the summary of additions to make sure all of the current year purchases are included. Compare those additions to the capital outlay (object 5) expenditures in the district's general ledger. Follow up on any significant differences.
- If the current year balance in any asset category is less than the prior year balance, make sure it's due to a legitimate disposal and not an error.

District's Responsibility

Maintaining accurate records of fixed assets is essential to good internal control. Ultimate responsibility for the accuracy of those records belongs to the district. We strongly recommend the basic procedures listed above be instituted and maintained by the district to help meet that responsibility. Let us know if you have any questions.

By Louise M. King, CPA, Partner