

GASB STATEMENT 34 IMPLEMENTATION ISSUES

Depreciation of Capitalized Assets

Issue

To determine which depreciation method and estimated useful lives to be used to depreciate capital assets.

Background

GASB 34 states that capital assets should be reported at historical cost. The cost of a capital asset should include capitalized interest and any charges necessary to put the asset into place. Donated capital assets should be reported at their estimated fair value at the time of acquisition. Capital assets include land, land improvements, buildings, equipment, furniture and fixtures, historical treasures, infrastructure, vehicles, and all other tangible or intangible assets that are used in operations that have initial useful lives beyond a single reporting period. Capital assets that are not being depreciated should be disclosed separately from those that are being depreciated.

Capital assets that are being or have been depreciated should be reported net of accumulated depreciation in the Statement of Net Assets. Accumulated depreciation may be reported on the face of the Statement of Net Assets or disclosed in the notes. Capital assets not being depreciated, such as land, should be reported separately if there is a significant amount of these assets. Capital assets should be depreciated over their estimated useful lives unless they are inexhaustible, such as land, land improvements, and certain historical treasures. Depreciation expense should be reported in the Statement of Activities.

Recommendation

The preferable method of depreciation is the straight line method. This method is the simplest to use and the most systematic and rational. The estimated useful lives as suggested by the Internal Revenue Service is the most widely used, therefore, Louisiana will adopt them in determining the useful lives of its capital assets. Estimated useful lives on infrastructure and historical treasures will follow industry guidelines to be determined at a later date.

A chart using a broad class of assets and their related estimated useful lives will be developed. Some of the major classes will be land, land improvements, buildings, equipment, furniture and fixtures, vehicles, infrastructure and historical treasures.

Depreciation Expense will be reported in the Statement of Activities. Accumulated Depreciation should be reported on the Statement of Net Assets. This reporting requirement will be on the government-wide statements and those entities that are business type activities (BTA's).