

## **GASB STATEMENT 34 IMPLEMENTATION ISSUES**

### Works of Art, Historical Treasures, and Other Similar Assets

#### **Issue**

To define collections of works of art, historical treasures, and similar assets and identify the collections statewide to apply the capitalization and depreciation requirements of GASB Statement 34.

#### **Background**

##### Capitalization Criteria

GASB Statement 34 states that governments should capitalize works of art, historical treasures, and similar assets at their historical cost or fair value at the date of donation (estimated if necessary) if they are held as a collection. Governments are encouraged, **but not required**, to capitalize collections that are a) held for public exhibition, education, or research in furtherance of public service, rather than financial gain; (b) protected, kept unencumbered, cared for, and preserved; and (c) subject to an organizational policy that requires the proceeds from sales of collection items to be used to acquire other items for collections.

This exemption does not apply to collections already capitalized as of June 30, 1999, and all future additions to these collections, even if they meet the above conditions for exemption from capitalization. Accordingly, any collections that meet this criteria cannot be taken off of an entity's books at implementation of GASB Statement 34 if they are already being capitalized.

For collections not capitalized, note disclosures must provide a description of the collection and the reasons these assets are not capitalized.

##### Depreciation Criteria

If collections are not capitalized, then they will also not be depreciated. When collections are capitalized, the following criteria applies for depreciation. GASB Statement 34 states that capitalized collections which are exhaustible, such as exhibits whose useful lives are diminished by display or educational or research applications, **should be depreciated** over their estimated useful lives. The paragraph also states that **depreciation is not required** for collections which are inexhaustible. For those collections that are capitalized and depreciated, note disclosures should be made to provide detail about any such collections reported in the statement of net assets, divided into major classes, as well as between those associated with governmental activities and those associated with business-type activities. Also, the disclosures should include (1) beginning and end-of-year balances, with accumulated depreciation

presented separately; (2) capital acquisitions; (3) sales or other dispositions; and (4) current-period depreciation expense; with disclosure of the amounts charged to each of the functions in the statement of activities.

### Revenue and Expense Recognition

Governments should recognize as revenues any donations of works of art, historical treasures, and similar assets in accordance with GASB Statement No. 33. When donated collection items are added to non-capitalized collections, governments should recognize program expense equal to the amount of revenues recognized.

### Policy

GASB Statement No. 34 does not define what or how many works of art, historical treasures, or similar assets constitute a "collection". Therefore, the definition is left to professional judgment, but must be applied consistently. We recommend that the State of Louisiana define collections of works of art, historical treasures, and similar assets as one or more items which are considered inexhaustible and held for public exhibition, educational purposes, or research in enhancement of public service instead of financial gain.

In order for the State of Louisiana to be exempt from the capitalization requirement of GASB Statement 34 for works of art, historical treasures, and similar assets, all budgetary entities of the state holding such assets should have in place a policy concerning those assets. These policies should include language relating that all collection items donated to the entity or purchased with state funds are to be kept unencumbered, cared for, and preserved, and that all proceeds from the sale (if any) of such collection items are to be used to acquire other items for collection. We believe that agencies holding works of art, historical treasures, and similar assets have these types of policies in place currently to be able to meet these capitalization requirements. Further, we encourage all non-budgetary entities reporting under the state who possess these types of assets to also have in place such a policy.

We feel that these agency policies are necessary in order to expedite the completion of the State's CAFR every year, because it would reduce the amount of time and effort required of the state agencies and component units to complete their financial statements. If these policies were not in place and adhered to, considerable time and expense would have to be dedicated to capitalizing the state's collections of works of art, historical treasures, and similar assets. The historical cost of each item would have to be determined, either from past records or from an appraisal if no such records are available. We feel that this would not be an efficient use of state resources, as the benefits gained from determining this historical cost figure would not outweigh the costs the state would incur.

**Identification of Works of Art, Historical Treasures, and Similar Assets Statewide**

The following is a listing of some of the possible historical treasures, works of art, and similar assets that certain entities may have. It is not an exhaustive list, and each agency should be diligent in identifying collections that would need to be reported. As with reporting of other assets, the Office of Statewide Reporting and Accounting Policy will be available for the entities to ask questions and receive any assistance needed to properly account for them.

<b>Collection Capitalization Policy Summary</b>		
<b>Collection</b>	<b>Capitalization Policy</b>	<b>Depreciation Policy</b>
Paintings, Works of Art on Paper, Photography, Maps, Manuscripts, Libraries, Musical Instruments, Recordings, Film, Furnishings, Artifacts, Textiles, Tools, Weapons, and other Memorabilia located at various state museums and office buildings.	<p>If capitalized as of June 30, 1999, the collection must continue to be capitalized, along with all additions to the collection.</p> <p>However, if not capitalized as of June 30, 1999, <u>do not</u> capitalize the collection.</p> <p>Each budgetary entity is responsible for determining if its collection assets have been capitalized as of June 30, 1999.</p>	<p>If not capitalized, depreciation is not applicable.</p> <p>If capitalized as of June 30, 1999, depreciation is not required since these assets are considered inexhaustible.</p> <p>If capitalized, amount will be reported with any other non-depreciable capital assets in the statement of net assets.</p>
Monuments and Statues on display at various sites around the state.	Same as above.	Same as above.