State of Louisiana

DIVISION OF ADMINISTRATION

OFFICE OF STATEWIDE REPORTING AND ACCOUNTING POLICY

M. J. AMIKE@ FOSTER, JR.
GOVERNOR

MARK C. DRENNEN
COMMISSIONER OF ADMINISTRATION

May 3, 2001

MEMORANDUM

TO: Louisiana CAFR
Component Units
Fiscal Officers

FROM: F. Howard Karlton, CPA, CGFM
Director

SUBJECT: Implementation of GASB Statement 34

As you may be aware, the GASB Statement 34 “Basic Financial Statements – and Management’s Discussion and Analysis – For State and Local Governments” is scheduled to be implemented by June 30, 2002. As a component unit required to report in the state’s Comprehensive Annual Financial Report (CAFR), you will also be responsible for implementing the statement by this date. The Office of Statewide Reporting and Accounting Policy, in analyzing the requirements of this statement, is requiring all component units of the state to report as “Special-purpose Governments Engaged Only in Business-Type Activities (BTA’s)”.

By reporting as “Special-purpose Governments Engaged Only in Business-Type Activities (BTA’s)”, component units are allowed to present only those financial statements required for enterprise funds per GASB 34. The required basic financial statements and required supplementary information (RSI) for BTA’s are: Management Discussion and Analysis (MD&A); the Statement of Net Assets; the Statement of Revenues, Expenses and Changes in Fund Net Assets; Statement of Cash Flows using the direct method; Notes to the Financial Statements; and RSI other than MD&A. The statements should be presented using the economic resources measurement focus and the accrual basis of accounting. Reporting as BTA’s will also require that each component unit report capital assets and depreciation in the required financial statements. The Office of Statewide Reporting and Accounting Policy has developed and enclosed a guide for capitalization and depreciation of capital assets to aid in this area of the implementation. Reporting as BTA’s for all component units provides the advantage of consistency among the many component units currently being reported by the state and will aid in rolling up the component units into the government-wide financial statements of the CAFR.

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Requirement to Provide Simplified "Statement of Activities":

Under the requirement to report as BTA's, a Statement of Activities is not one of the required statements prescribed by GASB 34. However, as a component unit of the state, your Statement of Revenues, Expenses and Changes in Fund Net Assets must be rolled up into the government-wide Statement of Activities of the state's CAFR. To make this rollup in the CAFR possible, we are requiring that a simplified form of a Statement of Activities (attached) be submitted by each component unit as a part of the Notes to the Financial Statements.

The Office of Statewide Reporting and Accounting Policy will forward to you the forms, notes, and instructions at a later date; however, attached are BTA statements taken from current guidance. This will give you an idea of how the change will affect your reporting. You may also go to our website, under GASB 34, to view our issue papers and memoranda on this subject at http://www.state.la.us/osrap/index.htm. Please feel free to call any of the following task team members for questions. The task team members can be reached at the following numbers: Afranie Adomako – (225) 342-1091; Renee Withers - (225) 342-1089; Rae Marrero - (225) 342-0710; Nelson Green - (225) 342-1090; or me at (225) 342-0708.

FHK: AA: rl

Attachments

Component Unit of the State of Louisiana
Statement of Activities
For the Year Ended June 30, 2002

	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets
Component Unit:					
Component Unit X	$	$	$	$	$
General revenues:					
Taxes					
State appropriations					
Grants and contributions not restricted to specific programs					
Interest					
Miscellaneous					
Special items					
Transfers					
Total general revenues, special items, and transfers					
Change in net assets					
Net assets - beginning					
Net assets - ending					$

Sample City Landfill
(A Component Unit of Sample City)
Statement of Net Assets
December 31, 2002

ASSETS	
Current assets:	
Cash and cash equivalents	$ 450
Investments	1,770,432
Receivables, net	325,264
Total current assets	2,096,146
Noncurrent assets:	
Restricted assets—landfill closure	2,000,000
Capital assets:	
Land	528,029
Buildings and equipment	4,144,575
Less accumulated depreciation	(1,687,804)
Total noncurrent assets	4,984,800
Total assets	7,080,946
LIABILITIES	
Current liabilities:	
Accounts payable	334,266
Noncurrent liabilities:	
Landfill closure and postclosure care	4,668,802
Total liabilities	5,003,068
NET ASSETS	
Invested in capital assets	2,984,800
Unrestricted (deficit)	(906,922)
Total net assets	$ 2,077,878

Exhibit 12B

Sample City Landfill
(A Component Unit of Sample City)
Statement of Revenues, Expenses,
and Changes in Net Assets
For the Year Ended December 31, 2002

OPERATING REVENUES	
Charges for sales and services	$3,853,903
Miscellaneous	3,955
Total operating revenues	3,857,858
OPERATING EXPENSES	
Salaries and wages	1,487,927
Employee benefits	142,876
Supplies	68,800
Contractual services	18,345
Maintenance—structures and equipment	587,489
Utilities	18,827
Administrative and general	772,326
Miscellaneous	20,175
Depreciation	265,392
Total operating expenses	3,382,157
Operating income	475,701
NONOPERATING REVENUES (EXPENSES)	
Investment earnings	210,241
State grant	11,397
Total nonoperating revenues	221,638
Change in net assets	697,339
Net assets—beginning of the year	1,380,539
Net assets—end of the year	$2,077,878

These two amounts are reported separately as program revenues in the reporting entity's statement of activities (Appendix 2, Exhibit 2).

Special-purpose governments engaged only in business-type activities, such as this landfill, should present only the financial statements required for enterprise funds; thus, a statement of activities is not required (paragraph 138).

STATE OF LOUISIANA

_______________________(Entity Name)

STATEMENT OF CASH FLOWS

___________(Date)

Cash flows from operating activities:		
Cash received from customers	$_____	
Cash payments to suppliers for goods and services	_____	
Cash payments to employees for services	_____	
Payments in lieu of taxes	_____	
Internal activity-payments to other funds	_____	
Claims paid to outsiders	_____	
Other operating revenues	_____	
Net cash provided(used) for operating activities		$_____
Cash flows noncapital financing activities:		
Proceeds from sale of bonds	_____	
Principal paid on bonds	_____	
Interest paid on bond maturities	_____	
Proceeds from issuance of notes payable	_____	
Repayment of notes payable	_____	
Interest paid on notes payable	_____	
Operating grants received	_____	
Donations received	_____	
Operating transfers in – from other funds	_____	
Operating transfers out – to other funds	_____	
Net cash provided(used) for noncapital financing activities		$_____
Cash flows from capital and related financing activities:		
Proceeds from sale of bonds	_____	
Principal paid on bonds	_____	
Interest paid on bond maturities	_____	
Proceeds from issuance of notes payable	_____	
Repayment of notes payable	_____	
Interest paid on notes payable	_____	
Acquisition/construction of capital assets	_____	
Proceeds from sale of capital assets	_____	
Capital contributions	_____	
Net cash provided(used) for capital and related financing activities		$_____
Cash flows from investing activities:		
Purchases of investment securities	_____	
Proceeds from sale of investment securities	_____	
Interest and dividends earned on investment securities	_____	
Net cash provided(used) for investing activities		$_____
Net increase(decrease) in cash and cash equivalents		$_____
Cash and cash equivalents at beginning of year		_____
Cash and cash equivalents at end of year		$_____

(Continued)

Statement C

Guide for Capitalization and Depreciation of Capital Assets
Prepared by the Office of Statewide Reporting and Accounting Policy

The following information is provided as guidance for the capitalization and depreciation of capital assets to comply with the requirements of GASB Statement 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*. This new statement requires reporting of capital assets and depreciation in the government-wide financial statements. This guide includes capital assets categories and descriptions, definitions, capitalization threshold levels, useful lives, and the chosen method of depreciation and is only intended to provide some high level guidance and awareness of the decisions that have been made on these topics. More details on specific procedures and instructions will be provided to the appropriate entities at a later date.

Background

GASB 34 states that capital assets should be reported at historical cost. The cost of a capital asset should include any charges necessary to put the asset into place. Donated capital assets should be reported at their estimated fair value at the date of donation. Capital assets include moveable property (furniture & fixtures, machinery & equipment, automobiles, etc.), land, land improvements, buildings, building improvements, leasehold improvements, infrastructure, historical treasures & works of art, 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.

I. Quick Facts:

1. Capitalization threshold levels and useful lives for capital assets are as follows:

Capital Asset	Threshold	Useful Life
Movable Property (not including computer software)	$5,000	Varies – see table
Computer Software Purchased or Developed for Internal Use	$1,000,000	3 years
Buildings & Improvements	$100,000	40 Years
Leasehold Improvements	$100,000	< of 20 or 40 years or lease term
Land and Nondepreciable Land Improvements	N/A - capitalize all	No useful life assigned for inexhaustible assets
Depreciable Land Improvements	$100,000	20 Years
Infrastructure	$3,000,000	40 Years (preliminary)
Historical Treasures & Works of Art	N/A	No useful life – inexhaustible

2. The straight-line depreciation method will be used for depreciation of all depreciable capital assets.

3. A full year of depreciation will be taken for the year assets are placed in service or disposed of.

4. No salvage value will be included in the depreciation calculation.

II. Identifying the different categories and classes of capital assets:

1. Movable Property

Movable property consists of those capital assets that are not fixed or stationary in nature. They are those assets that are not land, land improvements, buildings, building improvements, or infrastructure. In general, movable property includes furniture & fixtures, machinery and equipment, and automobiles. For more detailed examples of movable property, see the table of capital assets and useful lives in Section 3 below.

2. Computer Software Developed or Purchased for Internal Use

Computer software developed or purchased for internal use is movable property that requires special consideration due to it's nature and difficulty in accounting for the costs associated with it. Computer software used by an entity may be developed in-house or purchased from outside parties. Whether computer software is purchased from outside parties or developed internally, certain costs incurred would be capitalized. Costs that may be capitalized associated with developed software include those incurred during what is called the "application development stage" . Activities that occur during this stage include configuration, interfacing, coding, installation, conversion of old data, and testing such as parallel processing. The capitalizable costs incurred during this stage include the purchase price of the software or the materials needed to internally develop the software, and cost of services needed after purchase of the software or during internal development. Any payroll costs for employees who are directly associated with and who devote time directly to the software development stage are also costs that would be capitalized. Conversely, any general and administrative costs and overhead costs associated with the software development stage are not costs that are capitalized.

3. Buildings and Building Improvements

Buildings are permanent structures erected above ground, together with fixtures attached to and forming a permanent part of the building, for the purpose of sheltering persons or personal property. The cost of buildings include all labor, materials, and professional services required to construct the building, and any other costs to put the building into it's intended use.
Building improvements are major repairs, renovations, or additions to a building that increase the future service potential of the building and benefit future periods. The buildings and the improvements become one and inseparable. Examples of building improvements include major repairs, renovations, or additions such as addition of a new wing or a new air conditioning system.

4. Leasehold Improvements

Leasehold Improvements are improvements made by the lessee to leased property such as land and buildings. The lessee has the right to use such facilities and improvements during the life of the lease, but the improvements made to the property would revert to the lessor at the expiration of the lease. For this reason, the useful life of the leasehold improvement cannot be longer than the remaining lease term. The useful life of the leasehold improvement would be the lesser of 20 years (if a depreciable land improvement), 40 years (if a building improvement), or the remaining lease term. These improvements to leased property are treated as separate capital assets and are capitalized and depreciated if they are above the threshold for capitalization for the particular type of leased capital asset. Some examples of leasehold improvements would be new buildings or structures built on leased land and attachments or improvements made to existing leased buildings or structures.

5. Land and Land Improvements

Land is an inexhaustible asset that has an unlimited life and therefore is not depreciated.
Land improvements are those betterments, improvements, and site preparations that ready land for its intended use. Like the land itself, these improvements are inexhaustible and therefore not depreciated. Some examples of land improvements would be excavation, filling, grading, demolition of existing buildings, and removal or relocation of other property (telephone or power lines).

6. Depreciable Land Improvements

Depreciable land improvements are defined as improvements made to land that have determinable estimated useful lives and deteriorate with use or passage of time. These improvements are built or installed to enhance or facilitate the use of the land for a particular purpose. Depreciable land improvements may include walking paths and trails, fences and gates, landscaping, sprinkler systems, fountains, and beaches. These are unlike nondepreciable land improvements and land since the useful life of the improvement is determinable.

7. Infrastructure

Infrastructure is defined as long-lived capital assets associated with governmental activities that normally are stationary in nature and can be preserved for a significantly greater number of years than most capital assets. Examples include roads, bridges, tunnels, drainage systems, water and sewer systems, dams, and lighting systems. Although these assets are long-lived, useful lives are assigned to these assets and they are depreciated.

8. Historical Treasures & Works of Art

Historical treasures & works of art are items which are considered inexhaustible and held for public exhibition, educational purposes, or research in enhancement of public service instead of financial gain. Examples are paintings, sculptures, photography, maps, manuscripts, musical instruments, recordings, film, furnishings, artifacts, tools, weapons, and other memorabilia. Generally, collections of historical treasures & works of art will be considered inexhaustible, and would therefore not be depreciated. However, special rules apply for the capitalization of these assets. If a collection was capitalized as of June 30, 1999, the collection must continue to be capitalized, along with all additions to the collection. However, if the collection was not capitalized as of June 30, 1999, do not capitalize the collection.

III. Classes of capital assets and their useful lives are as follows:

Description of Asset and Examples	Useful Life
Movable Property	
Office furniture & fixtures Examples: desks, file cabinets, safes	10
Computers & peripheral equipment Examples: hard drives, printers, monitors, keyboards, disc drives, scanners	5
Computer software developed or purchased for internal use (costs that may be capitalized include those incurred during configuration, interfacing, coding, installation, conversion of old data, and testing such as parallel processing)	3
Office machinery & equipment other than computers: Examples: typewriters, calculators, adding machines, copiers and other duplicating equipment	6
Medical equipment	5
Automobiles	5

High mileage automobiles Examples: state police cars	3
Light general purpose trucks (< 13,000 lbs.)	5
Heavy general purpose trucks (13,000 lbs. or more)	6
Trailers and trailer mounted containers	6
Buses	9
Over-the-road tractor units	4
Airplanes	6
Assets used in research and experimentation	12
Printing and publishing equipment	11
Agricultural assets Examples: agricultural machinery & equipment, grain bins, and fences used for agricultural production	10
Dairy cattle, breeding	7
Horses, breeding or work	10
Horses, not breeding or work	12
Hogs, breeding	3
Sheep & goats, breeding	5
Radio & television broadcasting equipment (excluding towers, see infrastructure)	6
Construction equipment	6
Recreation assets used in the provision of entertainment services for a fee such as bowling alleys, billiards and pool halls, theaters, concert halls, and miniature golf courses.	10
Telephone central office equipment Examples: central office switchboards and related equipment	18
Telephone station equipment Examples: telephones, booths, teletypewriters, and private exchanges	10
Buildings and Improvements	
Buildings and improvements other than those listed below	40

Farm buildings other than single purpose structures Examples: Houses, barns, garages, warehouses	25
Single purpose agricultural or horticultural structures Examples: any building or enclosure used specifically for housing, raising, and feeding a particular type of livestock and it's produce and necessary equipment; greenhouses	15
Service station buildings and related land improvements	20
Depreciable Land Improvements	
Land improvements that are depreciable & other improvements other than buildings Examples: sidewalks, paths and trails, sprinkler systems, fences & gates, landscaping, fountains, and beaches that are not considered infrastructure (see infrastructure below)	20
Infrastructure Examples: highways, roads, bridges, tunnels, sidewalks, curbs, gutters, street signage, street lamps, traffic signals, drainage systems, water and sewer systems, lighting systems, railroad tracks, trestles, canals, waterways, spillways, locks, dams, levees, seawalls, lakes/reservoirs, waterbottoms, beaches, boat ramps, boat docks, piers, wharfs, boardwalks, radio or television towers, airport runway/taxiway	40

*This table is only a list of some of the common and probable assets that are in your possession. If there are any assets not on this list that may be required to be capitalized and depreciated, refer to IRS Publication 946 - Appendix B "Table of Class Lives and Recovery Periods" for further listing of assets.

IV. Method of depreciation:

For simplicity and consistency, the straight-line depreciation method (cost divided by useful life) will be used for depreciation of all depreciable capital assets. In addition, it will be assumed that the capital assets will have no salvage value. A full year of depreciation will be taken in the year assets are placed in service or disposed of. Regardless of the actual date an asset is placed into service, the asset is treated as being placed into service at the beginning of the fiscal year, allowing a full year's depreciation in the year of acquisition. Regardless of the actual date an asset is disposed of, the asset is treated as being disposed of at the end of the fiscal year, allowing a full year's depreciation in the year of disposal.