

Property and equipment of material value are commonly referred to as fixed or capital assets. These include land and land improvements, buildings and building improvements, equipment, and all other tangible and intangible assets that are used in operations and that have initial useful lives extending beyond a single reporting period.

Recordkeeping Requirements for Capital Assets

Since capital assets represent one of the largest investments of an LEA, control and accountability are of significant concern. Generally accepted accounting principles regarding internal controls, *Education Code* Section 35168, and federal funding agencies require LEAs to maintain records that properly account for capital assets. Capital asset records serve as a management tool and have an important bearing on management decisions, such as long-range acquisition and abandonment projections. The need for data on capital assets is important regardless of the size of the LEA.

The accounting system for capital assets should accomplish the following:

1. Conform with *Education Code* requirements for inventorying capital assets.
2. Enable the LEA to report capital assets and accumulated depreciation in conformity with generally accepted accounting principles.
3. Enable administrators to account for and control all assets under their care.
4. Assist the site administrator in planning and providing proper equipment for schools by furnishing such data as useful life, location, and condition.
5. Aid LEAs in determining insurable values and in securing insurance appraisals.
6. Aid LEAs in substantiating loss in the event of fire, theft, or other catastrophe.
7. Encourage employees and others to better discharge their responsibilities in the care and use of the LEA's equipment.

Education Code Requirements

Education Code Section 35168 requires LEAs to maintain records that properly account for equipment whose market value exceeds \$500. To meet this requirement, the LEA must keep records containing the following information about the item:

1. Description
2. Name
3. Identification number
4. Cost
5. Date of acquisition
6. Location of use
7. Time and mode of disposal

Not all items of equipment for which the LEA maintains records pursuant to *Education Code* Section 35168 should necessarily be reported as capital assets on the LEA's government-wide statement of net assets. The threshold for capitalization is typically higher than the threshold for inventory. (The capitalization threshold is discussed in Procedure 770.)

Accounting for Acquisition of Capital Assets

Capital assets can be acquired permanently, through purchase or capital lease (lease with option to purchase), or temporarily, through rental or operating lease. These acquisitions are accounted for as follows:

- The purchase of a capital asset is charged as any other purchase for which title passes on receipt of payment. In governmental funds, capital assets are typically charged to a capital outlay expenditure account in the 6000 range of object codes.
- The lease with option to purchase (capital lease) of a capital asset for which title passes to the LEA is charged as described in Procedure 710.
- The rental or lease of a capital asset for which title does not pass to the LEA does not increase the assets of the LEA. Rentals are charged to Object 5600, Rentals, Leases, Repairs, and Noncapitalized Improvements. *Exception:* If equipment is rented for a specific capital outlay project (e.g., a tractor for a major landscaping project), the amount paid should be charged to that project as a capital expenditure. This is achieved by charging the rental to Function 8500, Facilities Acquisition and Construction,

but the rental may also be charged to a capital outlay object, such as Object 6170, Land Improvements.

Valuation of Property and Equipment

Generally accepted accounting principles require the use of “historical cost” to measure an entity's investment in property and equipment.

Historical cost simply means actual cost at the time of acquisition. It includes the invoice cost of the item plus any applicable sales tax, freight, or installation charges. Such cost represents the value to be derived over the useful life of the asset through depreciation.

When items are disposed of in any manner, their cost is removed from the capital asset account. Any accumulated depreciation is also removed from the depreciation allowance account.

Valuation of existing inventory of property and equipment can be made on the basis of:

1. Actual historical cost of each item (if records are available to support such costs)
2. Estimated historical cost (based on date of acquisition)

The following guidelines are to be used in determining the method of valuation for inventory purposes:

1. Actual historical cost

The actual cost should include the invoice cost paid by the LEA plus tax, freight charges, or costs of other forms of transportation for delivery to the LEA, whether added to the invoice or paid separately to a carrier. To these costs the LEA should add any labor and other costs of installation. Labor and other costs of installation by the vendor will usually be included in the original invoice price or may be billed separately by the vendor.

2. Estimated historical cost

- a. Appraised acquisition cost. When LEAs first establish a capital asset inventory, they may find it desirable to employ an outside agency to set up the inventory and/or update it. Appraisal companies have the ability to compute the estimated historical cost on the basis of the estimated date of acquisition of the particular

items. Costs developed in this manner would be acceptable in either establishing a new inventory or adding to the inventory items that may have been missed in the establishment of the initial inventory. Use of an appraisal service also has the additional advantage of developing current market values for insurance purposes, either on a replacement-cost basis or a depreciated-replacement-cost basis, although current market values or replacement costs are not used for accounting purposes. Once the inventory listing is established, it is necessary to update it for current-year purchases and disposals of capital assets.

- b. Reasonable estimate of acquisition cost. If the original acquisition cost cannot be traced through the LEA's records, a reasonable estimate of original acquisition cost may be used. Methods of determining such reasonable estimates of cost are many and varied. It is important for auditing purposes that the methods employed be carefully documented. While it is not necessary to use the same method for each item, the methods should be designed to produce a consistent result. Care should be exercised in the establishment of each item's cost. Among the methods that may be employed are the following:

- Compare the item with a similar one of more recent acquisition for which you have a price. Adjust that price through a formula that would eliminate the effect of inflation/deflation for the number of years the older item has been in your possession.
- Research bid files for bids on similar items and apply any necessary inflation adjustments.
- Seek assistance from vendors who manufacture or sell items similar to the items you are attempting to price.
- Check with other LEAs that may have purchased similar items.

Any other method that can be shown to reflect a reasonable estimate of the original acquisition cost of the item may also be used.

- c. In accepting donated items, the LEA's governing board should approve the valuations based on their fair market values as of the dates of acceptance.

Reporting Capital Assets of Governmental Activities

In governmental funds, expenditures for acquisitions of capital assets are accounted for in Objects 6000–6999, Capital Outlay. Consistent with the modified accrual basis of accounting used in governmental funds, the capital assets themselves and their related depreciation are not reported in the funds. Rather, capital assets of governmental activities are reported only in the government-wide financial statements. Capital assets and accumulated depreciation are reported on the Statement of Net Assets, and depreciation expense is reported on the Statement of Activities.

Reporting Capital Assets of Business-Type Activities

Unlike capital assets relating to governmental activities, capital assets of business-type activities accounted for in proprietary funds (enterprise funds and internal service funds) are recorded both in the respective funds and in the government-wide statements. These funds reflect their capital assets for the following reasons:

- Capital assets are used in the production of the funds' services or products.
- Depreciation of the capital assets is an essential element in determining the funds' total expenses, net income, and changes in fund equity.
- Capital assets may serve as security for the issuance of debt by enterprise or internal service funds.

In proprietary funds, capital assets are accounted for in Objects 9400–9499, Capital Assets. Depreciation is accounted for in Object 6900, Depreciation Expense.

Reporting Capital Assets of Fiduciary Activities

Capital assets of fiduciary trust funds are reported in the funds' financial statements but not in the government-wide statements because fiduciary funds are not included in those statements.

This manner of accounting for capital assets by trust funds results in the following benefits:

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- Enhances the likelihood of compliance with trust agreement terms
- Discourages mismanagement of trust assets
- Facilitates the computation of depreciation when the trust corpus must not be spent

In fiduciary funds, capital assets are reported using Objects 9400–9499, Capital Assets.

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 intended. Estimated useful lives are used to allocate depreciation expense to the appropriate periods.

In estimating an asset's useful life, LEAs should consider the asset's present condition, use, construction type, maintenance policy, and the length of time the asset is expected to meet service demands.

LEAs may depreciate assets either individually or in groups. If the LEA elects to depreciate assets in groups, the estimated life of the group may be based on the weighted average or the simple average of the useful lives of the individual items or on an assessment of the life of the group as a whole.

The following table of estimated useful lives is included for general information only. Estimation of useful lives should be a local decision based on local factors. LEAs are not required to utilize the estimated useful lives suggested in this table.

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Table of Estimated Useful Lives

The following table is used by permission. It is provided as general guidance regarding reasonable estimated useful lives. In estimating an asset's useful life, LEAs should consider the asset's present condition, use of the asset, construction type, maintenance policy, and other local variables.

ASSET CLASS	EXAMPLES	YEARS
Land		N/A
Site Improvements	Paving, flagpoles, retaining walls, sidewalks, fencing, outdoor lighting	20
School Buildings		50
Portable Classrooms		25
HVAC Systems	Heating, ventilation, and air conditioning systems	20
Roofing		20
Interior Construction		25
Carpet Replacement		7
Electrical / Plumbing		30
Sprinkler / Fire System	Fire-suppression systems	25
Outdoor Equipment	Playground, radio towers, fuel tanks, pumps	20
Machinery and Tools	Shop and maintenance equipment, tools	15
Kitchen Equipment	Appliances	15
Custodial Equipment	Floor scrubbers, vacuums, other	15
Science and Engineering	Lab equipment, scientific apparatus	10
Furniture and Accessories	Classroom and office furniture	20
Business Machines	Fax, duplicating, and printing equipment	10
Copiers		5
Communications Equipment	Mobile, portable radios, noncomputerized	10
Computer Hardware	PC's, printers, network hardware	5
Computer Software	Instructional, other short-term	5 to 10
Computer Software	Administrative or long-term	10 to 20
Audiovisual Equipment	Projectors, cameras (still and digital)	10
Athletic Equipment	Gymnastics, football, weight machines, wrestling mats	10
Musical Instruments	Pianos, string, brass, percussion	10
Library Books	Collections	5 to 7
Licensed Vehicles	Buses, other on-road vehicles	8
Contractors' Equipment	Major off-road vehicles, front-end loaders, large tractors, mobile air compressor	10
Grounds Equipment	Mowers, tractors, attachments	15

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