

The Fixed Assets Conundrum and GASB

By Lloyd Rain

It starts out with the undeniable fact that we've always kept track of our stuff. When early humanoids learned to scratch on cave walls, they made lists and often they pictured the stuff they owned. Early Egyptians not only kept inventories of items, they buried tabletized lists in the tombs which contained the stuff on the list — so anyone who strolled in, presumably gods, would have an instant inventory of everything in the tomb.

We do pretty much the same thing, keeping the lists, that is, but we've gotten more sophisticated at it. Now, our lists of stuff are on greenbar instead of stone, in bytes versus pictographs, and we not only know what each piece of stuff is, but we know when we got it, where it's been, where it is now, its condition, its serial numbers, when it was lost, stolen, destroyed or sold, for how much and who did it. Keeping track of all this stuff is a daunting task. And perhaps more daunting, is answering why we keep the lists at all, updating, adding and deleting almost daily. I'll try to explain.

There are several different kinds of stuff and we only keep track of one kind in Purchasing. Commonly, all the stuff that we own falls into four categories, ***financial instruments*** (money and stuff that represents money), ***real assets***, ***personal property*** and ***disposables***. ***Real assets*** are those things that are nailed into the ground and are difficult to carry away without the assistance of, perhaps, a bulldozer, a crane or an earthquake. These are items like buildings, landscaping, sidewalks, trees, underground piping, minerals in situ such as oil and copper deposits, and the like. Opposite real assets, are ***disposables***. These are items that are meant to disappear or that go away with time whether you want them to or not. They include such objects as bananas, milk, plastic cutlery, pens and pencils, paper, fertilizer, firewood, garbage bags, gasoline, handcream, donated blood, diapers, syringes, tongue depressors, ammunition, chemicals and other commodities with short shelf lives — you get the picture.

That great range of stuff in between ***real*** and ***disposable*** stuff that isn't quite part of the ground and doesn't go away in a year or two through deterioration, evaporation or usage, all that stuff is called ***personal property*** — and yes, you guessed it, the accounting term for that is ***Fixed Assets!*** That's the stuff we keep track of in Purchasing under the name of our "***FIXED ASSETS INVENTORY***" (Finance handles our financial instruments, Facilities keeps track of our real assets, and disposables are, well, disposable).



Up to roughly seventy years ago, keeping an inventory of all the stuff that was owned was just good business. Following the depression, some formal definitions crept into the accounting process so that the value of the **fixed assets** could be calculated into the overall value of a company or agency in order to provide a clear picture of the total resources — for loans, bonds, and other financial valuations. This was probably a good idea for the private sector because the value of its assets, i.e., the number of printing presses or die-casting machines or earthmovers or aircraft could amount to a whole lot of money and could be used as collateral for large business loans.

*What is the
current value
of a suit
of armor,
circa 1500?*

Unfortunately, when the concept was applied to the public sector, it became relatively meaningless for two reasons; first, our resources are not quite as important when we borrow money as they are for a private company (far more important for us is the potential for continued long term taxpayer funding), and second, since we carry all the items in our fixed asset inventory at original cost (without depreciation), the value of the inventory is generally meaningless. For example, we have some thirty-year old pieces of equipment in various departments which are entered into the inventory system at large dollar values and they are now totally worthless to anyone (care for a 1958 Hobart dishwasher or a 1962 Ford that's been rebuilt 74 times by students?).

In fact, we'll have to pay someone to truck this stuff away. Consider our Marquette Engine Analyzer which can't even recognize an electronic ignition system and is still listed at its 1972 cost \$18,000? Every automobile on the planet has been built with an electronic ignition since 1984. According to our books its value is \$18,000. But we actually sold it for \$500 to an antique car buff. And we were lucky to get that much.

You might ask, "Well why are we doing this?" For insurance? To prevent theft? Because we like to create mile long lists as pop art? The answers are, of course, "No, no, and no."

For insurance purposes, the lists are rarely applicable. If there is a small loss, or even a catastrophic loss (like a building falls into a sinkhole or a student inadvertently blows up a chemistry lab), insurance doesn't base its reimbursement on every pen and pencil we can attribute to the building. The reimbursement for contents is based on a percentage of the building cost and, if there were special items in the structure such as, perhaps, an electron microscope, a rare collection of butterflies or a prized Rodin sculpture, ownership and valuation would be substantiated by other means such as rider policies or purchase orders.

We are definitely not keeping these lists to prevent theft. No listing on a piece of paper or red metal tag under an item ever prevented an item from walking if it was going to walk. Can you imagine a thief saying, "Oh, I better not take that computer, it has a red tag on the back," or, "Homer, we can't steal those cars on the north side of the lot, they've been inventoried."

We are maintaining our Fixed Asset Inventory listings for two reasons. The foremost reason is that the maintenance of these lists is an audit requirement. Abandoning the reconciliation of new purchases and the concomitant additions, deletions and transfers results in an audit finding that basically says we have not done the right thing. This could have an effect upon our ability to qualify for a high bond rating (we qualified for one of the higher ratings five years ago when the voters granted us \$42,900,000 of their hard-earned money). Our Board of Education could get downright unhappy about such a finding. That is one very good reason for the lists and the annual correlation.

The other reason is somewhat softer, but perhaps no less important. It is this. As custodians of the taxpayer's funds, we don't ever want to be perceived as being frivolous. One of the many ways in which we show our professionalism and our duty to preserve and honor the funds which we receive, is to keep reasonable track of the stuff on which we've spent that money. So when we're asked, we can say, "Yes. Here is a list of the things that we've bought with your money, where they are, or what has become of them." I say that's a soft reason. By that I mean it's not statutory, only that it's the proper thing to do.

You'll notice that nowhere in the previous paragraphs will you find the words "current value." ***And that's the conundrum.*** Even though the list may be accurate in every respect, the total value of the list is meaningless because depreciation has never been applied. Thus, with all items on the list being carried at their original cost, and those items being anywhere between 100 minutes and 100 years old (possibly older) any attempt at a total value is not only meaningless, but frivolous.

Enter GASB (pronounced "gazbee").

GASB is the acronym for Government Accounting Standards Board, a private, non-profit association of accountants which sets the standards for all government accounting and which the feds use to transmit its accounting wishes into standards.

Finally, the feds (through GASB) have seen the error of their ways and have mandated that depreciation be applied to fixed asset listings beginning July 1, 2001 (dates vary on the basis of a sliding scale related to agency size). This was accomplished through a numbered directive issued last year and affectionately known as "GASB-34".

GASB-34 will have a monumental affect on how we keep track of our fixed assets and the associated inventories. The task of converting these lists to account for depreciation will be very difficult, not so much intellectually, but because it will be so labor intensive. Each line item currently on any listing will have to be reviewed, an anticipated life assigned to it and then the original value depreciated for the number of years since it was purchased. If it zero's out, then it comes off the list. If it's current value falls below the current "fixed assets threshold" (that value at or above which items are placed on the list) a decision must be made on whether or not to maintain the item on the list or to strike it. For those few items which are appreciating in value, their increased value may, depending upon further discussions, be reflected as appreciation (library books, map collections, original art, etcetera). Thus, over the next few months,

thousands of fixed asset administrators will be pouring over millions of line items redefining the very lifeblood of their listings.

By applying depreciation to each line item from the time it was purchased, two major changes will occur:

- 1) Many older items will be “depreciated out;” that is, reduced to either a value of zero or below the listing threshold and, as such, will drop off the listing; the net result of this will be shorter and more manageable lists.
- 2) Since each remaining item will now be depreciated to a value approximating its actual street value, the total value of the list will reasonably represent the fair market value of the list — an actual meaningful number for scrutiny by taxpayers and financial institutions alike!

Our current rules require that we will keep track of everything with an original cost of \$2,500 and an anticipated life of two years or more, and all computers regardless of cost.

Right now, we maintain about 1,200 items on our lists with a total value of \$11,820,000. The lists are fully computerized and their maintenance requires considerable data entry time and staff time for annual inventory-taking and interim physical checks. By the time we’re through implementing GASB-34, my guess is that our number of listings will have decreased by close to 75% and the list value will have decreased by half! Think of what that will mean to an institution like Oregon Health Sciences University in Portland (ninety miles north of us) which keeps track of about 80,000 items with a hypothetical value of roughly \$350,000,000!

After all higher ed institutions and all government agencies convert to fully depreciated fixed asset listings, all their lives will become just a little less complex as a result of the foreshortened listings. Additionally, annual audits, already cumbersome, will also sustain a touch of relief.

And finally, each set of listings will actually represent a true asset value.

Thanks, GASB.

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This article was originally published in Higher Markets’ Purchasing Pulse newsletter in January, 2001.

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