**PROBLEM:** Capital assets must be depreciated over their estimated useful life.

**BACKGROUND:** GASB 34, paragraph 21 states that “Capital assets should be depreciated over the estimated useful life…” Since the Tennessee Board of Regents’ System has never depreciated capital assets, it is necessary to develop a system that will classify our capital assets into clearly defined categories and determine the estimated useful life of each category.

**ISSUES:** As a basis for developing the categories and estimated useful lives, the TBR GASB 34/35 Subcommittee reviewed the capital asset categories and estimated useful lives in place at other higher education institutions across the nation. A set of proposed categories was selected and definitions were developed. Subcommittee members classified their current capital asset inventory using the proposed categories. The subcommittee then developed recommendations for the estimated useful life of each category based upon historical experience. (See attached schedule.) The defined categories and estimated useful lives were forwarded to each institution for review and comment. Additionally, the defined categories and estimated useful lives were discussed and agreed upon with the Tennessee Higher Education Commission and the University of Tennessee.

Infrastructure assets were given an extensive review. They do not include the assets’ costs that have been 1) included in the budgeted scope of a building or building addition project and 2) are not reasonably identifiable as a separate infrastructure component. Such costs will be capitalized to the building or to the highest cost component of the project.

The following is an analysis of this asset category with some examples listed:

10-15 Years
- Telecommunications and computing wiring
- All weather tracks
- Turf
- Athletic scoreboard
- Energy management systems
- Automatic car wash

20 Years
- Tennis courts
- Lighting systems
- Severe weather systems
- Radio or television towers
- Signage

30-50 Years
- Steam lines
- Chiller systems
- Boilers
- Sewer Systems
Based upon the above analysis, the committee is recommending 20 years for all infrastructure assets. Because some assets will last more or less than the recommended useful life, 20 years represents an average life expectancy.

Library holdings are being considered as a separate item and the detailed recommendations of the committee will be presented in a separate report. These assets will be recorded as a collection and depreciated using the straight-line method as one composite asset.

Effective February, 2005, the TBR has determined that software be capitalized and amortized in accordance with the provisions of Statement of Position 98-1, Accounting for the Costs of Software Developed or Obtained for Internal Use, issued by the AICPA. A position paper, Capitalization and Amortization of Software Purchases, was developed and approved by the TBR and will be used for guidance for the capitalization of software beginning with FY 04-05.

Historically, livestock has been recorded on TBR’s financial records at fair value at fiscal year-end. GASB 34, paragraph 18 requires that capital assets be reported at historical costs. A review has indicated that no school has livestock that would meet the current threshold of $5,000 historical cost to be recorded as an asset. Therefore all livestock will be expensed.

**RECOMMENDATION:** All Tennessee Board of Regents institutions will use the estimated useful lives adopted unless the institution can demonstrate that using the adopted estimated useful life will materially misstate their financial statements. Institutions will be responsible for establishing salvage values for assets in order to determine useful lives and depreciation schedules. The asset categories and estimated useful life schedule developed by the TBR GASB 34/35 Subcommittee is being submitted for your review for July 1, 2001, implementation.

Written by Linda Maxwell

Revised by Renee Stewart

Revised by David Collins (February 2005)