

**STATE OF IOWA
DEPARTMENT OF ADMINISTRATIVE SERVICES
GASB 34 IMPLEMENTATION, AMENDED BY GASB 72**

Works of Art, Historical Treasures and Similar Assets

Policy

Collections of works of art, historical treasures and similar assets are defined as one or more items that are held for public exhibition, education, or research in furtherance of public service. Typically, these items are protected and preserved, and proceeds from sales (if sales are permitted) are used to acquire additional collection items (refer to the Organizational Policy on use of Proceeds from Sales of Collection Items).

Buildings with administrative purposes will not be considered part of a collection of buildings and will be capitalized using the general policy on building capitalization.

Works of art and historical treasures will not be capitalized as they meet the criteria established in GASB Statement 34. However, collections already capitalized at June 30, 1999, will remain capitalized and all additions to those collections will be capitalized.

Capitalized collections or items may require depreciation. Collections defined as inexhaustible do not require depreciation, but exhaustible collections or items must be depreciated over their estimated useful lives.

For collections not capitalized, footnote disclosures will consist of a description of the collection(s) and the reason(s) these assets are not capitalized. For collections that are capitalized, the State will include those items in the disclosures relating to all capitalized assets.

It is the responsibility of each agency to identify collections of works of art, historical treasures and similar assets and report them in accordance with the established policies. The agencies should contact Department of Administrative Services – State Accounting Enterprise – GAAP Team if they need assistance with this issue.

Background

GASB Statement 34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments, as amended by GASB Statement 72, Fair Value Measurement and Application paragraphs 79 and 85, requires that governments should capitalize works of art, historical treasures and similar assets that are added to a collection already capitalized at June 30, 1999. Works of art, historical treasures and similar assets acquired

- prior to FY2016, should be reported at their historical cost or fair value at date of donation (estimated if necessary) whether they are held as individual items or in a collection, unless they meet the exception discussed below.
- in FY2016 and after, should be reported at their historical cost or acquisition value at the date of acquisition (for donated items). Acquisition value is defined as the price that would be paid to acquire an asset with equivalent service potential in an orderly market transaction at the acquisition date. (GASB 72, para 79)

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Governments are encouraged, but not required, to capitalize a collection (and all additions to that collection) whether donated or purchased that meets all of the following conditions. The collection is:

- 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
- c) Subject to an organizational policy that requires the proceeds from sales of collection items to be used to acquire other items for collections.

However, collections already capitalized at June 30, 1999, should remain capitalized and all additions to those collections should be capitalized, even if they meet the conditions for exemption from capitalization. (GASB 34, para 27)

For collections not capitalized, disclosures should provide a description of the collection and the reasons these assets are not capitalized. (GASB 34, para 118)

For collections that are capitalized, governments should provide detail in the notes to the financial statements. The information should be divided into major classes of capital assets as well as between governmental and business-type activities. Capital assets that are not being depreciated should be disclosed separately from those that are being depreciated. Information should include:

- a) Beginning and ending balances, with accumulated depreciation presented separately from historical cost.
- b) Capital acquisitions
- c) Sales or other dispositions
- d) Current depreciation expense, with disclosure of the amounts charged to each of the functions in the statement of activities. (GASB 34, para 116 - 117)

Recipient governments should recognize as revenue donations of works of art, historical treasures, and similar assets, in accordance with GASB Statement 33. When donated collection items are added to *noncapitalized* collections, governments should recognize program expense equal to the amount of revenues recognized. (GASB 34, para 28)

Capitalized collections or individual items that 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. Depreciation is not required for collections or individual items that are inexhaustible. (GASB 34, para 29)

GASB Statement No. 34 does not define what or how many items constitute a collection. This is left to professional judgement, but consistent application is necessary.

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Discussion

Issue #1 - How will the State define a collection of works of art, historical treasures and similar assets?

The State has a wide variety of items in various locations that could be defined as “works of art, historical treasures and similar assets”. These items can be found at various sites, such as the State Historical Building, the Capitol, the Universities, and State Office Buildings and Institutions. Given the diversity of the items and their varied locations, it would be necessary to have the individual agencies responsible for these assets identify and report them in accordance with the capitalization policy.

Issue #2 - How will the State apply the capitalization and depreciation requirements to those collections?

It could become very expensive to hire independent appraisers to value the numerous collections of works of art and historical treasures. It would probably be cost-efficient to meet the criteria for excluding these collections from capitalization. This requires all of the following to be met:

The collection is held for public exhibition, education, or research in furtherance of public service, rather than financial gain.

The collection is protected, kept unencumbered, cared for, and preserved.

It is subject to an organizational policy that requires the proceeds from sales of collection items to be used to acquire other items for collections. The policy may be either informal or formal, but there must be evidence of a policy. (See below)

State of Iowa Organizational Policy on the Sales of Collection Items

The provisions of GASB Statement 34, paragraph 27(c) will be applied on a collection by collection basis. The State’s formal policy on the use of proceeds from sales of collection items is based upon rules, regulations or provisions governing individual collection locations (e.g. State Historical Museum, State Universities, etc.) or collection types (e.g. works of art acquired through a State run program). GASB Statement 34 does not require that the organizational policy is a formal policy; however, there should be evidence to support the existence of the policy.

For example, the State Historical Society’s policy on sales of collection items is documented in the administrative rules, Chapter 13.6(5)a, which requires the revenue received from the disposition of any collection shall be retained in a separate account and used solely to maintain, conserve, preserve and strengthen the collections to the society. This would meet the requirements under GASB 34.

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However if these criteria are not met, the collection must be capitalized. Once capitalized, the assets must be evaluated for depreciation. If the collection or item is considered inexhaustible, it is not necessary to depreciate. Inexhaustible items are those with extraordinarily long useful lives as their cultural, aesthetic, or historical value causes them to be protected and preserved in a manner greater than that for similar assets without such value. If the collection or item is considered exhaustible, it must be depreciated over its useful life. Exhaustible items are those items where the useful life is diminished by display or applications.

Issue #3 - Has the State capitalized any of these collections as of June 30, 1999?

Per GASB Statement 34, collections capitalized as of June 30, 1999, must remain capitalized and all additions to those collections must be capitalized.