



**USFR MEMORANDUM NO. 193**

**TO:** School District Administrators; County School Superintendents

**FROM:** Magdalene D. Haggerty, Office of the Auditor General  
Scott W. Thompson, Arizona Department of Education

**DATE:** November 25, 2002

**SUBJECT:** Recording Capital Assets and Improvements Provided by the Arizona School Facilities Board

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The Arizona School Facilities Board is responsible for administering the State's requirements for correcting school facilities and equipment deficiencies under the provisions of Arizona Revised Statutes §§15-2002 and 15-2021. As a result, the School Facilities Board has contracted for construction services and materials and purchased equipment that are necessary to correct existing deficiencies in school district facilities. In addition, the Board makes payments directly to contractors and vendors for facilities improvements and equipment as projects are completed or services are rendered.

Since the School Facilities Board administers the projects, districts may not have the information necessary to accurately record the related capital improvements and equipment in their accounting records. Also, because of the number of projects and the manner in which information is maintained, the School Facilities Board is unable to provide copies of supporting documentation to individual districts. Consequently, the School Facilities Board prepared reports that districts can use to supplement their information, and made these reports available on the School Facilities Board Web site at [www.sfb.state.az.us](http://www.sfb.state.az.us). These reports have been compiled from payment information recorded in the School Facilities Board's project accounting system.

The Office of the Auditor General reviewed the School Facilities Board's project accounting system for the year ended June 30, 2002. Based on that review, a Special Review Letter, dated November 25, 2002, was issued. As noted in that letter, the Auditor General determined that payments recorded on the Board's project accounting system were properly supported by an approved School Facilities Board claim and related vendor's invoice, and were classified correctly as to school district and project.

However, the letter also noted that the School Facilities Board's project accounting system did not provide enough information to determine that payments to vendors for work completed as of June 30, 2002, were recorded in the proper period; the allocation of project payments by class of capital asset; or whether projects were completed at year end.

Since the School Facilities Board's project accounting system was not adequate to furnish districts with complete information, district business officials should consult with the district's project managers, architects, engineers, facilities personnel, and vendors to gather additional

information about the district's deficiency correction projects. When this information is combined with the School Facilities Board's information, districts should be able to accurately record their capital improvements and equipment in district accounting records. Ultimately, through consultation with the above named parties, districts need to determine:

- Which projects have been completed as of June 30, 2002,
- How much, if any, of a project's costs for the year ended June 30, 2002, are not included in the School Facilities Board's reports (for completed projects or construction-in-progress),
- The allocation of project costs between land improvements, buildings, building improvements, and equipment for completed projects, and
- Which assets meet the capitalization thresholds specified by the *Uniform System of Financial Records*.

Districts may rely on the amounts recorded on the School Facilities Board project accounting system from July 1, 2001, through June 30, 2002, without obtaining the physical supporting documents from the School Facilities Board. However, any additional information that the district gathers through consultation to support the costs of capital assets and improvements recorded, or to be recorded, in the district's accounting records, must be retained by the district. For example, if a project was completed by fiscal year-end and included building improvements and equipment, the district should retain documentation supporting that it was completed and how vendor payments or project cost totals were allocated by the district to those two asset categories.

**Suggested Accounting Entries**

The following accounting entries illustrate entries a district should make to properly report capital assets for which the School Facilities Board paid contractors directly. The district and its auditor would determine how and where the capital assets and related equity (Investments in Fixed Assets / Capital Contributions) should be recorded in the district's accounting system in order to have the information necessary to properly present these amounts in the audited financial statements.

<b>General Fixed Assets Account Group (Pre-GASB Statement No. 34 Implementation)</b>		
Buildings and Improvements	XXXX	
Equipment	XXX	
Investment in General Fixed Assets		XXXX

<b>Government-wide Financial Statements (GASB Statement No. 34 Implementation)</b>		
Buildings and Improvements*	XXXX	
Equipment*	XXX	
Capital Contribution (General Revenues)		XXXX

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\* Function codes should be determined by the purpose for which the equipment is being used to assist in recording depreciation on the entity-wide financial statements.

School District Administrators; County School Superintendents

November 25, 2002

Page 3

Since the assets provided by the School Facilities Board did not require a use of current financial resources, no entries are required for individual government funds.

If you have any questions or need assistance, please call the Office of the Auditor General, Accounting Services Division at (602) 553-0333, or the Arizona Department of Education, School Finance Operations Unit at (602) 542-5695.

MDH/SWT/gr