

7 Tips for Updating Your District's Fixed Assets System

1. Run ESCAPE reports to see what you have in ESCAPE.
2. Difference between inventory and capitalization of assets.¹
 - a. Inventory is an itemized list for tracking and controlling property.
 - b. Capitalization is an accounting treatment whereby an item is recorded as an asset on the balance sheet. Capitalization threshold is usually \$5,000 per item and is what the auditor includes under capital assets and depreciation in the annual audit.
3. Take time to review your current setup, procedures, and what you tag.
 - a. Get input from your auditors – “tag things that walk” [expensive cameras, Chromebooks, iPads, video cameras]
4. If your district can afford it, consider contracting for new inventory.
5. If you are a small district or have designed a system in Excel, plan to work on this over several months. Divide up the work.
6. Mistakes to Avoid and what to remember:
 - a. Changing too much at once – Do make changes in Training and then see how the changes impact Fixed Asset History.
 - b. Disposing of fixed assets and not updating the fixed asset history
 - c. Do remember to record serial numbers.
 - d. Do remember to record changes in location.
7. Getting Help and Advice for Free
 - a. SCOE IT
 - b. Staff
 - c. Vendors

Sonoma County Office of Education – Business Services 9/30/16

¹ Excerpts from Humboldt County K12 Workshop at www.humboldt.k12.ca.us/business-docs/workshop_fixed_assets.

CAPITALIZATION & DEPRECIATION

Inventory vs. Capitalization

Property inventory requirements and capitalization thresholds are different subjects that are commonly confused because of their overlapping terminology.

An inventory is an itemized list for tracking and controlling property.

Capitalization is an accounting treatment whereby an item is recorded as an asset on the balance sheet rather than as an expense of the current period.

Capital assets are those assets that meet the estimated useful life and monetary cost criteria and warrant capitalization in the financial statements. All items owned by an organization can rightfully be considered assets, but as a practical matter, organizations do not capitalize all of them.

While all capitalized items should be inventoried, not all inventoried items should necessarily be capitalized. Organizations normally maintain inventories, for accountability and internal control purposes, of many items of property they do not capitalize on their financial statements. For example, LEAs might inventory VCRs and computers for internal control purposes, but not capitalize them due to their low cost.

Establishing a Capitalization Threshold

A *capitalization threshold* is the monetary part of the criteria by which an organization determines whether an asset should be reported on the balance sheet. The criteria also includes the item's estimated useful life. Capitalization thresholds may differ from one organization to another depending on materiality. Typically, the larger the organization, the higher its capitalization threshold.

CDE's Recommendation

The CDE recommends, for most LEAs, a capitalization threshold that includes a unit acquisition cost criterion of at least \$5,000. For larger LEAs, the appropriate capitalization threshold may be higher. LEAs should carefully examine their capitalization thresholds and determine a materiality level that is appropriate for their individual organization. LEAs may also wish to discuss this matter with their auditors.

In no case should a government establish a capitalization threshold of less than \$1,000 for any individual item.

Depreciation of Capital Assets Under GASB 34

Depreciation represents the recognition of the cost of an asset over time, by calculating its estimated loss in value during each accounting period. The new financial reporting model requires LEAs to calculate and report annual and accumulated depreciation on their capital assets by function.

Depreciation

A *depreciation schedule*, which tracks historical cost and accumulated depreciation, is required for fixed assets. Fixed assets subject to depreciation for most districts will be site improvements, buildings and building improvements, and equipment with a historical cost of \$5,000 or more.

Current Depreciation = original cost ÷ useful life

Accumulated Depreciation = (original cost ÷ useful life) * age

Net Book Value (NBV) = Original Cost less Accumulated Depreciation

Work In Progress (WIP) – a capital project that has not yet been completed, and is not depreciable until completion

To begin the process of developing a depreciation schedule, gather the following information for each asset:

1. Purchase Date: (month & year are sufficient)
2. Asset Description Category:
 - Land/Sites* (never depreciates)
 - Site Improvements*
 - Buildings*
 - Equipment*
 - Work In Progress* (not depreciated until completed)
3. Historical Cost:

The cost of an asset is based on total purchase price, not market value. Total purchase price means the actual cost at the time of acquisition, including any additional sales tax, freight, installation or inspection charges.

After obtaining this information, you need to identify:

1. Depreciation Method:

CDE recommends the straight-line method as this is the simplest and most straightforward depreciation method.
2. Useful Life:

The number of years the asset is expected to be in service. The California State Accounting Manual (CSAM) includes a Table of Estimated Useful Lives which is attached for a general guideline only. The estimated useful life established for each asset is an individual LEA decision and judgment can be used.

3. Depreciation Convention:

The convention determines how the depreciation will be calculated for the first year of ownership. We recommend the half-year convention. Assets purchased before January are depreciated for the full year, assets purchased after December are depreciated for one-half the year.

Once you have identified the purchase date, cost, depreciation method and useful life you are ready to calculate the accumulated depreciation through June 30.

Depreciation Example:

School Bus

Purchase Date: January 2004

Original Cost = \$100,000

Useful Life = 8 years

Accumulated depreciation at 6/30/11 = \$93,750

2011-2012 Current Depreciation = \$6,250

NOTE: If the accumulated depreciation will exceed the asset's original cost at year end, then Current Depreciation = original cost less accumulated depreciation. See example below:

Fiscal Year	Current Depreciation Amount	Accumulated Depreciation	Net Book Value (NBV)
2003-2004	6,250	6,250	93,750
2004-2005	12,500	18,750	81,250
2005-2006	12,500	31,250	68,750
2006-2007	12,500	43,750	56,250
2007-2008	12,500	56,250	43,750
2008-2009	12,500	68,750	31,250
2009-2010	12,500	81,250	18,750
2010-2011	12,500	93,750	6,250
2011-2012	6250	100,000	0

Depreciation by Function

GASB 34 dictates that annual depreciation needs to be allocated to functions based on the asset's use. For instance, the most common method for allocating building depreciation is by square footage. In this method, functions are assigned to rooms based on their use.

- By calculating the square footage of each room, a percentage for each function can be calculated, and these percentages are then applied to the annual depreciation to get depreciation by function.