The ABCs of Fixed Assets

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supportCon

Introductions

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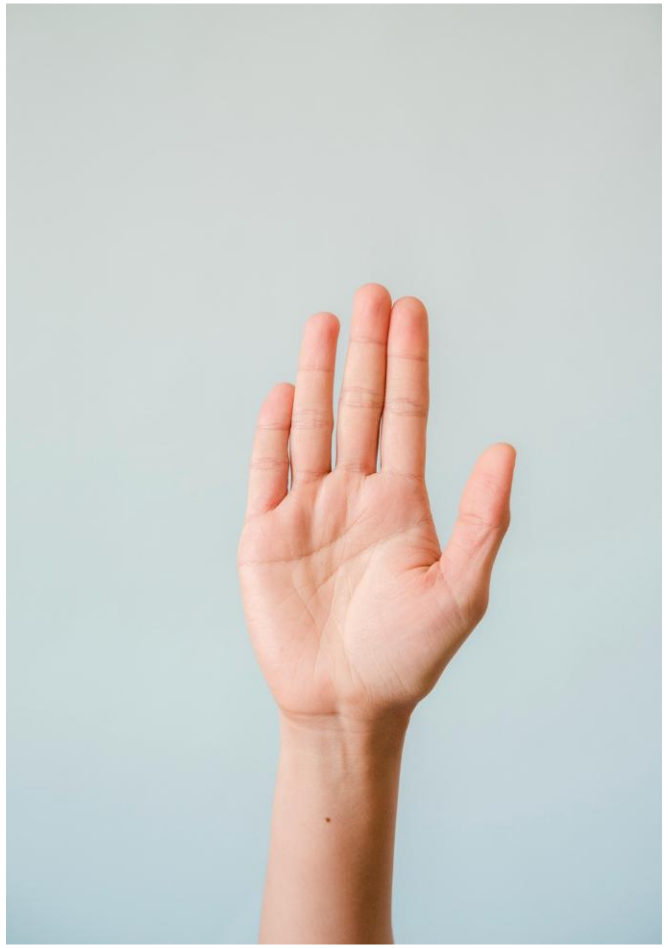
 - *Assurance Manager, Baker Tilly*

Quick Poll:



Raise your hand if you are charge of coding purchases to Objects 400, 500 or 700?

Raise your hand if you have never heard of Object 700?

Raise your hand if you know your District's capital asset threshold?

Capital Assets - Definition

- Assets are property held by the District for a period greater than one year and meets a specific dollar threshold.
- Assets are recorded at cost and depreciated (expensed) over their life.
- Expenditures that are normal maintenance and repairs, that do not add value or materially extend the life of the asset are not capitalized.

Capital Assets – Finding the Capitalization Threshold

- Board Policy
  - PRESS 4:80 Capitalization Threshold: To be considered a capital asset for financial reporting purposes, a capital item must be at or above a capitalization threshold of $5,000 and have an estimated useful life greater than one year.
- ISBE policy for threshold
  - $500 minimum value for purposes of calculating per capita cost
- Audit report
  - You give the auditors the threshold, but if you cannot find it elsewhere, the financial statements will have it in the notes.

Capital Assets – What Is The Cost?

- The cost of a capital asset is the total amount paid to put the asset into service.
  - Tearing down a building
  - Installation costs
  - Delivery fees
  - Software integral to its function
  - Architect fees,
  - Asbestos removal

Capital Assets – Equipment Example

- District 123 purchases 158 new Flat Panel Monitors to install in all buildings. The capitalization threshold is $3,000. The old monitors are fully depreciated and will be removed from the listing. Flat panel monitors are expected to last for 5 years. Invoices for the project are as follows:
  - De-installation of old monitors $59,601.47
  - Lift-gate surcharges $2,250
  - Flat Panel Monitors $307,942
  - Balance Boxes $125,926
  - Software Interface $11,060
  - Cables & hardware $23,115.40

How much should be capitalized per flat panel?

Capital Assets – Equipment Example

- District 123 purchases 158 new Flat Panel Monitors to install in all buildings. Invoices for the project are as follows:

- De-installation of old monitors $59,601.47 **Yes**
- Lift-gate surcharges $2,250 **Yes**
- Flat Panel Monitors $307,942 **Yes**
- Balance Boxes $125,926 **Yes**
- Software Interface $11,060 **Yes**
- Cables & hardware $23,115.40 **Yes**

All items pertain to installing the new flat panel monitors and therefore they are ALL included in the capitalized cost.

Total cost to be capitalized: $529,894.87
Divided by 158 flat panel monitors.
$3,353.77 per monitor
Capitalization threshold = $3,000 per item
Decision: Capitalize at $3,353.77 per monitor over a period of 5 years.

Capital Assets – Construction Example

- District 123 is beginning a large construction project to upgrade the HVAC system in one of its buildings. The building is 75 years old with a life of 80 years. Architects began drafting the specifications and seeking out bids in February. Work is expected to take place over the summer as the building will need to be closed to complete the asbestos abatement.

- **Is this a capital project?**
- **Is there an asset to be removed from the list?**

- Yes, this project will increase the life of the building and will be more than $3,000.
- Yes, but the amount is immaterial since the building is almost fully depreciated.

- If it was not, an estimate would need to be made on how much of the building's original cost to allocate.

Capital Assets – Construction Example

- What components should be included in the cost?
  - Architect fees, beginning with the first charge (even if they are in Object 300)
  - Asbestos Abatement
  - Construction Pay Applications
  - Any other incidental costs such as new ceiling tiles, light bulbs, outlets, etc.
- When should it be capitalized?
  - At June 30, any work completed pertaining to any of the included costs should be capitalized as "Construction in Progress" and NOT depreciated.
  - Once the final pay application has been approved by the architects, signaling the project has cleared all punch list items, the "date" can be completed and the asset can begin being depreciated.

Capital Assets – Construction Example

- After 5 years, the same building has two doors that are inefficient. The building is now fully depreciated. One door is a standard size and can be purchased and replaced for $3,000. The other door is a utility door with a customized width and will cost $10,000 to replace.

- Is this a capitalizable project?
  - No. Neither door will materially extend the life of the asset and should be considered part of the normal maintenance and repairs on the building.

ISBE Coding – Administrative Code

23 Illinois Administrative Code 100

Title 23: Education and Cultural Resources

Subtitle A: Education

Chapter I: State Board of Education

Subchapter c: Finance

Part 100 Requirements for Accounting, Budgeting, Financial Reporting and Auditing

ISBE Coding – Object 500

- Capital Outlay – Expenditures for fixed assets or additions to fixed assets – land buildings, improvements, remodeling, equipment

1.) 520 Land

2.) 530 Buildings and Improvements
- New construction or acquisition
- Major, permanent structural alterations
- Additional plumbing, electric, fire protection
- Renovation example from earlier would go in here

3.) 540 Site Improvements & Infrastructure
- Landscaping, sidewalks, roadways
- Retaining walls
- Initial athletic surfaces, parking lots
  - Resurfacing is repairs/maintenance
- Playgrounds

ISBE Coding – Object 700

- Used for capital assets over $500, but under the District's Board approved capital asset threshold
- Covers a large range of items such as instruments and technology

What does this mean ???

ISBE Coding – Object 700 Example

District 123 is refreshing their supply of clarinets. Each clarinet is $1,140 with free shipping and is expected to last 7-10 years. The District will be purchasing 10 clarinets total.

- Meets all requirements for a capital asset, but does not meet the $3,000 capitalization threshold established in the board policy.

- BUT - we also learned that ISBE uses the threshold of $500 for their per capita calculation.

What should we do????

- We should use Object 700 – Noncapitalized Equipment!
  - ISBE created this object specifically for these circumstances.

ISBE Coding – Object 700 Example

If we know the asset will last longer than one year and is not a maintenance or repair, District 123's bookkeeper could use the following guidelines:

Less than $500

- Object 400 Supplies & Materials

$500 to $3,000

- Object 700 Noncapitalized Equipment

Over $3,000

- Object 500 Capital Outlay

Tracking Capital Assets and Depreciation

- Two purposes for tracking – Financial Reporting (audit) and Safeguarding Assets (insurance)

- Multiple ways to track
  - Financial reporting software fixed asset module
  - Excel
  - Appraisal Company

- **Spoiler Alert!** Pros and Cons with all methods

Tracking Capital Assets and Depreciation

Financial Software

Pros

- Defined parameters to identify the asset from A/P input
- Within one system = fewer errors

Cons

- Might have more asset line items than necessary
  - Two payments for one asset
- Might have to manually add architect fees coded to Object 300
- Might miss leases or intangible assets

Tracking Capital Assets and Depreciation

Excel

Pros

- Can completely control what gets added and when
  - Ex. Construction in Progress
- Can only add assets that are for the financial reporting process

Cons

- Cumbersome
- Separate entry could create errors
- Easy to over-depreciate
- Might miss items that should be insured

Tracking Capital Assets and Depreciation

Appraisal Company

Pros

- If you're having one done anyway, most provide a free depreciation report excluding items that are under your capitalization threshold
- You control what they receive via additions and deletions excel

Cons

- Construction in progress is not included on this report
  - CIP is covered under a different insurance policy and does not go on the appraisal report until it's complete
- Intangible assets are not included
  - No insurance necessary for intangible assets

Questions and Answers

Thank you for your time!

Presenters:

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