

ACCOUNTING FOR CAPITAL ASSETS

The WVDE Office of School Finance published the “Procedures Manual – Capital Asset Management System for Local Educational Agencies in the State of West Virginia” in September of 2004. The procedures outlined in that manual are still applicable. A copy of the manual can be downloaded from the WVDE Office of School Finance webpage under Manuals > Capital Assets Manual.

Important requirements of the manual include (but are not limited to) the following:

- The LEA’s capital asset management system must be maintained on WVEIS.
- **Control Level** – A capital asset whose original cost is \$5,000 or more on an individual item basis, or a capital asset received by donation whose fair market value at the time of receipt equals or exceeds \$5,000 on an individual basis, must be included in WVEIS as a capital asset. LEAs may select a control level below \$5,000 after evaluating the needs of the county, federal program administrators, and local school personnel. LEAs may not select a control level greater than \$5,000. When an LEA considers using a control level of less than \$5,000, the following factors should be considered:
 - The lower the control level, the large number of assets to be recorded
 - The larger the number of assets, the greater the amount of time required to properly track and control these assets.
 - It is better to control the big dollar items than to waste time and effort attempting to track minor equipment.
- **Capitalization Level for Assets Other than Buildings** – A capital asset whose original cost is \$5,000 or more on an individual item basis, or a capital asset received by donation whose fair market value at the time of receipt equals or exceeds \$5,000 on an individual basis, must be capitalized for financial reporting purposes. This means that items purchased and capitalized in the current year will not be reported as current expenses in the district-wide Statement of Activities but instead as depreciation expense to reflect the cost of the asset over its useful life. The capitalization threshold may never exceed \$5,000.

LEAs must analyze the purchase of multiple like items with individual unit costs of less than the \$5,000 but which add up to be more than \$5,000 when considered in total.

For example, the purchase of a few library books would not be capitalized, but the purchase of enough library books to furnish a library of a new school would likely exceed the \$5,000 threshold and be considered one asset for capitalization purposes.

- **Capitalization Level for Buildings** - A building whose original cost is \$100,000 or more on an individual basis, or a building constructed on school property by school support organizations or received through donation, whose fair market value at the time of receipt equals or exceeds this value on an individual basis must be capitalized for financial reporting purposes. An individual local education agency, however, may select a threshold between \$50,000 to \$100,000.
- **Financial Reporting** - All financial statements and reports, including those submitted to the West Virginia Department of Education, must utilize the capitalization level of \$5,000 for all capital assets excluding buildings and the threshold of \$100,000 for building, or a lower threshold if selected by the local education agency. This applies even if the county has selected a control level of less than \$5,000 for capital assets other than buildings.
- **Sensitive Items** - Those items of equipment whose cost is generally less than the LEA's control level but which are identified within the capital asset system for purposes of controlling and tracking. Sensitive items could include equipment such as computers, printers, television sets, data projectors, digital and video cameras, and mobile telephones.

The State Department of Education does not require that any items costing less than the capitalization level discussed in the preceding paragraphs be identified as a sensitive item and be included in the capital asset management system. LEAs, however, have the discretion of determining whether to identify any items as sensitive items and include them in the capital asset management system.

- **Depreciation** – Depreciation expense must be calculated for all capital assets meeting the capitalization threshold, except for land, certain land improvements, and construction in progress. Depreciation expense is to be reported by function in the district-wide Statement of Activities, prepared in accordance with the accounting principles described in GASB Statement 34. The total cost of the capital assets purchased during the current fiscal year will be shown as a current expenditure in the fund basis statements, but only the depreciation cost will be reported as a current expense by function in the district-wide Statement of Activities.

- **Responsibilities** – The county superintendent or RESA/MCVC director has the overall responsibility for the proper operation and maintenance of the capital asset management system. Responsibility for the efficient daily operation of the system to order, receive and record capital assets and sensitive items into the property record is delegated to the chief school business official (CSBO) of each district. Federal program directors, all other directors or managers and all school principals are responsible for the control and security of the assets assigned to the location or administrative unit for which they are responsible.
- **Valuation of Purchased Assets** – Purchased assets shall be recorded in the capital asset management system at actual cost, including all ancillary costs, based on vendor invoice or other supporting documentation.

Costs that should be included in the total value of a capital asset include the purchase price of the capital asset, net of purchase and trade discounts, and:

- Freight and handling charges, including shipping insurance
- Cost of construction
- Allocation of fringe benefits and overhead expenses
- Insurance premiums during construction
- Installation and inspection costs
- Appraisal and negotiation fees
- Title, legal, commission, closing and survey fees incurred in connection with the acquisition of land
- External architectural, engineering, and design costs
- Land preparation and demolition costs of existing buildings or other structures with the intent of using the cleared land
- Other charges incurred to place the asset in use

Costs that should be excluded from the cost of a capital asset:

- Demolition, removal and disposition of existing equipment in preparation for a new project, EXCEPT for the cost to remove or demolish a building or other structure existing at the time of acquisition of land
- Relocation and rearrangement of existing equipment
- Start-up time, including the cost of correcting flaws
- Licensing and registration fees for vehicles and operational equipment

- Extraordinary costs incidental to the construction of capital assets, such as those due to strike, flood, fire, or other causes
 - For asset exchanges, monies paid or received as part of the exchange
 - Costs to maintain and repair assets
 - Costs of abandoned construction
 - Administrative and executive salaries, even though a portion of the salary may be related to the acquisition of the capital asset
 - Interest related to the construction period
- **Valuation of Donated Assets** – Capital assets acquired by gift, donation, or payment of a nominal amount must be recorded at estimated cost equal to the fair market value at the time of acquisition.
- **Capital Asset Categories** – The manual lists the following categories of assets and provides examples of each on pages 7-10:
 - Land
 - Land Improvements
 - Buildings
 - Building Improvements
 - Equipment
 - Vehicles
- **Annual Physical Inventory** - To assure the accuracy of the capital asset management system, a physical inventory should be performed annually of all land, buildings, equipment and vehicles recorded in the asset management system. The inventory may be performed by LEA personnel or by an outside company. More details on the annual inventory process may be found in the manual on page 19.
- **Equipment Purchased with Federal Funds** - The procedures outlined in the manual apply to any items purchased using federal funds. The same capitalization threshold of \$5,000 is used and there is no requirement by WVDE that items less than that amount be tracked as a sensitive item.