



To: Dr. Mike Riggle
Board of Education

From: Dr. R.J. Gravel

Date: Monday, June 26, 2017

Re: Asset Capitalization Threshold

Recommendation

It is recommended that the Board of Education revise the District's capitalization threshold for accounting purposes to include on those assets with:

- An individual cost of more than \$5,000, and
- An estimated useful life of at least 5 years,
- Unless otherwise required by State or Federal guidelines.

Background

23 Illinois Administrative Code 100.60 establishes a depreciation schedule, for use in recording the value of capital assets on the District's annual financial statements. In conjunction with this schedule, each school district is required to adopt a capitalization threshold for use by budget managers and the Business Services department for determining which assets are considered capital assets, and which assets are considered non-capitalized equipment.

Historically the District has defined and managed capital assets in the following manner:

Capital assets, which include land, construction in progress, land improvements, buildings, vehicles, and equipment, are reported in the government-wide financial statements. Capital assets are defined by the District as assets with an initial individual or group cost of more than \$2,500 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated cost if purchased or constructed. Donated capital assets are recorded at acquisition value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Depreciation of capital assets is provided over the estimated useful lives using the straight-line method, in accordance with the depreciation schedule established within 23 Illinois Administrative Code 100.60.

After reviewing our capital asset definition with our external auditors (Miller Cooper & Co., Ltd.), as well as several grant management liaisons with the Illinois State Board of Education, it has been recommend that the District update its capitalization threshold as follows:

Capital assets are defined by the District as assets with:

- An individual cost of more than \$5,000, and
- An estimated useful life of at least 5 years,
- Unless otherwise required by State or Federal guidelines.

It should be noted that the capitalization threshold is primarily for the purposes of recording purchases, managing assets, and preparing financial statements. Large purchases will continue to be presented to the Board by budget managers as they have in previous years.

We identify capital assets by reviewing our financial transactions charged to capital purchase accounts. For example, a purchase charged to an account with a 5200 object code represents a building improvement expense that will need to be added to our capital asset inventory, and assigned a depreciation timeline of 40 years. An updated chart of accounts and applicable depreciation schedule is presented below for reference purposes.

Depreciation Schedule	Current Accounts		New Accounts (Effective July 1, 2017)	
	Object	Description	Object	Description
40-Years	5200	Building Improvements	5240	Buildings Improvements (40-Yr)
40-Years	5210	Architect Services	5241	Architect/Analytical Svcs-(40-Yr)
40-Years	5212	Construction Management		
20-Years			5220	Building Improvements (20-Yr)
20-Years			5221	Architect/Analytical Svcs (20-Yr)
15-Years			5215	Building Improvements (15-Yr)
15-Years			5216	Architect/Analytical Svcs (15-Yr)
20-Years	5300	Site Improvements	5320	Site Improvements (20-Yr)
20-Years			5321	Architect/Analytical Svcs (20-Yr)
15-Years			5315	Site Improvements (15-Yr)
15-Years			5316	Architect/Analytical Svcs (15-Yr)
10-Years			5310	Site Improvements (10-Yr)
10-Years			5311	Architect/Analytical Svcs (10-Yr)
10-Years	5400	Equipment	5410	Capitalized Equipment (10-Yr)
20-Years			5420	Capitalized Equipment (20-Yr)
15-Years			5415	Capitalized Equipment (15-Yr)
5-Years			5405	Capitalized Equipment (5-Yr)
3-Years			5403	Capitalized Equipment (3-Yr)
5-Years			5505	Vehicles (5-Yr)
3-Years			5503	Vehicle Modifications (3-Yr)

Upon approval of the updated asset capitalization threshold, we will review our existing capital asset inventory to ensure we are in compliance with the defined depreciation schedule, and asset value parameters.