KDE Capital Asset Guide

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Introduction

The Kentucky Department of Education (KDE) originally prepared this Capital Asset Guide to help districts implement the reporting requirements of Governmental Accounting Standards Board (GASB) Statement No. 34 *Basic Financial Statements and Management's Discussion* in 2003. KDE routinely updates this document to assist local school districts recording and reporting of capital assets to meet evolving accounting, reporting and other rules and regulations. Included in this guide are asset category definitions, KDE recommended capitalization thresholds, and depreciation methodologies with examples of expenditures for certain assets. Additionally, guidelines for improvements vs. maintenance, leasehold equipment and improvements, the sale of capital assets and the MUNIS journal entry impact of Fixed Asset transactions are included.

GASB 87 was effective for your financials on June 30, 2022. The change affects how leases are treated. The copies of the leases and discussion with your auditor will determine how a lease is treated. (See Appendix E)

These guidelines were provided as a base document for districts in developing and adopting a capitalization policy as determined by consultation with auditors. Districts may face circumstances and materiality levels that create exceptions to KDE's suggested thresholds. Exceptions in the district's capitalization policy guidelines should be noted in the school district adopted capitalization policy for reporting purposes. The capitalization policy **must** be approved by the local board of education and can be adjusted for district purposes.

While KDE makes every effort to provide complete and comprehensive guidance, districts should be aware that it is their responsibility to comply with all applicable accounting/reporting rules and regulations. Districts are encouraged to discuss with their auditors as this guidance can't factor in every possible scenario that may be encountered.

Capital Asset Definitions and Guidelines

For implementation purposes of GASB 34 in 2003:

Fixed Assets are all real or personal, stand-alone property that have an estimated life of greater than one year and an original cost equal to or greater than $1,000. Technology is an exception to this rule: all workstations were to be recorded as a fixed asset during the implementation.

After initial GASB 34 asset valuation:

Fixed Assets are all real or personal, stand-alone property that have an estimated life of greater than one year and an original cost equal to or greater than $5,000. ***Workstations/Laptops are no longer required to be capitalized, unless they meet the threshold, but should be tracked for control purposes.***

KDE recommends each District work with their Auditor to establish its own capitalization threshold policy based on materiality, for the following asset purchases, with an estimated life of greater than 1 year:

- Land Improvements (suggested $10,000 to $50,000).
- Building and Building Improvements (suggested $10,000 to $50,000).
- Software (suggested $5,000).
- Leasehold Improvements (suggested $10,000 to $50,000).
- Infrastructure (5% of total assets).
- Vehicles (suggested $5,000).
- Equipment (suggested $5,000).

Assets purchased, constructed, or donated that meet or exceed the threshold must be uniformly classified, utilizing the KDE class code structure. Included in the KDE class code structure (below) are codes that should be used to separately and specifically categorize components of assets to assist in tracking and reporting inventory. It is recommended that renovations and improvements be treated as separate assets and added to MUNIS with the corresponding sub- class code. For example, a sidewalk added to the existing property would be a new asset categorized as a land improvement (subclass code of 120). Carpet replacements, over the district's capitalization threshold, could be a created as a new asset with sub-class code 240.

KDE Fixed Asset Codes

CLASS	CLASS CODE DESCRIPTION	SUB-CLASS	SUB-CLASS DESCRIPTION	ESTIMATED LIFE
10	LAND	110	LAND	999
10	LAND	120	LAND IMPROVEMENTS	20
10	LAND	130	INFRASTRUCTURE	20
20	BUILDINGS	210	BUILDINGS	50
20	BUILDINGS	220	PORTABLE BUILDINGS	25
20	BUILDINGS	230	BLDG. IMPROVEMENTS	25
20	BUILDINGS	240	CARPET/TILE REPLACEMENT	7
30	TECHNOLOGY EQUIPMENT	310	KETS TECHNOLOGY	5
30	TECHNOLOGY EQUIPMENT	320	NON-KETS TECH	5
30	TECHNOLOGY EQUIPMENT	330	COPIERS	5
40	VEHICLES	410	SCHOOL BUSES	10
40	VEHICLES	420	OTHER VEHICLES	5
41	LEASED VEHICLES	421	LEASED VEHICLES	5
41	LEASED VEHICLES	422	LEASED SCHOOL BUSES	10
50	GENERAL	510	ROLLING STOCK	15
50	GENERAL	520	FOOD SERVICE	12
50	GENERAL	530	FURNITURE & FIXTURES	20
50	GENERAL	540	AUDIO-VISUAL EQUIPMENT	15
50	GENERAL	550	OTHER	10
51	LEASED EQUIPMENT	551	LEASED EQUIPMENT	10
60	CONSTRUCTION WORK IN	610	CONSTRUCTION WORK IN	999

CLASS	CLASS CODE DESCRIPTION	SUB-CLASS	SUB-CLASS DESCRIPTION	ESTIMATED LIFE
	PROGRESS		PROGRESS	

Items purchased and capitalized in the current year will not be reported as current expenses on the GASB District -Wide Statement of Activities, but will be reported as depreciation expense, by function. To ensure that depreciation (cost of the asset) is properly reported by function, assignment of the KDE Fixed Asset Department (function) needs to properly reflect the direct expense or function of the asset.

Consequently, districts must establish policies and procedures to identify the KDE Fixed Asset Department code (Appendix A). The Fixed Asset Department code should reflect the direct expense or functionality of the assets at the time of purchased and whenever changes are made to the asset's assignment.

Verification of Asset Balances to the General Ledger

KDE recommends the verification of the fixed asset detail records to the General Ledger balances to ensure the integrity of data and accuracy of the assets reported in the GASB 34 Capital Asset Disclosure. The district should verify and reconcile the asset data between the MUNIS Fixed Asset and General Ledger modules on a periodic basis to facilitate and expedite the year-end process of GASB 34 reporting. Validation of the two MUNIS modules should include the comparison of the asset balances and current year activity by fixed asset class/sub-class and department codes to the General Ledger org/object codes as identified in **Appendix C.** Instructions on balancing assets at fiscal year-end can be found in the **KDE Enterprise ERP (MUNIS) User Guides**.

Capital Asset Acquisition Cost

Capital assets should be recorded and reported at their historical costs. The historical cost of the asset should include all of the following:

- Invoice price (plus the value of any trade-in).
- Installation cost (excluding in-house labor).
- Modifications, attachments, accessories or apparatus necessary to make the asset usable.
- Ancillary charges necessary to place the asset in its intended location, such as freight, transportation charges, site preparation costs and professional fees.
- Capitalized interest of assets constructed or otherwise produced for an enterprise's own use (including assets constructed or produced for the enterprise by others for which deposits or progress payments have been made).

NOTE: If ancillary or incidental costs are not readily available, KDE recommends capitalizing the costs only from the purchase order/invoice.

Improvements vs. Maintenance

Materiality, along with, the increase of the future service potential of the asset, as opposed to merely maintaining the existing level of service of the asset are factors that should be considered in determining the capitalization policy of improvements of district's assets.

Subsequent additions or improvements to existing assets should be included as part of the historical cost of the asset. Additions or improvements, unlike repairs, either increase a capital asset's capacity or function (effectiveness or efficiency) or extend a capital asset's expected useful life. Adding additional rooms to an office building would be capitalized and reinstallation or rearrangement of an office space to facilitate future service potential of the office would be capitalized.

Cost of repairs should **not** be included as part of the historical cost. Such expenditures only preserve the current capacity or functionality of the asset. Ordinary repairs are expenditures for maintaining current operating conditions and should be treated as an expense.

Major repairs could be considered as possible improvement and should be capitalized if such overhaul costs are benefiting several years (extending the useful life). A materiality level for major repairs should be considered and in establishing a district capitalization policy as determined with an auditor.

Depreciation Methodology

The straight-line depreciation method (historical cost less residual value, divided by useful life) must be used for all exhaustible assets. Inexhaustible assets, such as land, are not depreciable. Monthly, straight-line depreciation over the useful life of the asset must be used: starting with the first month of purchase. Depreciation functionality is provided within the MUNIS Fixed Asset Module and should be processed at the end of year, for all months. Regardless of the selected number of depreciation periods that a district chooses to process at a time, the MUNIS Fixed Asset Parameter field "Default Depreciation" should remain at option 2 for Monthly.

Capital Asset Categories

Land

Land is any improved or unimproved tract owned by the district including the cost of betterments, site preparation and site improvements (other than buildings) that ready land for its intended use.

Depreciation Methodology

Land is inexhaustible and does not depreciate over time.

Capitalization Threshold

All acquisition of land will be capitalized.

Examples of Expenditures to be Capitalized

- Purchase price or fair market value at the time of the gift.
- Commissions.
- Professional fees (title searches, architect, legal, engineering, appraisal, surveying, environmental assessments, etc.).
- Land excavation, fill, grading, and drainage.
- Demolition of existing buildings and improvements (less salvage value).
- Removal, relocation, or reconstruction of property of others (railroad, telephone and power lines).
- Interest on mortgages accrued at the date of purchase.
- Accrued and unpaid taxes at the date of purchase.
- Other costs incurred in acquiring the land.
- Water wells (includes initial cost for drilling, the pump and its casing).
- Right-of-way.

Land Improvement

Land Improvement is any non-building improvement built, installed or established to make land ready, enhance the quality of, or facilitate the use of the land for its intended purpose. Land improvements can be categorized as inexhaustible and exhaustible.

Inexhaustible

Expenditures for improvements that do not require maintenance or replacement, expenditures to bring land into condition to commence assembly of structures, expenditures for improvements not identified with structures, and expenditures for land improvements that do not deteriorate with use or passage of time are additions to the cost of land and are generally inexhaustible and therefore not depreciable.

Exhaustible

Other improvements that are part of a site, such as parking lots, landscaping, and fencing, are usually exhaustible and are therefore, depreciable.

Depreciation Methodology

The straight-line depreciation method (historical cost less residual value, divided by useful life) must be used for exhaustible type land improvements.

Capitalization Threshold

Recommended capitalization threshold for land improvements is $10,000 to $50,000. Each district should establish its own capitalization threshold policy based on materiality.

Examples of Expenditures to be Capitalized

- Fencing and gates.

- Landscaping.
- Parking lots/driveways/parking barriers.
- Outside sprinkler systems.
- Recreation areas and athletic fields (including bleachers).
- Golf courses.
- Paths and trails.
- Septic systems.
- Stadiums.
- Swimming pools, tennis courts, basketball courts.
- Fountains.
- Plazas and pavilions.
- Retaining walls.
- Play Ground Equipment.

Infrastructure

School districts will rarely have infrastructure assets. Infrastructure assets are long-lived capital assets that normally can be preserved for a significantly greater number of years than most capital assets. Infrastructure assets are stationary, often linear and continuous in nature. They are components of a network or subsystem of similar type assets. For examples, rural roads could be a sub-system of a government's network of roads. Buildings, drives and parking lots that are incidental to a school's property or provide access to the property, are **not** infrastructure assets.

Depreciation Methodology

The straight-line depreciation method must be used for infrastructure.

Capitalization Threshold

Recommended capitalization threshold is 5% of total capital assets.

Examples of Expenditures to be Capitalized

- Highway and rest areas.
- Roads, streets, curbs gutters, sidewalks, fire hydrants.
- Bridges, railroads, trestles.
- Canals, waterways, wharf, docks, sea walls, bulkheads, boardwalks.
- Dam, drainage facility.
- Radio or television transmitting tower.
- Electric, water and gas (main lines and distribution lines, tunnels).
- Light system (traffic, outdoor, street, etc.).
- Airport runway/strip/taxiway/apron.

Buildings

A building is a structure that is permanently attached to the land, has a roof, is partially or completely enclosed by walls, and is not intended to be transportable or moveable.

Portable Buildings

Portable buildings purchased and intended not to be transportable, or moveable should be placed within a specific category (sub-class code) for inventory tracking and reporting purposes.

Depreciation Methodology

The straight-line depreciation method must be used for buildings and their components.

Capitalization Threshold

Recommended capitalization threshold for building is $10,000 to $50,000. Each district should establish its own capitalization threshold policy based on materiality.

Examples of Expenditures to be Capitalized

- Purchased Buildings
    - Original purchase price.
    - Expenses for remodeling, reconditioning, or altering a purchased building to make it ready for use for the purpose for which it was acquired.
    - Environmental compliance (i.e., asbestos abatement).
    - Professional fees (legal, architect, inspections, title searches, etc.)
    - Payment of unpaid or accrued taxes on the building to date of purchase.
    - Cancellation or buyout of existing leases.
    - Other costs required to place or render the asset into operation.

- Constructed Buildings
    - Completed project costs.
    - Interest accrued during construction.
    - Cost of excavation or grading or filling of land for a specific building
    - Expenses incurred for the preparation of plans, specifications, blueprints, etc.
    - Cost of building permits.
    - Professional fees (architect, engineer, management fees for design and supervision, legal).
    - Costs of temporary buildings used during construction.
    - Unanticipated costs such as rock blasting, piling, or relocation of the channel of an underground stream.
    - Permanently attached fixtures or machinery that cannot be removed without impairing the use of the land.
    - Additions to buildings (expansions, extensions, or enlargements).

Building Improvement

Building Improvements are capital events to owned or leased property that materially extend the useful life, or increase the value of a building, or both. A building improvement should be capitalized as a betterment and recorded as an addition of value to the existing building if:

- The expenditure of the improvement is at the capitalization threshold.
- The expenditure increased the life or value of the building by 25% of the original life period or cost.
- Requires a BG-1 and the incurrence of bonded debt.

See Leased Equipment and Improvements section (below) for details related to the requirements of capitalized leases.

Carpet/Tile Replacement

Building and/or Leasehold Improvement type event of an original installation or upgrade of floor covering should be placed within a separate category (sub-class code) for inventory tracking and reporting purposes.

Depreciation Methodology

The straight-line depreciation method must be used for building improvements and their components.

Capitalization Threshold

Recommended capitalization threshold for building improvements is $10,000 to $50,000. Each district should establish its own capitalization threshold policy based on materiality.

Examples of Expenditures to be Capitalized

- Conversion of attics, basements, etc., to usable office, clinic, research or classroom space.
- Structures <u>attached</u> to the building such as covered patios, sunrooms, garages, carports, enclosed stairwells, etc.
- Installation or upgrade of heating and cooling systems, including ceiling fans and attic vents.
- Original installation/upgrade of wall or ceiling covering such as carpeting, tiles, paneling, or parquet.
- Structural changes such as reinforcement of floors or walls, installation or replacement of beams, rafters, joists, steel grids, or other interior framing.
- Installation or upgrade of window or doorframe, upgrading of windows or doors, built-in closet and cabinets.
- Interior renovation associated with casings, baseboards, light fixtures, ceiling trim, etc.
- Installation or upgrade of plumbing and electrical wiring.
- Installation or upgrade of phone or closed circuit television systems, networks, fiber optic cable, wiring required in the installation of equipment (that will remain in the building).
- Other costs associated with the above improvements included in a BG-1.

Examples of Building Maintenance Expense

The following are examples of expenditures that may **not be capitalized** as improvements to buildings based on the materiality level established by the district. Items would be recorded as maintenance expense.

- Adding, removing and/or moving of walls relating to renovation projects that are not considered major rehabilitation projects and do not increase the value of the building (NO BG-1).

Examples of Building Maintenance Expense, continued

- Improvement projects of minimal or no added life expectancy and/or value to the building.
- Plumbing or electrical repairs.
- Cleaning, pest extermination, or other periodic maintenance.
- Interior decoration, such as draperies, blinds, curtain rods, wallpapers.
- Exterior decoration, such as awnings, uncovered porches, decorative fences, etc.
- Maintenance-type interior renovation, such as repainting, touch-up plastering, replacement of tile or panel sections; sink and fixture refinishing, etc.
- Maintenance-type exterior renovation such as repainting, repair of deteriorated siding, roof, or masonry sections.

Technology

Technology includes all technology equipment and tools used for education and administration. Technology equipment includes software, hardware, integrated network systems and multi- media devices. For KDE, components of Technology should be placed within a specific category (sub-class code) for inventory tracking and reporting purposes as defined below.

KETS Technology Equipment

All capitalized technology equipment and tools that fall under the KETS Master Plan.

NON-KETS Technology Equipment

All capitalized technology equipment and tools that do not fall under the KETS Master Plan.

Copiers

All copiers purchased or leased with the intention of capitalizing at the end of the terms of the lease contract. See Leased Equipment and Improvements (below) for details related to the requirements of capitalized leases.

For Depreciation Methodology

The straight-line depreciation method must be used for technology.

Capitalization Threshold

The recommended capitalization threshold for technology equipment is $5,000. ***Workstations/Laptops are no longer required to be capitalized, unless they meet the threshold, but should be tracked for control purposes.*** A workstation is the CPU. Should a district decide to capitalize workstations, the cost of the monitor, mouse, keypad and freight and installation can be included but is not required.

Computer Software

Recommended capitalization of computer software/license fees is $5,000, if the total dollar amount of the fee divided by the number of units served (terminals) meets the criteria to capitalize the purchase. A district capitalization policy for software should be determined with an auditor and classified as KETS or NOT-KETS as determined applicable.

Vehicles

Vehicles are all road worthy and licensed types of transportation used for transportation. For KDE, components of vehicles should be placed within a specific category (sub-class code) for inventory tracking and reporting purposes as defined below.

School Buses

Buses purchased for the transportation of students.

Other Vehicles

Any road worthy car, truck, and van purchased for administrative and educational purposes.

Depreciation Methodology

The straight-line depreciation method must be used for vehicles.

Capitalization Threshold

Recommended capitalization threshold for vehicles is $5,000. Each district should establish its own capitalization threshold policy based on materiality.

Leased Buses or Vehicles are amortized and not depreciated.

General Equipment

All stand alone, fixed or movable personal property for education or administrative use that does not fall under any other asset classifications should be classified as General Equipment. For KDE, general equipment should be placed in a specific category (sub-class code) for inventory tracking and reporting purposes.

Rolling Stock

All non-licensed equipment with wheels, such as lawnmowers, tractors, etc. used for maintenance and administrative purposes should be classified as rolling stock. Improvements or addition to existing property that constitute a capital outlay or increase the value or life should be capitalized as betterment.

Note: Costs of extended warranties and/or maintenance agreements, which can be separately identified from the cost of the equipment, should not be capitalized.

Furniture & Fixtures

Stand-alone items for education or administrative use (school or office) should be classified as furniture and fixtures.

Audio-Visual Equipment

Equipment such as TVs, VCRs, and digital cameras for education or administrative use should be classified as audio-visual equipment.

Other Equipment

All assets that do not fall under any other specifically defined categories of assets should be classified as other equipment.

Depreciation Methodology

The straight-line depreciation method must be used for general equipment.

Capitalization Threshold

The capitalization threshold for most equipment is $5,000. Bulk purchases of equipment could also be capitalized. The recommended capitalization threshold for bulk purchases is $20,000 to $50,000. Each district should establish its own capitalization threshold policy based on materiality.

Examples of Expenditures to be Capitalized

- Original contract or invoice price.
- Freight charges.
- Import duties.
- Handling and storage charges.
- In-transit insurance charges.
- Sales, use, and other taxes, if imposed on the acquisition.
- Installation charges.
- Charges for testing and preparation for use.
- Costs of reconditioning used items when purchased.
- Parts and labor associated with the construction of equipment.

Leased General Equipment are amortized and not depreciated.

NOTE: KDE recommends that ancillary or incidental costs that are difficult to determine should not be capitalized. KDE recommends capitalizing the costs only from the purchase order/invoice, if agreed upon by the auditor.

Construction in Progress

Construction in Progress reflects the economic construction activity status of buildings and other structures, infrastructure (highways, energy distribution systems, pipelines, etc.), additions, alterations, reconstruction, installation, maintenance, and repairs that are substantially incomplete.

Depreciation Methodology

Depreciation is not applicable while assets are accounted for as Construction in Progress. See appropriate capital asset category when asset is capitalized and manually update each asset record flag within MUNIS to *N* for Depreciation on the Additional tab (2nd screen).

Capitalization Threshold

Construction in Progress assets should be capitalized to their appropriate capital asset categories upon the earlier occurrence of execution of substantial completion contract documents, occupancy, or when the asset is placed into service.

If you have Food service assets that are purchased during a construction project while under CWIP, after completion of the project those assets need to be transferred so that the new asset is reported correctly using the following steps.

Construction in Progress Transfer of Asset to Food Services

To accomplish the transfer, the asset should be moved from the Construction Work in Progress balance sheet object code 6261 in Fund 8 to Fund 81 and we will use balance sheet object 6251 Machinery & Equipment as an example. Once the transfer occurs in fund 8 and balance sheet object 6261 the balance amount should show a reduction from the prior year when compared to the current year balance amount for that fund and object. Then the new asset in fund 81 using as an example balance sheet object 6251 Machinery & Equipment would show that same amount as an increase from the prior year balance amount to the current year balance amount.

If upon transfer, if there is any depreciation that is calculated for the period it has been put into the Asset Module use the following balance sheet object code 6252 Accumulated Depreciation – Machinery & Equipment to record the balance amount.

When KDE compares the prior year assets to the current year's asset amounts reported there should be a clear increase in the balance sheet object code 62xx in fund 81 that will be tied back to the audit in the notes section called Capital Assets for Business-Type Assets for the added asset.

Other Capital Asset Issues

Leased Equipment and Improvements

Most leased equipment or improvements to leased property should be capitalized. Assets that revert to the district at the end of the lease should be capitalized. Assets that revert to the **vendor** at the end of the lease should **NOT** be capitalized. If a district gains ownership of the item at the conclusion of a lease, then for GASB 87 purposes it is not considered a lease. It was the purchase of an item that is financed via a lease. Items qualifying as a lease under GASB 87 would not be depreciated (rational would be the district does not or will not ever own the item). Those not qualifying as a lease would be depreciated because it is considered to be a purchased item financed via a lease.

Lease agreement terms that meet the capitalization criteria

- The lease transfers ownership of the property to the lessee (district) by the end of the lease term.
- The lease contains a bargain purchase option.
- The lease term is equal to 75 percent or more of the estimated life of the leased property.
- The present value of the minimum lease payments at the inception of the lease, excluding executor costs, equals at least 90 percent of the fair value of the leased property.

Leases that do not meet any of the above requirements should be recorded as an operating lease and reported in the notes of the financial statements.

Capital Asset Donations

Donations are voluntary non-exchange transactions entered into willingly by two or more parties. A voluntary contribution of resources between funds is not a donation. For example, the transfer of the lunchroom and the related equipment to the School Food Service from the Construction Fund is not a donation.

Donations that meet the specific asset classification threshold should be capitalized and coded accordingly in MUNIS for reporting purposes. The value of donated items should be capitalized at the fair market value of the asset at the time the asset is received as a donation.

The district should identify donated assets created in MUNIS with a special Custodian Code and Acquisition Method. Currently, MUNIS provides the capability to produce activity reports by the Custodian Code. Reporting needs for asset activity related to donations will be needed for reporting and auditing purposes at fiscal year-end.

Disposal or Sale of a Capital Asset

The disposal or sale of an asset by a local school district requires the related accounting entries to occur within MUNIS to properly reflect a possible gain or loss in the GASB 34 District-Wide Financial Statements.

Regardless of whether an asset is disposed of by a retirement or an actual sale, the asset and the related depreciation balances are to be removed from the MUNIS Fixed Asset module by processing a "Retirement" type transaction. MUNIS will process accumulated depreciation up to the retirement transaction date and will then process a transaction to remove the amounts related to the asset from the fixed asset fund. The total original cost of the asset account will be credited and the total depreciation to date in the accumulated depreciation will be debited. *Any remaining (non-depreciated) current book value of the asset needs to be applied to object code 53X1 for Governmental Assets or object code 1930 for Proprietary Assets.*

Note: MUNIS automatically applies the difference to Type-3 Profit/Loss Account. However, if older assets were not capitalized with a Type-3 Profit/Loss account, manually update the org and object code 80/8710 to 880/53X1 or 8X/8711 to 8X0/1930 for the Gain/Loss on Sale of Assets.

Proceeds from the sale of assets are to be recorded as Gain/Loss on Sale or Exchange of Assets in the appropriate recipient fund through a Cash Receipts manual Journal Entry or Cash Receipts transaction in the Revenue and Billing Module. The total amount of the proceeds from the sale of assets will be reported in the GASB Governmental Funds Report.

The District–Wide Financial Statements, which do report capital assets, will report the retirement or removal of the related asset sold and the remaining (un-depreciated) current book value of the asset as a gain or loss. The GASB District–Wide Financial Statements will then net the Gain/Loss of the cash reported in the GASB Governmental Funds report against the Gain/ Loss of Sale of Assets in the Fixed Asset Governmental or Proprietary funds for the remaining current book value for a total "net gain/loss".

Computation of Gain and Loss from Sale of Assets

The overall computation of a gain or loss as reported in the District-Wide Financial Statements, results from netting cash or proceeds (if received) against the asset's net value (if remaining) as follows in the example:

Asset Transaction Amount	Amount
Asset Historic Cost	$10,000
Less Accumulated depreciation	($7,000)
asset Net Book Value	$3,000 (loss)
subtract cash or proceeds received	$2,000 (gain)
net loss from sale of asset	$1,000 (loss)

MUNIS Required Transactions for Disposal/Sale of Assets

Due to GASB 34 reporting requirements and differentiating factors associated with a gain/loss computation, the above example is used to specifically identify the transactions required in MUNIS to successfully meet the processing of a disposal of the sale of a Governmental Fixed Asset (Fund 8) and classified as General Other (class code 50):

Sale of an asset (cash received, and the asset is NOT fully depreciated):

1. MUNIS "Retirement" transaction within the Fixed Asset module *automatically* completes a transaction:

Account Description	Account	Amount
Accumulated Depreciation	80 6252	**DR 7,000**
***Gain/Loss on Sale of Assets**	**880 5341***	**DR 3,000**
Assets	**80 6251**	**CR 10,000**

*** MUNIS automatically applies the difference to Type-3 Profit/Loss Account. However, if older assets were not capitalized with a Type-3 Profit/Loss account, manually update the org and object code 80-8710 to the appropriate account 880-53X1 for the Gain/Loss on Sale of Assets.**

2. A cash receipts transaction or *manual* Journal Entry is required to record the proceeds, if applicable, as follows:

Account Description	Account	Amount
Cash	10 6101	DR 2,000
Gain/Loss on Sale of Assets	110 5341	CR 2,000

* A Gain/Loss is recorded in both funds and the Total Gain/Loss is netted together when reported on the District-Wide Financial Statements as a Total Net Loss: $3,000 less $2,000 for a total of $1,000.

Asset is disposed of or retired, and NO cash received (asset is NOT fully depreciated):

1. MUNIS "Retirement" transaction within the Fixed Asset module *automatically* completes the following transaction:

Account Description	Account	Amount
Accumulated Depreciation	80 6252	DR 7,000
***Gain/Loss on Sale of Assets**	880 5341*	DR 3,000

Account Description	Account	Amount
Asset	80 6251	CR 10,000

*** MUNIS automatically applies the difference to Type-3 Profit/Loss Account. However, if older assets were not capitalized with a Type-3 Profit/Loss account, manually update the org and object code 80-8710 to the appropriate account 880-53X1 for the Gain/Loss on Sale of Assets.**

- A Loss is reported in the Fixed Asset Governmental Fund and the Total Net Loss is reported in the District-Wide Financial Statements as $3,000.

Asset is disposed of, and cash is received (asset is fully depreciated):

1. MUNIS “Retirement” transaction within the Fixed Asset module *automatically* completes the following transaction:

Account Description	Account	Amount
Accumulated Depreciation	80 6252	**DR 10,000**
Asset	**80 6251**	**CR 10,000**

2. A cash receipts transaction or *manual* Journal Entry is required to record the proceeds as follows:

Account Description	Account	Amount
Cash	10 6101	DR 2,000
Gain/Loss on Sale of Assets	110 5341	CR 2,000

- A Gain is reported in the General fund for the cash received and the Total Net Gain is reported on the District-Wide Financial Statements for $2,000.

Asset is disposed of or retired, and No cash received (asset is fully depreciated):

1. MUNIS “Retirement” transaction within the Fixed Asset module *automatically* completes the following transaction:

Account Description	Account	Amount
Accumulated Depreciation	80 6252	DR 10,000
Asset	80 6251	CR 10, 000

- Neither a gain nor a loss is reported because cash is not exchanged and the asset is fully depreciated.

APPENDIX A: KDE STANDARD FIXED ASSET DEPARTMENT (FUNCTION) CODES

The following guidelines are the minimum requirements for KDE *Standard* Fixed Asset Department codes to be utilized in the MUNIS Fixed Asset Module. (These codes are not to be confused with the department codes in other MUNIS modules.) The Fixed Asset Department codes correlate to the function of the assets and correspond to the major functional category to be reported on the GASB Financial Reports. Districts can track at a more detail level, if desired, but must be responsible for the necessary adjustments within MUNIS related to the department codes used outside of KDE's *Standard* Fixed Asset Department codes.

Function	Function Title
1100	Instructional
2100	Instructional Student Support Services
2200	Instructional Staff Support Services
2300	District Administrative Support Services
2400	School Administrative Support Services
2500	Business Support Services
2600	Plant Operations and Maintenance
2700	Student Transportation
3100	Food Services Operations
3200	Day Care Operations ***
3300	Community Services Operations
3400	Adult Education Operations ***

Note for Implementation Only: Each district should provide to the valuation team, a map identifying corresponding room number and department code for those buildings that have multiple functions, such as the central office. (The majority of assets in schools will fall under 1100 Instructional.) Complete department code information will require less modification of the data upon importing into MUNIS.

*** For GASB 34 statement reporting purposes, Day Care Operations and Adult Education Operations assets should only be classified under 3200 and 3400, if their operations are to be reported as Proprietary, otherwise such assets should be classified as 3300 Community Services under Governmental Funds and identified as Day Care or Adult Education with the custodian code.

APPENDIX B: KDE Fixed Assets & GASB 34-General Ledger Implication

The following grid details the MUNIS journal activity for Fixed Assets:

MUNIS Transaction	Originating Fund - Government Assets	Government Asset (Fund 8)	Originating Fund- Proprietary Fund	Proprietary (Business) [1] Asset (Fund 81, 82, 84, & 8X)
Asset Purchase (POE & API JE'S)	**DR**: Expense **CR**: AP - Cash	None	**DR**: Expense **CR**: AP - Cash	None
Asset Activation (FAA JE)	None	**DR**: 80 62x1 (Asset) **CR**: 80 8710 (Investment)	None	**DR**: 81 62x1 (Asset) **CR**: 81 8711 (Investment)
Depreciation (FAD JE)	None	**DR**: 888xxxx 0740 (Depreciation Expense) **CR**: 80 62x2 (Accumulated Depreciation)	None	**DR**: 0008101 0710 (Depreciation Exp.) **CR**: 81 62x2 (Accumulated Depreciation)
Cash Received (GCR or C/R JE) for disposed item (If applicable)	**DR**: XX 6101 (Cash) **CR**: XXX 53X1[2] (Gain)	None	**DR**: XX 6101 (Cash) **CR**: XXX 1930 (Gain)	None
Asset Retirement (FAR JE)	See GCR or C/R	**DR**: 80 62x2 (Accumulated Depreciation) **CR**: 80 62x1 (Asset) **DR**: 880 53x1	See GCR or C/R	**DR**: 81 62x2 (Accumulated Depreciation) **CR**: 81 62x1 (Asset) **DR**: 810 53x1

MUNIS Transaction	Originating Fund - Government Assets	Government Asset (Fund 8)	Originating Fund- Proprietary Fund	Proprietary (Business)[1] Asset (Fund 81, 82, 84, & 8X)
		(Loss if not fully depreciated)		(Loss if not fully depreciated)

[1] Use the proper org codes for proprietary assets, such as Day Care (82 and 0008201) and Adult Ed Funds (84 and 0008401). Above Food Service assets are used (81 and 0008101).

[2] The reporting of major asset sales should be recorded as Special Items (object 5630) as determined by consultation with auditors.

APPENDIX C: KDE Fixed Assets & GASB 34-General Ledger Verification Codes

The following grid details the corresponding Fixed Assets and General Ledger codes to be used for validation/verification purposes for monthly and year-end.

CLASS/ SUB-CLASS	ACCT TYPE	BALANCE TYPE	ORG[3]	OBJ	Description
10/110	BS	Asset	80/8X	6201	Land
10/110	BS	Asset	80/8X	6202	Accumulated Depreciation - Land[4]
10/120	BS	Asset	80/8X	6211	Land Improvements
10/120	BS	Asset	80/8X	6212	Accumulated Depreciation - Land Improvements
20	BS	Asset	80/8X	6221	Buildings and Building Improvements
20	BS	Asset	80/8X	6222	Accumulated Depreciation - Buildings
30	BS	Asset	80/8X	6231	Technology Equipment (KETS)
30	BS	Asset	80/8X	6232	Accumulated Depreciation - Technology
40	BS	Asset	80/8X	6241	Vehicles
40	BS	Asset	80/8X	6242	Accumulated Depreciation - Vehicles
50	BS	Asset	80/8X	6251	Machinery and Equipment
50	BS	Asset	80/8X	6252	Accumulated Depreciation - Machinery & Equipment
60	BS	Asset	80/8X	6261	Construction Work In Progress (OPTIONAL)
60	BS	Asset	80/8X	6262	Accumulated Depreciation - CWIP4
10/130	BS	Asset	80/8X	6271	Infrastructure
10/130	BS	Asset	80/8X	6272	Accumulated Depreciation - Infrastructure
	BS	Fund Balance	80/8X	8710	Investment in Governmental Assets
	BS	Fund Balance	80/8X	8711	Net Investment in Capital Assets
	Expense		888XXXX/ 0008X01	0740	Depreciation Expense
	Revenue		880	53X1	Sale Proceeds/Loss
	Revenue		8X0	1930	Gain/Loss on Sale of Assets

[3] X corresponds to the Proprietary Fund of 81, 82 or 84 and XXXX corresponds to the Fixed Asset Department Code/Function

[4] Accumulated Depreciation should not be used on these accounts unless under special circumstances as directed by the district's auditor.

APPENDIX D: Purchased Assets and How to Handle Them in Proprietary Funds

The guidance for recording capital asset purchases are referenced in this guide, however an additional step is needed for properly reporting expenditures in the proprietary funds. When capitalizing a newly purchased asset, the acquisition cost should appear only on the Unaudited or Audited Annual Financial Report (AFR) Balance Sheet (BS) in fund 81 Business Type Assets, Food Services Fund as an "Asset" and not on the AFR in fund 5x as an expense.

Guidance from the website below provides the reason why the expenditure should be removed from fund 5x. "*Capitalization Thresholds* Capitalization threshold refers to the dollar value threshold at which purchases of assets will be capitalized in the financial records of the governmental entity (i.e., within the proprietary funds, fiduciary funds, and government-wide financial statements) rather than recorded as an expense at the time of purchase (except in the governmental funds, where they remain as an expenditure)." Resource: Financial Accounting for Local and State School Systems: 2014 edition chapter 5

When the expense of acquiring a capital, asset is not removed in Munis, it will create a misstatement in the district's accounting records. This misstatement is caused because the acquisition costs of the capital asset are both expensed in fund 5X and capitalized in fund 81. This misstatement can be identified by utilizing the Audit Validation tool available in the SEEK program to compare the audited AFR and audited Balance Sheet to the financial statements within the audit report. Assets purchased using expenditure object codes within 073x Equipment may be treated differently in the audited AFR and audited Balance Sheet depending if the acquisition costs do not exceed capitalization thresholds and depending on each district's capitalization policies. The guidance below is also provided in Appendix E in the following document Fiscal Year End Processing –BGL-2 located on the KDE Munis website.

For each proprietary fund use the applicable amount for the total cost of fixed assets purchased in the fiscal year that is being reported by the district. The typical expenditure object codes in 07xx Property are as follows:

- 0731 Machinery
- 0732 Vehicles
- 0733 Furniture and Fixtures
- 0734 Technology Related Hardware
- 0735 Technology Software
- 0739 Other Equipment

(This is an "optional" item that districts have used. Your district may want to quickly identify the fixed asset in the proprietary fund in objects 073x above, KDE suggests that you add FA as an alpha character combination at the end of the applicable expenditure object code. This would provide a ready identifier for this process.)

Recurring Journal Entry and Generate - Munis-Journal Entry Detail.

If your end of the year for fund 51 is set for 8739 then districts would only have to do the following entries:

Line	ORG	Object	Project	Description	Comment	Percent	Journal Ref **	Perm/Temp	Debit/ Credit	Amount
1	###5101	07xx or 07xxFA		Fixed Assets offset 4 Accrual	EOY Fix Asset ADJ for Proprietary	.000		Permanent	Credit	$$$$
2	5X	8739		Restricted Net Assets	EOY Fix Asset ADJ for Proprietary	.000		Permanent	Debit	$$$$

If your end of the year for fund 51 is set for 8770 then you would have to do the following entries

Line	ORG	Object	Project	Description	Comment	Percent	Journal Ref**	Perm/Temp	Debit/ Credit	Amount
1	###5101	07xx or 07xxFA		Fixed Assets offset 4 Accrual	EOY Fix Asset ADJ for Proprietary	.000		Permanent	Credit	$$$$
2	5X	8770		Restricted Net Assets	EOY Fix Asset ADJ for Proprietary	.000		Permanent	Debit	$$$$
3	5X	8770		Restricted Net Assets	EOY Fix Asset ADJ for Proprietary	.000		Permanent	Credit	$$$$
4	5X	8739		Restricted Net Assets	EOY Fix Asset ADJ for Proprietary	.000		Permanent	Debit	$$$$

**The journal reference can be what your district chooses to use to track the journal. Such as the initials of the person that generated it.

The debit to the fund balance account removes the expense without changing the fund balance (the reason it does not change the fund balance is because when the journal entry goes through the fiscal year end closing process it will also credit the fund balance account 5X-8739).

The initial journal entry is a debit to fund balance, but the closing entry is a credit that will reduce your expenses for the purchase of the fixed assets. When fund 5X is combined with fund 8X it will correctly report the asset.

APPENDIX E: GASB 87 Lease Guidance

Effective for financials on June 30, 2022.

Leased Vehicles and Leased General Equipment are amortized and not depreciated.

If ownership of the asset is transferred at the end of the payments, then it is not a lease. The district accounts for it as a financed purchase (GASB 87 19 page 7).

A lease lasts longer than 12 months.
Districts can be either a lessee or lessor, but lessee is much more common.
- -Lessee example – District leases buses instead of purchasing them.
  - District get to use the buses.
  - Lessee get paid routine amounts for allowing District to use buses.
- -Lessor example- District leases and unused part of a building to another entity
  - District gets paid routine amounts for the term of the lease.
  - Other entity (lessee) gets to use the part of the building.

Where it goes on your financial statement:
-On your district-wide Statement of Net Position.
-Nothing changes on your fund financial statements (expense the payments as they are made).
-Included with capital assets in your footnotes.
    -You can combine with capital assets or keep separate in some footnote.
-Included with long-term liabilities footnote.
    -You will keep separated from bonds but in same footnote.

Entries can be in General fund but are permitted to be used by any fund
-Same as they always would be.
-Just budget the expense and pay the invoice.
-Don't record the leased item as a capital asset or a lease liability because capital assets and long-term liabilities aren't recorded in General Fund.

Financial statement considerations
-GASB 87 says that it's OK to group similar leases and says to consider materiality.
-Ownership transferred at the end? Not a lease! Account for it as a financed purchase instead (GASB 87 19.)
-You need payment amount, any prepayments/closing payments, term, a discount rate.

Lease payments:
-Trickier than it sounds.
-Variable payments (e.g., based on fed funds rate) should be valued at inception. Difference between inception and actual each year would be a current income or expense (GASB 87 21.c.)
-Payments exclusively performance-based (bus miles, driven, copies made) are excluded from definition of lease (GASB 87 22.)

Lease Term:
-Includes all periods covered by original contract (GASB 87 12.), plus
-Includes all periods when either lessor or lessee can extend if reasonably certain they will choose to extend (GASB 87 12.a&c.).
-Includes all periods when either lessor or lessee can terminate if reasonably certain it will not be terminated (GASB 87 12.b&d.).
-Excludes all extension periods if both have termination rights even if it's reasonably certain that neither will cancel (GASB 87 12. and 12.d.).
-Must be over 12 months total (GASB 87 16.)

Lease discount rate:
-Use lessee's incremental borrowing rate (GASB 87 23.)
-Average bond interest rate would work.
-Use another rate if you can explain and justify to your auditor.
-If you have a line of credit, use that rate.

How to present value the lease:
-This formula assumes that the first payment has already been made.
-Excel: PV(rate, npr, payment amount)
-Rate – interest rate used to discount. It is suggested that you average the bond interest rate.
-Npr-number of payments. Don't worry that you've already made the first payment, we will deal with that soon.
-Payment amount – just what it sounds like.
Example:
-Leasing a building for 10, 000 per year for five years. Paid at the beginning of each year.
=PV(.03,5,-10000)=(45,797.07)
Enter the payment amount as a negative since it's a payment out and not a receipt.
=$45,797.07.

Entries for district-wide financials:
-Debit Leased Asset, credit Lease Liability
-Then, deal with the payment made during the year
-Total of all lease payments ($10,000 x 5 = $50,000) minus PV calculated $45,797.07 = $4,202.93
-You already recorded the payment out when paid by General Fund and must reverse it

Lease liability	10,000.00	
Expense		10,000.00
Amortization ($4,202.93/5)	840.59	
Lease liability		840.59

Reconciliation between fund financials and district-wide:
-Carrying value of the asset (Leased asset minus lease liability) is a reconciling item on the fund balance sheet
-Expense recorded in General Fund minus amortization expense is a reconciling item on the fund statement of revenues, expenditures, and changes in fund balances.

Valuing a leased asset:
-If there are special payments terms, such as cleaning fee or other termination fees, or application fee or other commencement fees, factor these into your calculation.
-Must be REASONABLY CERTAIN that it will occur.
-Example: Lease has an early termination fee and a cleaning fee. The district does not expect to terminate the lease early, but the cleaning fee is required. Only the cleaning fee would be included in the lease cost and subsequently amortized.
-Calculate the present value of the monthly or annual payments separate from the PV of the cleaning fee and add the two together.
-Excel: =PV(rate, npr, payment amount, future value,0).
-This is a different version of the same formula. In this case, the future value would be the amount of the cleaning fee at the end of the lease and the payment amount (npr) would be zero.

Other items to review:
-If your payment schedule is not lined up with the fiscal year, you will have an accrual at year end.
-Payment made at the start of the lease period is a prepaid expense.
-Payment made at the end of the period is an accrued liability.
If material, you will need to record those entries.

When to recalculate due to changes:
-Change in lease term (Extension)
-Change in circumstances (either no longer reasonably certain or now reasonably certain).
-Change in interest rate.
-Basically, significant changes only!

Don't forget the footnotes:
-Included in Capital Assets footnote.
-Can be grouped into existing schedules as separate lines or separately.
-Group similar leases ("Leased Technology", "Leased Buses").
-Include:
-General description of the leased asset, term of the lease, any variable or performance based-payments, any termination penalties.
-Refer to the long-term debt footnote ("As discussed further in Note F, the assets are amortized over the 4.5 year life of the lease..").
-Roll forward from prior year to current year (Just like capital assets).
-Included in Long-term Liabilities footnote
-Can be grouped into existing schedules as separate lines or separately.
-I'll have a Capital Leases section after bonds.
-Include:
-General description of the leased asset and liability, term of the lease, any variable or performance-based payments, and termination penalties.
-Future payments requirements – yearly for next five years, then five-year increments (just like debt).

-Include in the Long-Term liabilities roll forward.
-Don't duplicate info in the Capital Assets footnote if possible.

At Commencement of Lease

Leased asset	$5,079.71	
Cash		$ 500.00
Lease Liability		$4,579.71

--Excludes eliminating the General Fund entry when cash was paid for the down payment.

Annually during lease:

Lease Liability	$ 915.94	
Interest expense	$84.06	
Cash		$1,000.00
Amortization expense	$1,015.94	
Accumulated Amort		$1,015.94

--Excludes eliminating the General Fund entry where lease payment was expensed.

At end (termination) of lease:

Accumulated Amortization:	$5,079.71	
Leased asset		$5,079.71

--Assumes no termination fees, cleaning fees at termination.

At commencement of lease:

Lease receivable	$4,579.71	
Cash	$500.00	
Deferred inflow		$4,579.71
Installation revenue		$ 500.00

--Excludes eliminating the General Fund entry when cash was received for the down payment!

Annually during lease:

Cash	$1,000.00	
Deferred Inflow	$ 915.94	
Interest revenue		$ 84.06
Lease receivable		$ 915.94
Lease revenue		$ 915.94

--Excludes eliminating the General Fund lease revenue entry

At end (termination) of lease:
--Nothing to record.