

## Choice Training 5-2: Fixed Assets

### 1. 5-2.2 Fixed Assets

#### 1.1 Training 5-2:

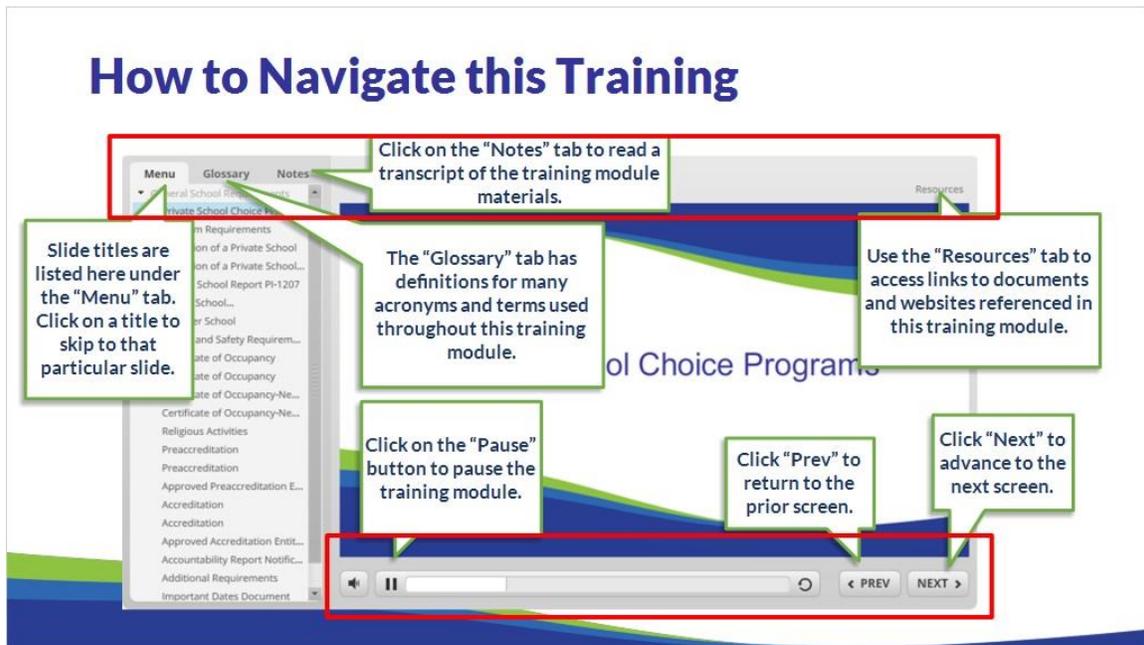


#### Notes:

Welcome to the Wisconsin Department of Public Instruction's training module on the Private School Choice Programs. We will refer to the Private School Choice Programs as "Choice" or "Choice program" throughout this training. The Choice program is governed by Wis. Stat. §§ 119.23 and 118.60, as well as Wis. Admin. Codes ch. PI 35 and 48. Provisions of this training module are subject to statutory and rule changes.

This training module will discuss fixed assets.

## 1.2 How to Navigate this Training Module



### Notes:

Before we start, here are some tips and tools you may wish to use when viewing this training.

When listening to this training please note the buttons at the top of the training screen. Titles to all of the slides in this training are listed under the "Menu" tab on the top left of the training screen. You may watch the training in its entirety, or you may skip to a specific slide by clicking on the title of a particular slide.

Acronyms and terms that are used throughout this training are defined under the "Glossary" tab on the upper left side of the training screen. If you have any questions about a particular acronym or term that is used in this training, click on the "Glossary" tab to read the definition of that acronym or term.

The "Notes" tab has a transcript of the training materials as they are presented. If you wish to read along with the training, please click the "Notes" tab on the upper left side of the training screen.

We have also posted resources related to this training which can be found under the "Resources" link on the upper right hand side of the training screen.

Next please note the buttons at the bottom of the training screen. If you want to pause on or during a specific slide, please hit the "Pause" button. Clicking the "Prev" button will allow you to return to the previous slide and clicking the "Next" button will allow you to advance to the next slide, if you wish to advance sooner than the auto-timing.

## 1.3 What is a Fixed Asset?

### What is a Fixed Asset?

- Assets purchased for long term use or over a certain dollar amount.
- May be referred to as:
  - Fixed assets
  - Tangible assets
  - Capital assets
  - Property, plant and equipment
- Capitalized assets-The purchase is included in expense over the period of years the asset is expected to be used.

#### Notes:

Fixed assets are assets purchased of value for long term use. Fixed assets may also be referred to as tangible assets, capital assets, or property, plant, and equipment. We will use the term “fixed assets” throughout this training. To capitalize a purchase means to record it as a fixed asset and include the expense equally over the period of years that the purchase is expected to be used. If a purchase is not capitalized the whole amount would be recorded as an expense immediately in the year of purchase.

## 1.4 Fixed Assets General Requirements

### Fixed Assets General Requirements

- The school must have a written capitalization policy that specifies:
  - The asset categories that will be used and a description of each category.
  - The useful life that will be applied to assets within each category.
  - The monetary threshold that will be used to determine if an asset is capitalized.
  - Information on what asset groups, if any, will be used for capitalization purposes.

#### Notes:

Each school is required to have a written capitalization policy related to fixed assets. The policy must define and describe the different asset categories the school will use. Each category must then be assigned a period of time that the assets in that category are expected to be used. This period of time is known as the useful life. Each category must also be assigned a monetary threshold for which assets in that category will be considered fixed assets. For example, a school may consider purchases over \$5,000 to be capitalizable. The \$5,000 would be the monetary threshold.

As an option, schools may group like kind assets when determining which assets are capitalized. If the school would like to use asset groups, which assets and how they will be grouped must be included in the capitalization policy. As an example, a school could specify text books as an asset group by writing in the capitalization policy that text books purchased on the same day will be grouped.

## 1.5 Fixed Assets Example

### Fixed Assets Example

- Example asset category: Equipment purchases that are \$1,000 or more. The useful life is 5 years.
- Which of the following assets are capitalizable? Click in the table below to uncover the answer.

Asset	Purchase Price	Capitalizable?
Teacher desk	\$800	No
Smartboard	\$1,500	Yes

#### Notes:

As an example, equipment could be an asset category a school would include in the written capitalization policy. The school would also have to assign a monetary threshold of what equipment is going to be capitalized, an example could be \$1,000 and above. The school would then have to determine a typical expected useful life of equipment, an example could be 5 years.

If this was a school's capitalization policy, and the school purchased a teacher desk for \$800, this purchase would not meet the capitalization monetary threshold. Therefore the teacher desk would not be capitalized and the \$800 would be expensed in the year of purchase. If the school purchased a Smartboard for \$1,500, this purchase would meet the capitalization monetary threshold. The Smartboard would then be depreciated over the useful life, which we will discuss later in this training.

## 1.6 Fixed Asset Categories

### Fixed Asset Categories

- The DPI provided some example fixed asset categories for the schools as part of the Eligible Education Expenses Bulletin.
- The school may choose the categories that are the most appropriate for the school except that it must designate land as a fixed asset category, if it owns any land.
- Land is defined as land and land preparation expenses for its intended purpose.

#### Notes:

On the Choice Bulletins webpage, which can be accessed under the resources link in the upper right, there is an Eligible Education Expenses Bulletin. Appendix 1 within that bulletin is an example template that may be used as a starting point for creating the written capitalization policy.

Eligible education expenses is a term that will be referenced throughout this presentation. As an introduction, the Choice program pays schools on a quarterly basis for eligible choice pupils enrolled at the school. The school must then spend those funds on what are considered to be eligible education expenses. Eligible education expenses are generally the expenses that are associated with the school's educational programming and that are reasonable to achieve the school's educational purpose. Additional information about eligible education expenses can be found in the Eligible Education Expenses bulletin and will be covered in greater detail in the Net Eligible Education Expenses and Supplemental Schedule training module.

Regarding the school's written capitalization policy, each school must create asset categories, useful life periods, and monetary thresholds that are most appropriate for the school. The only required category is land, if the school owns any land.

The definition of land includes the land and any expenses to prepare the land for it's

intended use. This includes demolition of an existing building and other site preparation and site improvements that ready the land for its intended use. Any activities that add to the land, such as constructing a building on it, would be considered in a separate asset category, such as buildings.

## 1.7 Land

### Land

- Land is included as an eligible education expense in the first year it is used for educational programming purposes, to the extent it is used for educational programming in that year.
- New schools to the Choice Programs/Special Needs Scholarship Program (SNSP) must include the cost of land as an eligible education expense in the school's first financial audit, if the land is already being used for educational programming in that year.
- Land not yet being used for educational programming purposes will not be included as an eligible education expense until the year it is used for educational purposes.

#### Notes:

Schools are allowed to include the cost of land as an eligible education expense in the first year the land is used for educational programming purposes. The amount that is included as an eligible education expense is the cost of the land multiplied by the percentage of the land that is used for educational programming in that year. For example, if a school operates a school and a church on the same land, the amount of land that is considered an eligible educational expense would be the percentage used by the school only.

For new schools to the Choice Programs and/or Special Needs Scholarship Program, the cost of land must be included as an eligible education expense in the school's first financial audit, if the land is already being used for educational programming in that year.

If the school has purchased any land, but the land is not yet being used for educational

programming purposes, the land will not be included as an eligible education expense until the year it is used for educational programming purposes.

### **1.8 Fixed Assets General Requirements**

#### **Fixed Assets General Requirements**

- Only the cost for fixed assets may be included. If an asset is donated, for example, it is not an eligible cost.
- The school must be able to provide the auditor with support for the fixed asset cost.

#### **Notes:**

For a cost to be an eligible education expense, the school must have already incurred a cost for the asset or will incur a cost for the asset in the future. Therefore, donated assets are excluded from the eligible education expense calculation. For purchased fixed assets, the school must be able to provide documentation showing the asset was purchased and the price that was paid.

## 1.9 Depreciation

### Depreciation

- Depreciation for fixed assets begins when the asset is placed in service.
- The depreciation is included as an eligible education expense based on the percentage of the asset used for educational programming and related services.
- Accumulated depreciation is the sum total depreciation of the asset that has been expensed as of a point in time.

#### Notes:

Depreciation is the accounting method where the cost of a fixed asset is included as an expense over the useful life of the asset. Depreciation of assets begins when the asset begins being used. Depreciation is calculated based on the asset cost and useful life. The portion of the depreciation that is considered an eligible education expense is based on the percentage that the asset is being used for educational programming.

Accumulated depreciation is the sum total depreciation of the asset that has been expensed as of a point in time.

## 1.10 Depreciation Example

### Depreciation Example

- The school purchases a piece of equipment during the year for \$10,000.
- The useful life of the equipment category is 5 years.
- The equipment is used for educational programming by the school 50% of the time and 50% of the time it is used for church activities.

Total Equipment Cost	10,000
Useful Life	5
Depreciation Expense Per Year (\$10,000 / 5 years)	2,000
Eligible Education Expense per Year (50% of depreciation)	1,000

#### Notes:

This is a depreciation example:

The school purchases a piece of equipment during the year for \$10,000.

This amount meets the monetary threshold in the school's written capitalization policy.

The asset category of equipment has a useful life of 5 years.

Depreciation expense for that equipment would be recorded annually as \$2,000 during each of those 5 years.

The equipment is used 50% of the time for educational programming, with the other portion being used for church activities, which is non-educational programming. Therefore the eligible education expense for depreciation of the equipment would be \$1,000 annually.

## **1.11 Assets Owned When a School First Joins the Choice Programs or SNSP**

### **Assets Owned When a School First Joins the Choice Programs or SNSP**

- The school will need to provide documentation to the auditor that supports the beginning balances included on the financial audit.
- The school may choose to include some fixed assets and exclude others.
- The school will need to determine the original cost of the fixed assets that are included and the accumulated depreciation.

#### **Notes:**

A school joining the Choice Programs and/or Special Needs Scholarship Program must be able to provide documentation to support the purchase and cost of the fixed assets that the schools owns when it joins the program.

A provision exists in statutes which allows schools to depart from Generally Accepted Accounting Principles and not include some or all of the school's fixed assets in the financial audit. The school may make this election voluntarily or may be required to if the school has fixed assets but does not have the supporting documentation to support the cost of some or all of the school's fixed assets.

The school will need to determine the original cost and associated accumulated depreciation of each fixed asset that is included in the financial audit.

## 1.12 First time participant - Depreciation Example

### First time participant - Depreciation Example

- The school first participates in the Choice program in the 2017-18 school year. The school has a building that they purchased in July 2012 that cost \$1,500,000. The useful life is 15 years. It is only used by the school.

Total Building Cost	\$1,500,000
Useful Life	15
Depreciation Expense Per Year	\$100,000
Eligible Education Expense per Year	\$100,000
Years of Depreciation as of 6/30/17	5
Accumulated Depreciation as of 6/30/17	\$500,000

#### Notes:

This is an example of a school who is a first time participant in the Choice programs in the 2017-18 fiscal school year. The school purchased a building in July 2012 for the cost of \$1.5 million. The useful life of the buildings category in the school's capitalization policy is 15 years.

In this case, depreciation would be calculated by dividing the building cost by the useful life. \$1.5 million divided by 15 years is \$100,000 per year. Since the building is not used for any non-school activities, 100% of the annual depreciation on the building is considered an eligible education expense.

For the financial audit, the building will be recorded as an asset at the full cost of \$1.5 million. The building has been depreciating at a cost of \$100,000 per year since it was purchased. The accumulated depreciation the building has incurred over those years needs to be included in the financial audit as well. 5 years of depreciation has incurred between when the building was purchased in July 2012 and June 30<sup>th</sup> 2017 which is the beginning date for the 2017-18 fiscal school year. 5 years times \$100,000 per year means the beginning accumulated depreciation balance as of 6/30/17 is \$500,000.

## 1.13 Questions

### Questions

Website: <http://dpi.wi.gov/sms/choice-programs>

Email: [DPIChoiceAuditReports@dpi.wi.gov](mailto:DPIChoiceAuditReports@dpi.wi.gov)

Phone: 1-888-245-2732 ext. 3



#### Notes:

If you have any questions about the information discussed in this training, please see the Private School Choice Programs homepage. The left menu bar of the Private School Choice Programs homepage has resources for both schools and parents.

Choice schools may also contact the Choice audit team at [DPIChoiceAuditReports@dpi.wi.gov](mailto:DPIChoiceAuditReports@dpi.wi.gov) with questions.