ASSET MANAGEMENT BASICS

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Asset Basics

- **Expensed versus Capitalized**

  Agencies are required to capitalize fixed assets in SABHRS if the item's historical unit cost meets or exceeds the capitalization threshold.

  Individual collections or land items may consist of individual items less than the capitalization limit , but if the total collection value exceeds the capitalization limit then capitalize.

  Items costing less than the capitalization threshold must be expensed in the year of purchase.

- **Depreciable versus Non-Depreciable Asset**s

  Land and museum & art, that meet specific requirements (see Definition), are not depreciable.

  All other fixed assets that meet the capitalization threshold are required to be depreciated or amortized. This requirement is for both Governmental and Proprietary assets.

Refer to MOM policy #335 section III.B.1 for the listing of capitalization threshold of various assets.

Asset Basics (Cont.)

- Definitions:
  - Building Improvements: Significant alterations or structural changes that increase the usefulness, efficiency or asset life of existing buildings. Since these changes are not buildings in their own right they must be capitalized as building improvements.
  - Fixed Assets: Assets of a relatively permanent nature with a useful life of more than one year whose identity does not change with use. The unit must be identifiable and separately accounted for.
  - Intangible Assets: A long-lived legal right, in the case of software, the right to use the software.
  - Infrastructure: Long-lived assets that normally are stationary in nature and normally can be preserved for a significantly greater number of years than most capital assets. Examples of infrastructure assets include roads, bridges, tunnels, drainage systems, water and sewer systems, dam and lighting systems.
  - Land Improvements: Betterments other than buildings that ready land for its intended use. Examples include site improvements such as excavation, fill, grading and utility installation; removal, relocation or reconstruction, such as railroad and telephone and power lines; retaining walls; parking lots; fencing; and landscaping.

Asset Basics (Cont.)

Definitions

- Museum & Art – (Depreciable): Per GASB 34, capitalized collections or individual items that are exhaustible, such as exhibits whose useful lives are diminished by display, educational, or research applications, should be depreciated over their estimated useful lives.
- Museum & Art – (Non-Depreciable): Per GASB 34, capitalized collections or individual items are not depreciable if the following conditions are met in regard to the collections or items:
  - Held for public exhibition, education, or research in furtherance of public service, rather than financial gain
  - Protected, kept unencumbered, cared for, and preserved
  - Subject to an organizational policy that requires the proceeds from sales of collection items to be used to acquire other items for collections.

Asset Basics (Cont.)

- **Governmental versus Proprietary Assets:**

  - Accounting entries generated by the Asset Management system are based on the PROFILE, CATEGORY and BOOK SELECTION.

  - “G” profile must have a “G” category with the “Government” book

  - “P” profile must have a “P” category with the “State “ book

  - “Expensed” profile must have an “Expense” category with the “Expensed” book

Asset Basics (Cont.)

- **Asset Accounts:**
- 1701 Land
- 1702 Buildings
- 1703 Building Improvements
- 1704 Equipment
- 1705 Other Fixed Asset
- 1706 Construction Work In Progress
- 1707 Accum Depr – Buildings
- 1708 Accum Depr - Bldg Improvements
- 1709 Accum Depr – Equipment
- 1710 Accum Depr - Other FA
- 1711 Livestock
- 1712 Land Use Rights- Amortized
- 1713 Library Books
- 1714 Museum and Art
- 1715 Land Improvements
- 1716 Infrastructure
- 1718 Library Collections
- 1719 Museum and Art Depreciable
- 1720 Accum Depr Land Improvements
- 1721 Accum Depr Infrastructure
- 1722 Accum Depr Museum and Art
- 1723 Accum Depr Library Books
- 1809 Intangible Asset

Adding Expense Assets

- No accounting entries will be generated by AM in regards to expensed assets.
- The purchase of expensed asset is generally recorded in SABHRS via an accounts payable (AP) voucher using an expenditure account in the 62XXX range with the offset to cash in the actuals ledger.

Adding Split Funded Assets to AM

- A split funded asset is where a capital asset is funded from both the governmental and the proprietary fund type.
- The asset can only be recorded in either the general fund or the proprietary fund but not both

Adding Split Funded Assets to AM (cont.)

Example:

- The General Fund (01100) pays $7,000 and an enterprise fund pays $9,000 (06XXX) for a single capital asset. The item will be recorded as a governmental asset. The enterprise fund transfers $9,000 to the General Fund, which then shows a total capital outlay expenditure of $16,000, which must be appropriated. The entire amount is capitalized in the General Fund with a “G” profile and a “G” category.
- A governmental fund and a proprietary fund type purchase a capital asset with the intent that the asset will be capitalized and depreciated within the proprietary fund. The governmental fund records a “transfer-out” and the proprietary fund records a “transfer-in”. The proprietary fund then records the entire amount of the purchase and capitalizes the asset in that fund.

Changing the Useful Life/Salvage Value or Profile ID/Category

- The useful life and salvage value of an asset is defined based on the Profile ID as selected in AM.
- The useful life and/or the salvage value of an asset can be changed in certain circumstances. Reasons to adjust the useful life and/or salvage value of an asset could include, but are not limited to, experience with similar assets or a need to meet federal depreciation/amortization allowance guidelines.
- Any change of the useful life and/or salvage value of an asset should be documented, and justification maintained by each agency.
- Intangible assets should always have a salvage value of zero.
- **AM will not recalculate any depreciation/amortization already calculated in previous months, but will recalculate depreciation/amortization expense from this point forward based on the new useful life or salvage value of the asset.**

Changing the Historical Cost

- AM will not recalculate any depreciation/amort-ization already calculated in previous months, but will recalculate depreciation/ amortization expense from this point forward based on the new historical cost of the asset.
- The only cost adjustment that can be done are on non-depreciable assets such as land or CWIP.
- All changes to existing assets should be reviewed closely.

Changing the Historical Cost (cont.)

For example,

- An asset was added with a cost of $100,000 with a useful life of 10 years and no salvage value. It is the end of year two when it is determined that the asset should only have been added to AM with a cost of $15,000. The accumulated depreciation as of today is $20,000. The cost can be changed at this point to reflect $15,000, however AM will not adjust the accumulated depreciation. Thus, the net book value of this asset is a negative $5,000, cost minus accumulated depreciation. This asset should have been retired and a new asset added to AM with the correct cost.

General Ledger Cleanup Required

- A general ledger entry is needed to reverse the capitalized asset expense on the addition of the correct asset up to the value of the original asset;
- Reverse any capitalized asset expense on the original asset that should not have been generated;
- Reverse depreciation/amortization expense that should not have been generated on the original asset;
- Reverse the gain/loss calculated on the retired asset.

AM and General Ledger Entries

- For example, an asset was added with a cost of $100,000 with a useful life of 10 years and no salvage value during July 2010. It is now June 2012, when it is determined that the asset should only have been added to AM with a cost of $15,000. The accumulated depreciation as of today is $20,000.

Entries generated by AM- FY 2011 (incorrect historical cost) Actuals or EW ledger

Debit	1704	Equipment	100,000
Credit	63198	NB expenditure offset	(100,000)
Debit	62805	Depreciation expense	10,000
Credit	1709	Accumulated depreciation	(10,000)

General ledger entries when the asset was purchased (Actuals or EW ledger)

Debit	63198	NB expenditure offset	15,000
Credit	1104	Cash	(15,000)

Entries in FY 2012

Debit	62805	Depreciation expense	10,000
Credit	1709	Accumulated depreciation	(10,000)

AM and GL Entries (cont.)

Entries to retire the above asset- AM

Debit	1709	Accumulated deprec	20,000	
Credit	1704	Equipment		(100,000)
Debit	62808	Loss on sale	80,000	

General ledger cleanup

Debit	63198P	NB exp offset	100,000	
credit	62808	Loss on sale		(80,000)
Credit	62805	Deprec expense		(10,000)
Credit	62805P	Deprec expense prior year		(10,000)

AM and General Ledger Entries (cont.)

Entries generated by AM on the asset with the correct historical cost: **In service date July 2010**

Actuals ledger or entitywide ledger depending on fund type

Re-add AM Entries in FY 2012

Debit	1704	Equipment	15,000	
Debit	62805	Depreciation expense	3,000	
Credit	1709	Accumulated depreciation		(3,000)
Credit	63198	Capitalized asset offset		(15,000)

GL Cleanup in FY 2012

Debit	63198	Capitalized asset offset	15,000	
Credit	63198P	Capitalized asset offset PY		(15,000)
Debit	62805P	Depreciation expense PY	1,500	
Credit	62805	Depreciation expense		(1,500)

Refer to Mom policy #335 section XII.C.5 for the listing of accounts used for recording prior year adjustments.

Assets Purchased in Prior Year

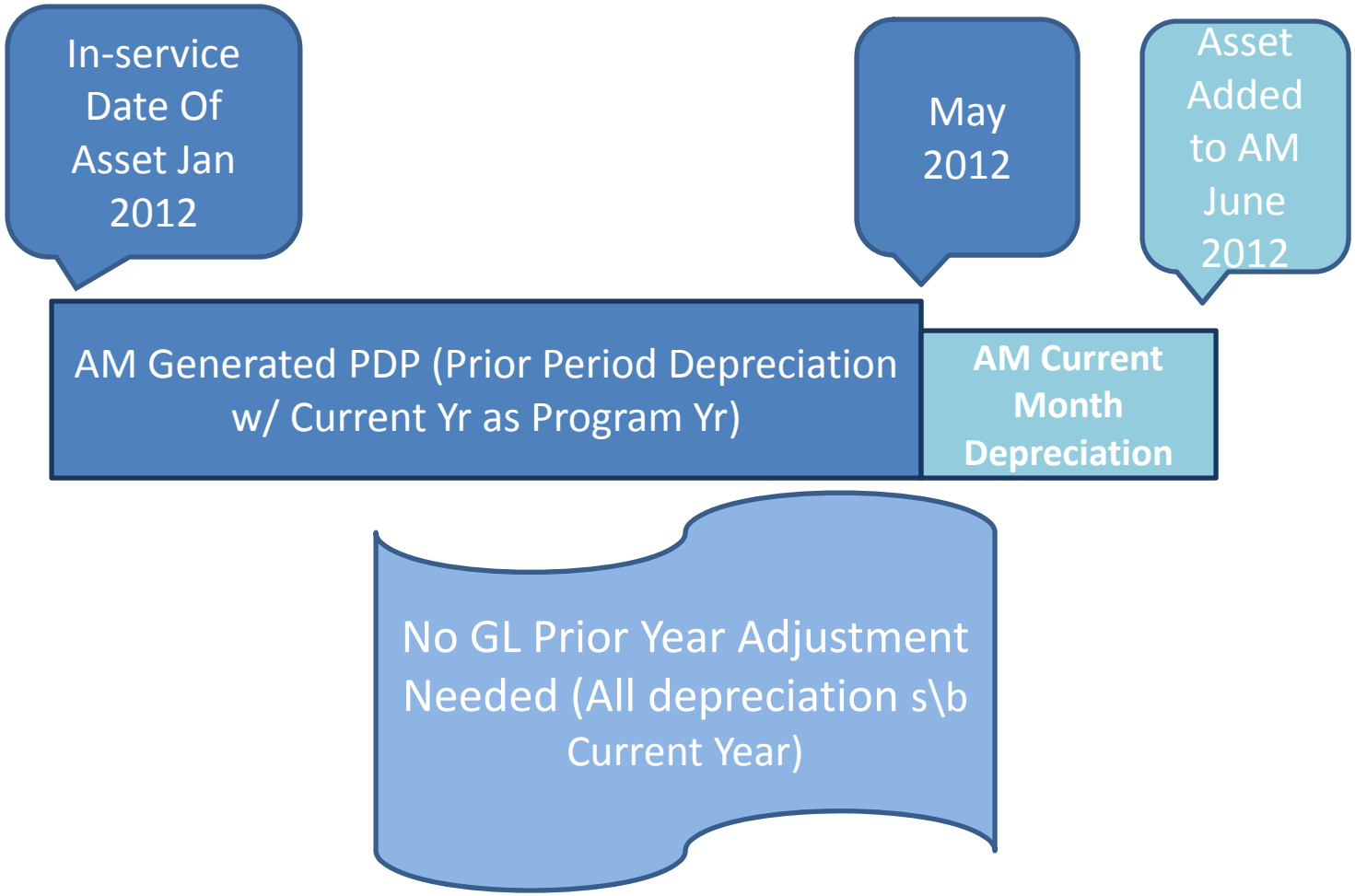
- **Adjustments in regard to an asset purchased in a prior fiscal year**
  - If an asset was purchased in a prior fiscal year, the agency must analyze the asset accounting entries and related detail to determine the costs that must be adjusted as a prior year and those that must be adjusted against fund balance.
  - If needed, the adjustments would be made on an ONL general ledger journal.
  - This journal should be created in the same ledger used when the AM transactions were generated.
  - Analysis must be performed to determine what amount of the PDP relates to a prior year and to any year preceding the prior year.
  - The depreciation/amortization relating to the prior year would be adjusted against a prior year depreciation/amortization account.

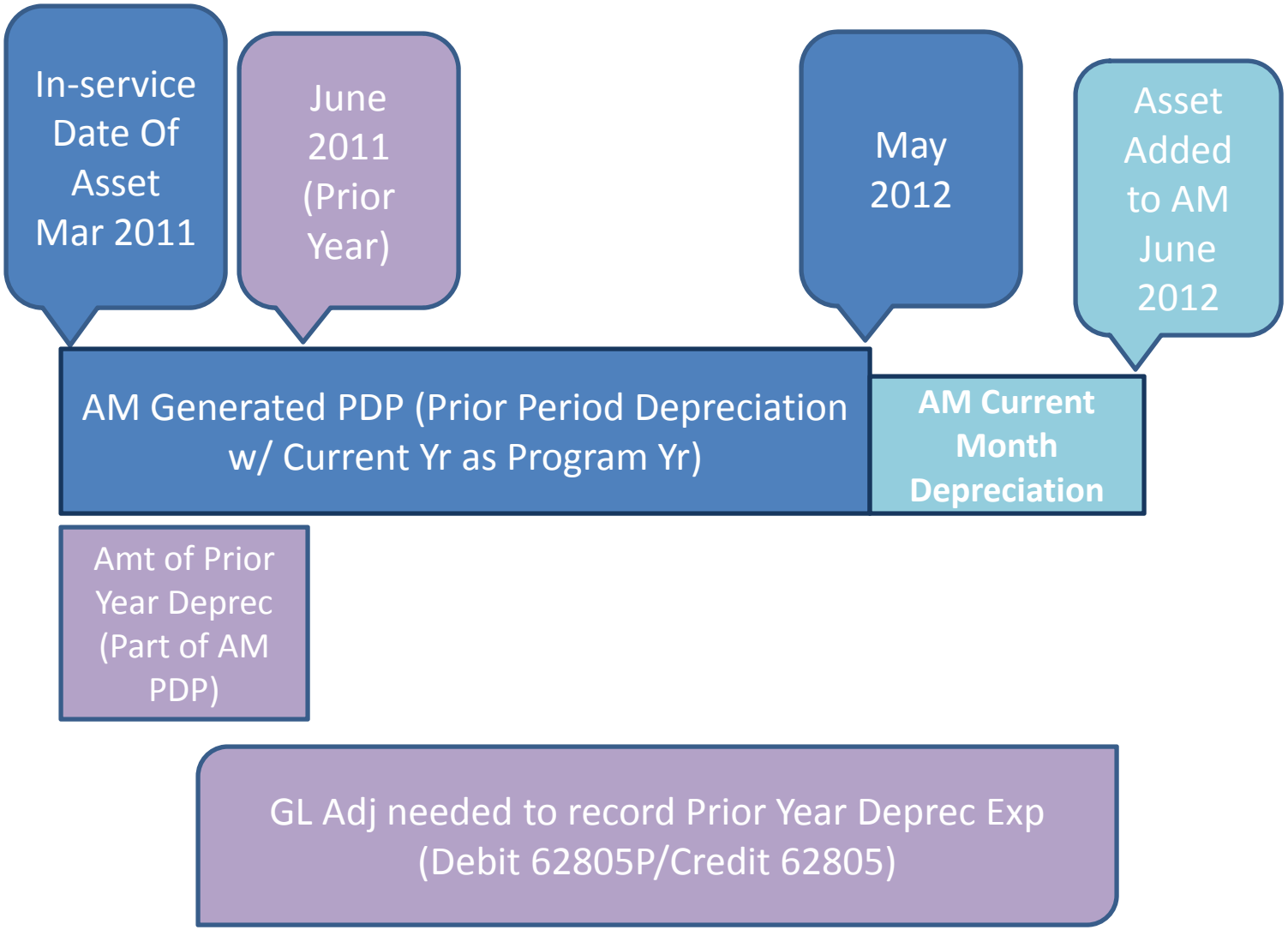
Assets Purchased in Prior Year (cont.)

- Any depreciation/amortization expense relating to the year before the prior fiscal year would be adjusted against the fund balance.
- If the asset should have been added before the last fiscal year (prior year) then the full accrual expenditure offset would be reversed against fund balance.
- If the asset should have been added in the last fiscal year then the full NB expenditure offset would be reversed and the related prior year account used.
- The in-service date in relation to when the asset was entered in AM will determine the PDP.
- Refer to MOM policy #335 section XII.C.6 for examples of adjusting entries for assets purchased before prior fiscal year.

Prior Period in AM

- Anything with an in-service date prior to the month of entry is considered to be Prior Period
- AM does not differentiate between current year and prior year.


In-service Date Of Asset Jan 2012
May 2012
Asset Added to AM June 2012
AM Generated PDP (Prior Period Depreciation w/ Current Yr as Program Yr)
AM Current Month Depreciation
No GL Prior Year Adjustment Needed (All depreciation s\b Current Year)


In-service Date Of Asset Mar 2011
June 2011 (Prior Year)
May 2012
Asset Added to AM June 2012
AM Generated PDP (Prior Period Depreciation w/ Current Yr as Program Yr)
AM Current Month Depreciation
Amt of Prior Year Deprec (Part of AM PDP)
GL Adj needed to record Prior Year Deprec Exp (Debit 62805P/Credit 62805)

Reminders When Adding Assets to AM

- Select the correct profile. “G” for governmental fund and “P” for proprietary fund.
- Enter the correct transaction date, from which the in-service and acquisition dates will be defaulted.
- Let the accounting date default to the current date, unless adding an asset for the current fiscal year during the fiscal year-end cut-off period.
- Use the **default profile button function**. This will select the correct asset book, category, ledger, calculate a default salvage value and assign a default useful life.
- Review the default salvage value and useful life. Change these defaults if agency experience indicates that the defaults should be changed.
- Input the asset class.
- Complete all other fields relative to an asset.
- Review all information prior to the initial save. It is much easier to add the asset correctly the first time than to correct an error