5.5 PROJECT CAPITALIZATION

1.0 Purpose

To provide a capitalization policy specifically for capital projects used to account for the acquisition, construction or improvement of fixed assets. This document is referenced in Los Angeles Unified School District (LAUSD) Policy Bulletin BUL-1158.2, *Accounting for Supplies and Equipment Purchases*, and provides procedures specific to capital projects. Whereas the bulletin generally addresses non-project purchases of supplies and equipment by schools and offices, this document addresses fixed asset accounting for capital projects. The objective is to clarify accounting guidelines from various sources to provide a consistent framework for accurate and timely reporting of capital asset values net of depreciation.

The terms utilized in this document must be understood in the context of financial accounting concepts applied to capitalization of project costs. Knowledge of financial accounting principles and basic SAP functions is assumed and will not be detailed in this document.

The procedure provides the criteria for the determination of capital project costs and outlines the actions required to initialize and track the project in source systems for appropriate capitalization activities in the enterprise resource planning system, SAP.

Note: action is required to identify and maintain project data in SAP as capitalizable in order to properly process project costs for capitalization and subsequent depreciation. The default treatment in SAP is to expense incurred projects costs in each period.

This policy revision is effective June 30, 2014.

2.0 Terms and Definitions

Asset under Construction (AuC) - AuC is an asset that reflects the cost of construction or project work undertaken, but not yet completed.

Beneficial Use or Occupancy – The date of use or occupancy by Owner of completed work or partially completed portion, part, space or area of the work.

Fixed or Capital Asset – Property and equipment such as land and land improvements, buildings and building improvements, furniture, fixtures, computers, other technology equipment, and all other tangible and intangible assets that are used in operations and have initial useful lives greater than one year.

Capitalization Event or Trigger – The specific project activity that when completed allows Owner beneficial use or occupancy of the asset. The “event” or “trigger” initiates the accounting for the project costs to date in AuC for settlement to final asset account(s) for depreciation.

Capitalization Strategy - An accounting plan in SAP for capitalization of fixed assets.

Capitalization Threshold – One of the criteria for determining when costs incurred for an asset is to be capitalized is the dollar threshold to qualify items as “capital” assets. Effective July 1, 2013, the capitalization threshold for LAUSD was reduced from $25,000 to $5,000 to align with the capitalization dollar threshold for Federal grants. Costs for assets below this value is expensed and not required to be capitalized.

Government-wide Financial Statement - Report using the full accrual basis of accounting. This report does not display individual funds or fund types. Capital assets and related depreciation expense are reported in the government-wide financial statement under the full accrual basis of accounting while capital outlay expenditures are recorded in the governmental funds under the modified accrual basis of accounting. The implementation of SAP released in July 2013 is a dual ledger accounting system that records both full accrual and modified accrual entries.

Internal Order (IO) - A controlling account in SAP for job cost work, typically, but not always, performed by in-house labor or "force account". Facilities Maintenance and Operations interface these documents from Maximo.

Investment Profile (IP) – The SAP Project System (PS) setting on the project profile or Work Breakdown Structure (WBS) element that identifies the project or WBS element as a capital fixed asset.

Project Profile – The top level of the "WBS" or "project". The investment profile may be applied at this WBS level, which attribute will be inherited by subordinate WBS levels.

Settlement Rule – Rule that determines which portions of a project's costs identified by WBS elements are allocated to which final asset account. The settlement rule is currently required at each WBS element level 4.

Test and Acceptance Notice - A notice by Owner that the completed work is acceptable and meets the Owner's criteria. The Owner is able to take beneficial use or occupancy of the asset after this milestone. A capitalization event for ITD projects.

Trailing Charges – Additional project costs incurred and settled to AuC subsequent to settlement to final asset account and depreciation has begun.

Notice of Completion (NOC) – A notice by Owner recorded with the County Recorder upon Final Completion of construction work. The Owner is able to take beneficial occupancy of the asset after this milestone. A capitalization event for capital construction contracts.

WBS Element - "WBS element" is used to refer to SAP PS WBS level 3 in this document. Whereas "project profile", "WBS" or "project" is used interchangeably to reference the WBS level 1.

3.0 Policies

LAUSD departments with security access for creating and maintaining SAP controlling accounts (WBS and Internal Orders) have the responsibility to properly account for fixed assets under their jurisdiction. Internal controls must be established over fixed assets that provides reasonable assurance of effective and efficient operations, reliable financial reporting, and compliance with applicable accounting guidelines and internal policies.

In general, Internal Order controlling accounts should not be used independently (not under a WBS) for Work that requires capitalization. A project controlling account or WBS should be created for acquisition, construction, implementation, or improvement of fixed assets. Projects may be used for work to be expensed as incurred, such as repair and maintenance but the project should not have an investment profile.

Beneficial Use or Occupancy

The term, "project completion", used in the context of fixed asset accounting is ambiguous. LAUSD policy is to use “beneficial use or occupancy milestone” in its place. For fixed asset accounting, this milestone triggers the settlement of cumulative costs of AuC asset to final asset accounts and begins depreciation. The service date for the calculation of depreciation is derived from the document used to represent this milestone. Documents that support the milestone of beneficial use or occupancy for the various project categories or execution methods include, but are not limited to, the following:

Project Category/Execution Method	Document
FSD - Construction Contract	Notice of Completion
FSD - Force Account (In-House) Labor	Maximo print screen of CLOSED Work Order
FSD - Furniture & Equipment Procurement	Acceptance of Final Invoice at Beneficial Use milestone
FSD - Professional Services Task Order to Provide and Install Equipment	Acceptance of Final Invoice at Beneficial Use milestone
ITD - Equipment Procurement/Configuration	Acceptance of Final Invoice at Beneficial Use milestone
ITD - Local Area Network Modernization	Test and Acceptance Notice
ITD - Wireless Installation (In-House) Labor	Test and Acceptance Notice
ITD - Capital Software Acquisition	Acceptance of Final Invoice at Beneficial Use milestone
ITD - Internally Developed Software	Approval from Executive Governance Committee
ITD - Capital Improvements to Existing Software	Approval from Executive Governance Committee
ILTSS - Furnishing School Libraries	Project Budget Modification & Closeout Form

Asset Classification

Upon beneficial use or occupancy milestone, costs at each WBS element are settled by application of the settlement rule from AuC to final asset accounts by the following asset classes:

Asset Class	Asset Class Description	Useful Life (In Years)
941001	Land/Site Acquisitions	N/A
942001	Land/Site Improvements and Infrastructure	20
943001	Building: Acquisition, New Construction, and Additions	50
943051	Portable/Relocatable Facilities	20
943061	Building Improvements	20

Asset Class	Asset Class Description	**Useful Life** (In Years)
944001	Equipment & Intangible Assets: Computers, Office and Business Machines	5
944011	Books, New Libraries	7
944021	Vehicles	8
944031	Equipment: Broadcasting, Library, Audiovisual, and Communications	10
944041	Equipment: Reprographics	10
944051	Equipment: Athletic, Musical, Scientific, Engineering	10
944061	Equipment: Food Services	15
944071	Equipment: Transportation, Custodial, Heavy Machinery	15
944081	Equipment: Indoor/Outdoor Furniture and Equipment	20

Controlling accounts, such as internal orders and projects, must be established so that expense and capital costs are not mingled. It is preferred that capitalization of fixed assets conform as practical to a simple process where internal orders or projects are either fully expensed as incurred or fully capitalized.

When it is required that both expense and capital costs must be charged to a capital project - determine the materiality of the expense and capital cost components. If the capital cost component is not material compared to the expense cost component, expense all project costs as incurred. If the expense cost component is not material compared to the capital cost component, capitalize all project costs.

Alternately, the WBS element structure may be established prospectively so that costs for expense activities and capital activities are segregated. The WBS element structure should further segregate the capital activities by asset class. Apply the investment profile to WBS element for capital cost components and leave the investment profile blank for expense cost components.

Example - Project F-123456:

WBS Element	Expense/ Capital	Asset Class
F-123456-00-001-99 Overhead Labor	Expense (no IP)	n/a
F-123456-02-301-99 A/E Basic Contract F-123456-03-401-99 Construction Contracts F-123456-03-511-99 Inspection	Capital (IP – AuC Buildings)	943061 - Building: Improvements
F-123456-03-601-99 Furniture & Equipment Purchased from Vendors	Capital (IP – AuC Buildings or Equipment)	944081 - Furniture and Equipment

Assets under Construction (AuC)

AuC is an asset that reflects the cost of construction work undertaken, but not yet completed. Depreciation is not recorded for AuC. When a project is completed, accumulated costs of AuC is settled to final asset and depreciated. The asset is reclassified to appropriate asset class, such as building, building improvement or land improvement as specified by the settlement rule.

AUC - BUILDING - Asset class where costs of internal orders and projects under construction are to be periodically settled.

- Upon beneficial use or occupancy milestone of a project for the construction of a new school, accumulated costs of AuC is settled and reclassified to asset classes: land acquisition, building construction, and furniture and equipment.

- Upon beneficial use or occupancy milestone of a project for the renovation or rehabilitation of a portion of an existing school, accumulated costs of AuC is settled and reclassified to asset classes: building improvements and furniture and equipment.

AUC - EQUIPMENT - Asset class where costs of internal orders and projects used to budget and control purchases and installation of equipment are to be periodically settled when in progress. Costs of projects to provide and install fixtures or equipment for building service systems are included in the costs of the building upon beneficial use or occupancy and should use AuC-Building.

- Upon beneficial use or occupancy milestone of a project for the procurement of furniture and equipment for a classroom renovation project, accumulated costs of AuC is settled and reclassified to asset class: equipment-indoor/outdoor furniture and fixtures.

Land/Site Acquisitions

Costs for the acquisition of land is to be capitalized but the asset is not depreciated. The recorded cost of land includes:

- The contract price;
- Costs of closing the transaction and obtaining title, including commissions, options, legal fees, title search, insurance, and past due taxes;
- Costs of surveys; and
- Costs of preparing the land for its particular use, including demolition, grading, soils testing, soil removal, and environmental fees and cleanup.

If the land is purchased for the purpose of constructing a building, all costs incurred up to the excavation for the new building should be considered land costs. Removal of an old building, clearing, grading and filling are considered land costs because they are necessary to get the land in condition for its intended purpose. Any proceeds obtained in the process of getting the land ready for its intended use, such as salvage receipts on the demolition of the old building or the sale of cleared timber, are treated as reductions in the price of the land.

Land/Site Improvements and Infrastructure

Land and site improvements include items such as excavation, non-infrastructure utility installation, driveways, sidewalks, parking lots, flagpoles, retaining walls, fencing, outdoor lighting, and other non-building improvements intended to make the land ready for its intended purpose. Land improvements can be further categorized as non-exhaustible and exhaustible. Expenditures for land improvements that do not deteriorate with use or passage of time are additions to the cost of land and are generally not exhaustible, and therefore not depreciable.

Infrastructure assets are defined as long-lived capital 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, and lighting systems.

Land improvements or improvements to infrastructure which extend the useful life or capacity of the asset and meet capitalization thresholds will be capitalized under this asset class and depreciated over its estimated useful life.

Buildings: Acquisition, New Construction and Additions

A building is defined as 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 mobile. The criteria for this asset class also involves adding or increasing building square footage. Costs of acquisition, new construction, and additions of buildings are to be capitalized and include, but are not limited to, the following:

- Original contract price of asset acquisition or cost of design and construction
- Costs incurred in remodeling, reconditioning, or altering a purchased building to make it available for the purpose for which it was acquired
- Costs incurred for the preparation of plans, specifications, blueprints, etc.
- Architect and Engineering fees for design and supervision
- Cost of building permits and fees
- Payment of non-current taxes accrued on the building at date of purchase, if payable by purchaser
- Costs of temporary facilities used during the construction period

Lease/rental costs of temporary facilities after the construction period is operational and are to be expensed as incurred.

Building: Improvements

Building improvements (betterments) provide *additional value*. Such added value is achieved either by 1) extending the asset's estimated useful life or 2) increasing a capital asset's ability to provide service (i.e., greater effectiveness or efficiency). Costs for building improvements are to be capitalized and include costs for fixtures and additions or improvements to building service systems.

Building fixtures include attachments to a building that are not subject to transfer or removal, presumably function as integral parts of the building, and have fairly long and useful lives. Such fixtures are generally accepted as real property and lose functional identity as separate units.

Building service systems include any parts of a building that are intended to serve a single function throughout the building, are usually included as a part of the original construction or subsequently added in whole or in part, are built as integral parts of buildings, and are expected to have long and useful lives. Such systems are generally accepted as real property and lose identity as separate units.

In contrast to improvements, repairs and maintenance *retain value* rather than provide additional value and must be expensed as incurred.

Portable/Relocatable Facilities - Acquisition

Portable or relocatable facilities are not permanently attached to the land and therefore do not meet the above definition of a building. Costs of acquisition of portable or relocatable facilities are to be capitalized and include, but are not limited to, the following:

- Original contract price of asset acquisition;
- Costs incurred for the preparation of plans, specifications, blueprints, etc.;
- Costs incurred in remodeling, reconditioning, or altering a purchased facility to make it available for the purpose for which it was acquired;

- Costs incurred to address accessibility for persons with disabilities.

Costs of acquisition of portable or relocatable facilities intended for the inventory stockpile is not to be capitalized but recorded as inventory, as an asset account. Placement of portable or relocatable facilities from the inventory stockpile to a school site will require a journal voucher to reduce the inventory account and charge the cost to the project for capitalization.

Portable/Relocatable Facilities - Demolition and Removal

Costs of demolition and removal *or* removal and transfer of a portable or relocatable facility is to be expensed as incurred.

- Demolition and removal: Fixed Asset Accounting must be informed to record the disposal of the asset.
- Removal and transfer from one school site to another school site *or* to the inventory stock pile: Fixed Asset Accounting must be informed to update the cost center of the depreciated asset.

Furniture and Equipment

Please refer to Bulletin BUL-1158.2, *Accounting for Supplies and Equipment Purchases*, for guidance regarding accounting for non-project acquisition of furniture and equipment.

Costs of acquisition of furniture and equipment are to be capitalized when acquired for a project and the aggregate project cost is $5,000 or more. The aggregate project cost includes all cost directly related to the acquisition on the purchase order, such as, licenses, accessories, fees, sales tax, and freight charges.

For projects, the capitalized aggregate costs of acquisition of furniture and equipment also include, but are not limited to, the following additional costs:

- Costs incurred for planning and specifications,
- Costs incurred for reconditioning, installation, or configuration to place the asset into its intended location and condition for use,
- Costs incurred for registration, test and acceptance,
- Labor costs incurred to accomplish the above items

Record the asset under the equipment asset class that corresponds best to its intended purpose.

Leased Equipment and Facilities

Leased equipment and facilities should be capitalized for the present value of the lease payments if the lease agreement meets any one of the following criteria:

- The lease transfers ownership of the property to LAUSD 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 economic life of the leased property.
- The present value of the lease payments at the inception of the lease, excluding executory costs, equals at least 90 percent of the fair value of the leased property.

When a contractual lease obligation for a facility that was not considered a capital lease at the inception of the lease, e.g., an operational lease for use of portable building without a bargain purchase option, is negotiated for settlement or buyout, only the prospective cost of the settlement or buyout is to be capitalized. The previous lease expense is to remain an operational cost.

Asset Replacement or Sale

Inform Fixed Asset Accounting when an asset has been replaced or sold. The acquisition project or asset number will need to be identified for Fixed Asset Accounting action.

Intangible Assets

Intangible assets include purchased software and licenses, costs to modify purchased software, internally developed computer software and District-owned websites and portals. Intangible assets must be identifiable, meaning costs are controlled by controlling account, project, or cost center. In general, these costs are included in computer equipment purchases or require computer equipment for implementation. Costs for capitalized intangible assets are reported under asset class: 944001 Equipment & Intangible Assets: Computers, Office and Business Machines.

Initial purchase of computer software costing more than $5,000 with a useful life beyond a single reporting period (generally one fiscal year) should be capitalized. Fees for license renewal or maintenance are operational and are to be expensed as incurred.

Internally developed software must be evaluated to determine if the internal cost meet the criteria for capitalization. The criteria involves segregating the costs into three phases:

- Preliminary project phase: when conceptual formulation of alternatives, evaluation of alternatives, determination of existence of needed technology, and final selection of alternatives for development.

- Application development phase: design of the chosen path, coding, acquisition and installation of hardware, testing, including the parallel process phase, and data conversion needed to make software operational.

- Post implementation/operation phase: application training and software maintenance.

For internally developed software, cost associated with the preliminary project phase and the post implementation/operation phase will be expensed as incurred. The costs that will be capitalized are those associated with the application development phase and only those costs incurred subsequent to the completion of the preliminary project phase.

Upgrades and enhancements are defined as modifications to existing internal use software that result in the ability for the software to perform tasks that it was previously incapable of performing. In order for costs of specified upgrades and enhancements to be capitalized, it must be probable that those expenditures will result in additional functionality, increased efficiency or the extension of the estimated useful life otherwise those expenditures should be considered routine maintenance and should be expensed as incurred.

Furnishing School Libraries

Costs of furnishing new school libraries and expansion, reconfiguration or modernization of existing libraries are to be capitalized. Capitalized costs include new library books and reference material, equipment, library systems and eligible labor costs. Eligible labor costs are employee and professional services incurred to plan, specify, design, manage, test and accept specific projects. These labor costs may be charged directly or allocated and distributed to the project.

- Upon beneficial use or occupancy milestone of a project to furnish the library for a new school, accumulated costs of AuC is settled and reclassified to asset classes: books (new library) and library equipment.

4.0 Roles and Responsibilities

Program and Project Controls - FSD department with responsibility for creating and maintaining WBS master data, WBS budgeting and cost control, and development and application of capitalization strategy.

Maintenance & Operations Support - FSD department with responsibility for creating and maintaining Internal Order master data and development of capitalization strategy for use of non-bond funding sources such as Routine and Regular General Maintenance (RRGM).

Facilities Finance and Accounting - FSD department with responsibility for review of capitalization strategy, reporting and providing documentation for beneficial use or occupancy milestone, requesting asset numbers, application of settlement rule, and processing settlements to final asset.

Fixed Assets Accounting - General Accounting department with responsibility for creation of asset numbers upon beneficial use or occupancy milestone. Responsible for reviewing and monitoring aging of AuC, application of capitalization strategy, reporting and providing documentation for beneficial use or occupancy milestone, and processing settlement to final asset.

Integrated Library and Textbook Support Services – Department responsible for creating and maintaining WBS master data, WBS budgeting and cost control, development and application of capitalization strategy, requesting asset numbers, applying settlement rules, and processing settlement to final asset.

IT Infrastructure Office, IT Project Management Office, and Instructional Technology Initiative Team – ITD departments responsible for creating a project charter, including a timeline, scope of work, and budget pertaining to the various phases/stages of a building improvement or equipment project. Responsible for reporting and providing documentation for beneficial use or occupancy milestone.

IT Finance and Administration – ITD department responsible for creating and maintaining WBS master data, WBS budgeting and cost control, development and application of capitalization strategy, requesting asset numbers, applying settlement rules, and processing settlement to final asset.

5.0 Process and Procedures

Pre-Project Development and Definition

The pre-project phase of a project life cycle is referred to as project definition, where a project's initial scope, schedule and budget is developed. Costs incurred prior to definition of a project is not capitalizable and must be expensed. Pre-project costs include surveys and studies and other related labor. Direct and distributed costs may be charged to the project controlling account only after a project has been defined and approved.

Development of Capitalization Strategy

Upon receipt of authorization for project creation, a capitalization strategy must be developed prior to creation of the project in SAP. A capitalization strategy requires knowledge of fixed asset accounting principles to plan appropriate action for proper capitalization. A capitalization strategy requires the following planning activities:

- Determination if the cost object is to be expensed or requires capitalization. Analysis of the project scope is required. This determination may change during the project life cycle. A project for repair may evolve into a project requiring capitalization.

- Determination of the appropriate project profile and investment profile. This determination is dependent on the previous analysis.

- Selection of a project profile with "Direct Capital Project" will default the investment profile to "AuC-Building". The investment profile must be corrected as necessary if this is not the correct AuC asset.
- This determination includes appropriate application of the investment profile. The investment profile may be applied to the project profile (WBS1) or to each WBS element. Application to each WBS element provides flexibility for excluding some WBS elements from capitalization.

- Determination of the appropriate asset classes for the final assets is also required for this plan. This determination may affect choice of project profile, investment profile and application of investment profile. Having a plan for mapping WBS elements to asset classes early in the project life cycle will assist in establishing settlement rules for each WBS element at a later date.

Please note that the SAP capitalization settlement process has been configured for a specific SACS function (second sub-string of the functional area). Settlement of project costs to assets under construction requires function 8500 - Facilities Acquisition and Construction. A functional area with a function classification of "8500" (second sub-string) is required to settle project costs to "AuC-Building". Settlement to "AuC-Equipment" does not have this constraint.

Creation of Project WBS

When creation of project WBS has been authorized and the capitalization strategy has been approved, the project WBS master data may be established in SAP. Project master data may be created in SAP by batch upload or by direct input to SAP. Refer to the capitalization strategy when establishing the project profile and WBS structure.

Collection of Project Costs

Applicable project costs are directly committed and charged or distributed to WBS elements while the project is under way. Along with cost distributions, such as labor, there may also be funding strategy alignment transactions affecting the collected costs on each WBS element.

Asset under Construction (AuC) Management

LAUSD departments with security access to create and maintain WBS controlling asset accounts have the responsibility to properly account for fixed assets under their jurisdiction. This responsibility includes:

- Creation of AuC asset and periodic settlement of costs to AuC asset. This activity is automated based on selection of investment profile: Z00001 - "AuC-Building" or Z10001 - "AuC-Equipment". This activity requires review whenever the project is modified.

- Regular review that AuC assets appropriately belong in AuC. Is the selection of the investment profile correct? Should incurred cost have been expensed rather than capitalized? Alternately, the project may require capitalization but does not have an investment profile.

- Regular monitoring and aging of AuC assets. Project schedule milestone dates of projects with AuC assets should be reviewed. Does it appear that project should have capitalized at this time?

- Regular maintenance of AuC assets.
  - Projects that are cancelled or incorrectly categorized as capital - transfer costs for AuC to expense in the period project was authorized for cancellation or when capitalization correction was implemented.
  - Project costs incurred that are found to have been incorrectly expensed - develop capitalization strategy and apply investment profile.
  - Projects at beneficial use or occupancy milestone - capitalize the asset in a timely manner.

- When a capital project is a) CANCELLED such that work on asset will not be completed or b) incorrectly categorized as capital when it should have been expensed as incurred:
    - Costs accumulated in AuC must be transferred to expense by journal voucher in the period it was cancelled or corrected. Supporting documentation for authorization of cancellation or correction is requested for audit purposes. Attach or reference the document with the journal voucher.
    - Investment profile must be cleared to prevent subsequent costs from settling to AuC. When investment profile cannot be cleared, BASE must be notified to add the project to the periodic settlement exclusion list.
    - If necessary, repeat item number 1, for additional costs settling to AuC subsequent to the JV data date.

- When a project was categorized as expense and later determined it should have been capitalized:
    - The capitalization strategy must be developed or updated.
    - Costs accumulated in the project WBS elements must be transferred to a temporary dummy project by journal voucher.
    - The investment profile must be applied in the project profile or the WBS elements.
    - Process transaction to reverse journal voucher to temporary dummy project.
    - Process settlement to AuC for costs of project to date.

Settlement of AuC to Final Asset

When the beneficial use or occupancy milestone is achieved and documented:

- Documentation of beneficial use or occupancy is to be attached to each project in SAP PS at the project profile for easy access by Fixed Asset Accounting and auditors.

- A request is sent by the project asset accountant to Fixed Asset Accounting to create the final assets and sub-assets. The request will follow the following forms:

    - The request will be in the form of an email with the standard subject: "**Request for Asset Number**".
    - The request may be for a single project or multiple projects.
    - The request will include an attached Excel file download of WBS Elements Report CN43N or BW Report PR001.
    - The excel file is to include the following information: WBS elements, description, investment profile, project type code, responsible cost center, requesting cost center, status, and functional area.
    - The excel file is to include a column mapping proposed (final) asset classes for each WBS element. Refer to the plan developed from the capitalization strategy.

- Fixed Asset Accounting will review the email request and documentation of beneficial use or occupancy attached to the project profile. Fixed Asset Accounting may recommend other asset classes. The number of asset and sub-asset numbers created is dependent on the number of asset classes and functional areas per each WBS. Fixed Asset Accounting will create the final asset accounts and send the excel file, updated with the listing of generated asset numbers, back to the project asset accountant.

- The project asset accountant must create or update settlement rules for each WBS element utilizing the capitalization strategy developed earlier and the final asset accounts received from Fixed Asset Accounting.

- The project asset accountant then processes the settlement transaction of AuC costs to the final asset accounts.

- Depreciation expense is calculated and recorded based on the useful life of the asset class and the service date from the beneficial use or occupancy supporting document. Fixed Asset Accounting will review asset balances and depreciation expense.

Capitalization of Trailing Costs

Capitalization of project costs may have been required while work on some components was still under construction. Additional project costs incurred after settlement to final asset accounts will be scheduled for periodic settlement to the final asset accounts according to settlement rules.

The project status at capitalization may be RELEASE, TECO (Technically Closed), or CLOSED. If there are expected trailing charges, the recommendation is to keep project status as RELEASE. If project status is TECO, new commitments cannot post. If project status is CLOSED, additional expenditures cannot post.

In the rare circumstance when a project has been modified such that the settlement rules are affected, the settlement rules must be updated.

6.0 References

The California School Accounting Manual (CSAM) - provides guidance for recording repairs and maintenance as expense and building additions, betterments, fixtures and service systems as capital assets.

Government Accounting Standards Board Statement No. 34 - requires accounting and financial reporting for capital assets in the government-wide balance sheet net of accumulated depreciation. Accurate fixed asset accounting and reporting requires timely and complete capital projects information posted in SAP.

Government Accounting Standards Board Statement No. 51 - requires accounting and financial reporting for intangible assets as capital assets in the government-wide balance sheet net of accumulated depreciation.

Gauthier, Stephen. *Governmental Accounting, Auditing, and Financial Reporting (GAAFR).* Government Finance Officers Association, 2012. The GAAFR incorporates all of the guidance of the Governmental Accounting Standards Board (GASB) through GASB Statement No. 66. Note there have been several developments affecting accounting, auditing, and financial reporting for state and local governments since the release of the GAAFR in 2012.