Reply to SP-02-27

Attn. CACFP-681
of: SFSP-460

Subject: Capital Expenditure Thresholds and Depreciation

To: STATE AGENCY DIRECTORS (Special Nutrition Programs)

-Colorado ED, Colorado
-DPHE, Colorado HS Iowa
-Kansas, Missouri ED
-Missouri DH, Montana OPI
-Montana DPHHS, Nebraska ED, Nebraska SS, North Dakota, South Dakota, Utah, Wyoming ED

We have received questions relating to capitalized equipment and depreciation. Following are the results of our research and discussions with the National Office.

The Office of Management and Budget (OMB) Circular A-87, Cost Principles for State and Local Governments, was revised in May 1995. The OMB Circular A-122, Cost Principles for Non-Profit Organizations, was revised in June 1998. Of particular interest for State Agencies (SAs) and Child Nutrition Program participants, public or nonprofit private, is the definition of equipment. Equipment is an article of nonexpendable, tangible personal property having a useful life of more than one year and an acquisition cost which equals or exceeds the lesser of (a) the capitalization level established by the organization for the financial statement purposes, or $5,000. This means an organization may establish a lower threshold for nonexpendable equipment such as $1,000. However, the dollar value may not exceed $5,000. Items that do not meet the Federal standard as capitalized equipment or the organization’s definition can be directly expensed at the time of purchase in accordance with the procedures for handling supplies.

With respect to equipment depreciation, we have learned that State and local governments are implementing a new governmental accounting model prescribed by the Governmental Accounting Standards Board (GASB) Statement 34 (Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments). The GASB is the standard-setting body for State and local governments, including public school districts. It sets generally accepted accounting principles for State and local
governments. When auditors audit the financial statements of State and local governments, they audit primarily against GASB pronouncements. School districts are facing the same GASB 34 implementation issues that face other governmental entities.

The accounting model required by GASB 34 is a full accrual model. That means a school district cannot expense equipment purchases for financial statement purposes. They must set the equipment up as an asset and expense it over the period in which it is used. Depreciation is the vehicle for measuring the annual benefit the school district gets from using the equipment in its operations. While other methods of computing annual depreciation expense are available, the simplest method (known as straight-line depreciation) is to divide the equipment's acquisition cost by the number of years in its useful life.

If officials are concerned that the straight-line depreciation does not accurately represent the expenses of operation, they may (1) consult their auditors; (2) consult a food service trade association; (3) consult the equipment's manufacturer(s); and/or (4) hire a consultant to help them determine which method of calculating depreciation will more accurately represent the expenses of their organization.

If you have any additional questions, please contact our office.

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Special Nutrition Programs