

# Federal Funds and Capital Assets

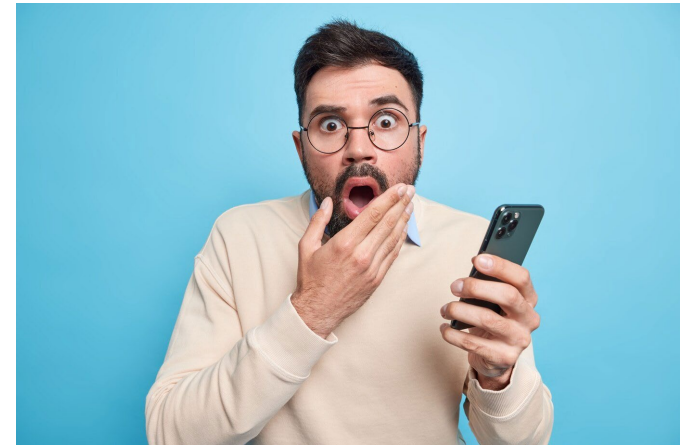
# Let's start with a quick quiz.

- Welcome folks, we're going to start off with a quick quiz to get a feel for where everyone's at on Capital Assets.
- What is your comfort level talking about your Capital Asset policy, if 5 was very comfortable and 1 is stressed?



# Capital Assets

- This is a topic that won't come up every day, but it can become a fast way to get a finding in your monitoring visit.
  - You get to see it the most when you're building the budget for the year.
- Defined in 2 CFR 200.1 as an asset that is capitalized (Thanks UGG!)
  - A purchase that is useful for more than a single year and can be depreciated over its useful life.





# Applicability

- ESEA and IDEA are both affected by Capital Asset definitions, but to different degrees.
  - ESEA funding (Title I-A, III-A, etc.) will only see purchases of Capital Assets in the form of Equipment.
  - IDEA funding will see Capital Assets as Equipment, or as Building Improvements or alterations.
- So, Equipment is always a Capital Asset, but a Capital Asset is not always Equipment (If you're in SPED)
  - Think of squares and rectangles

# Equipment again?

- Yep, Equipment again.
  - The cost threshold that defines what is and isn't equipment in your LEA is your “capitalization threshold”
- So, everything we talk about today is also subject to inventory requirements, maintenance procedures, disposition, and everything else we spoke about in last month's Equipment presentation.





# Capitalization Threshold

- For federally funded purchases through ESEA and IDEA, the **LEA has the ability to choose a capitalization threshold** (As long as it is \$10,000 or less)
  - **Anything with an individual cost over the threshold is a Capital Asset / Equipment.**
- A higher capitalization threshold lowers the administrative burden on the district but lowers the level of internal controls on funding.

# Capital Assets and the CFSGA/ IDEA applications

- Remember that little section of the CFSGA below Supplies and Materials?

380	Travel Expense	Amount: \$19,818 Description: Travel to State and local conferences.
400	Supplies and Materials	Amount: \$133,741 Description: Educational materials for PD and classrooms, GLAD
500	Capital Objects	Amount: \$0 Description:





# Prior Written approval

- 2 CFR 200.439 requires that the purchase of any capital asset with federal funds must be preceded by written approval from the state department.
  - So, anything that is budgeted in that budget line in the CFSGA must have a Capital Expense Form (CEF) completed and approved by the state before a reimbursement can take place.
- The CEF should be completed before the purchase is made, or you risk a large purchase without knowing if it is allowable or not.
  - Capital Assets are more difficult to justify allowability than most other purchases but can make a huge difference in a program if well implemented.



# The Capital Expenditure Form

- The Capital Expenditure Form (CEF) is relatively simple to complete.
  - As an LEA, you've already made the decision that a more substantial purchase is necessary with your federal funding.
  - The CEF is a place for the LEA to record the reasoning behind a capital object's purchase, so the SDE can review it for allowability **before** funds are spent.





# Where's the CEF?

- The CEF for SPED can be found on the Idaho Department of Education Website:
  - Special Education
    - Funding and Fiscal Accountability
      - Capital Purchases
- The CEF for Federal Programs **will** be found on the IDE website:
  - Federal Programs
    - Funding and Fiscal Accountability
      - Fiscal Compliance



# CEF Workflow

1. The LEA decides to purchase a piece of Equipment, or to begin Sped related building renovations that materially increase the value of the building using federal funds.
2. The LEA budgets for the expense in the CFSGA/ IDEA application.
3. The LEA completes the Capital Expenditure Form and submits it to the SDE.
4. The SDE reviews the CEF for allowability, and either:
  1. Returns it to the LEA for revision.
  2. Approves the CEF, signs it and returns it to the LEA.
5. The LEA completes the planned purchase (if the CEF was approved).
6. The LEA attaches the approved and signed CEF to the GRA request when collecting reimbursement.

# Inventory Requirements

- Once the purchase of a Capital Asset (Equipment) has been completed, that Asset must be inventoried (2 CFR 200.313(d)).
- In short, inventory must be reconciled at least once every two years, and the following information must be collected and on file:
  1. Description of item
  2. Serial/ identification number
  3. Funding source (and FAIN)
  4. Title holder
  5. The acquisition date
  6. Cost of the property
  7. Location, use and condition

*See Inventory presentation and Inventory template on the IDE website for further information on Inventory Requirements.*

# Non-Regulatory Guidance

- Capital Asset policies, Capital Expenditure Forms, and Inventory requirements are generally healthy practices for responsible control of funds.
  - Infrastructure that mandates accountability and fund control can be healthy, but you can accidentally bury yourself in bureaucracy if you are overly stringent.





# Reminders on your Capitalization Threshold

- All of the requirements discussed today only apply to assets with a purchase price greater than the LEA's capitalization threshold.
- The capitalization threshold for federal grants can be any amount up to \$10,000.
- Choosing \$10,000 will often make the most sense for your LEA.



# So why choose \$10,000?

- A \$10,000 threshold lessens the scrutiny level on potentially common transactions.
- As your Capitalization Threshold decreases, your administrative burden increases.
  - In a scenario where an LEA desires more stringent accountability controls, but is worried about imposing additional federal requirements, your “Capital Asset Threshold” doesn’t need to match your internal threshold for fiscal controls.



# Internal controls

- Setting your capitalization threshold at \$10,000 doesn't mean you don't have any internal asset controls on purchases below \$10,000, it means you have the opportunity to build out your own controls for purchases up to \$10,000.
  - Internal controls are the defense against accusations of misuse of funding, but strong internal controls don't need to be the mechanisms prescribed by UGG.
  - Your LEA can build out a process that meets your needs and provides accountability without activating the full requirements of UGG.
  - Build out your internal controls to your comfort level as a protection against accusations of fraud, waste and abuse.





# Shape your internal controls around your spending habits and fluency

- If you never spend any federal grant funds on anything other than salaries, you may consider a lower threshold to keep a closer eye on assets purchased with grants.
  - When it isn't a routine process, fluency with program requirements may be lower, and extra scrutiny may be helpful.
- If you consistently spend grant funds on items other than salaries and benefits, a higher threshold will lessen the burden of routine purchases.
  - If the purchase of a potential capital asset isn't as remarkable or material for an LEA, they are more likely to have a higher fluency in allowability requirements and asset management requirements.
- If your LEA lacks the fluency to make accurate allowability determinations or struggles with Asset Management, then a lower Capitalization Threshold may serve your LEA well.

# Your Capital Asset Policy

- A reminder:
  - You must have policies for a capitalization threshold whether or not you fund anything other than salaries and benefits.
  - You must have your inventory procedures and disposition procedures in writing, whether or not you make purchases that require them.



# Quiz follow up

- How are we feeling about Capital Assets now?
  - 5 is very comfortable, 1 is very uncomfortable.
- What are other topics you'd like us to cover?



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# Thanks!

Please feel free to reach out with any questions!