CAPITALIZATION OF FIXED ASSETS POLICY

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PURPOSES

To establish a policy by which fixed assets will be capitalized.

The investment in property, buildings, and equipment comprises a substantial portion of the total assets for the School District. It is important to properly record and account for the acquisition, transfer, addition, and deletion of such items. All fixed asset accounts are controlling accounts and should be supported by appropriate inventory records.

REFERENCE: National Council on Governmental Accounting Statement No. 1 and Governmental Accounting Standards Board Statements No. 6 and No. 8.

I. DEFINITIONS

A. Capitalization Policy

A Policy that determines which District-owned and leased assets will be capitalized for purposes of financial reporting and inventory control processes.

B. Fixed Assets Categories

Fixed assets consist of land, buildings, and improvements thereon, equipment, school busses, and furniture. Real property held as investments is not included in the fixed asset category.

Land – All tracts of land acquired by purchase, gift or bequest, or otherwise acquired, are included in the accounting records. When land is purchased, the valuation includes the amount paid for the land itself and all costs incidental to its acquisition. These costs include legal expenses, broker's fees, and expenses incurred in preparing the land for use, such as building demolition and grading. When acquired by gift or bequest, the land is recorded at fair market value at the date of acquisition. An independent professional appraisal is considered appropriate for establishing the valuation of land and buildings acquired by gift or bequest.

Buildings – All buildings and structures, including all permanently attached fixtures, machinery, and other apparatus that cannot be removed without cutting into walls, ceilings, or floors, or otherwise damaging the building for the items so removed, are included in this classification. When buildings are purchased or acquired by gift or bequest, the valuation method to be utilized is the same as that for land. Care should be taken to allocate all elements of related cost proportionately between the buildings and the land.

When buildings are constructed, all identifiable direct costs are included, such as payments for insurance and interest during the construction period. If the District's own labor forces construct the building, the cost should include properly allocated overhead or indirect costs.

Significant alterations, structural changes, extraordinary repairs, and replacements or betterments that increase the usefulness, efficiency, or life of existing building should be added to the recorded valuation as noted later.

Improvements Other Than Buildings – All improvements to land other than buildings such as streets, roads, bridges, pavements, landscaping, and utility distribution systems are included. The valuation method is the same as for land and buildings.

Equipment – Equipment includes all personal property with an extended useful life in excess of one year and is not altered materially through use.

If equipment is purchased, the item is recorded at net, which is the invoice price, less all discounts, plus freight. Trade-in allowances are not deducted in determining the asset value to be recorded.

Equipment (Continued) – if an item is fabricated, recording of the asset includes the total of all identifiable direct costs including materials, supplies, labor, installation, and indirect costs. If acquired by gift, the items are recorded at a fair estimate of value at the date of acquisition. Surplus property acquired from the federal government is shown at the value placed on the property by the federal government plus freight and installation costs, unless the value reported is clearly unreasonable. If an item acquired by gift or as surplus property is of significant value, a professional independent appraisal will be utilized to establish the recording value.

Construction in Progress – This classification includes all projects for construction of buildings, other improvements, and equipment that are in progress at the end of the fiscal year. The valuation includes all accrued capitalized costs.

Excess (Surplus) Property – When excess property is sold outside of the institution, the amount realized from the sale is credited to revenue from sale of excess property. Disposition of the proceeds from the sale depends on the source of funds for the original acquisition of the assets, as well as other legal or administrative policies. If no other restrictions exist, disposition is at the discretion of management.

C. Capital Equipment and Vehicles

The District's capitalization policy for equipment includes District assets purchased, donated and lease-purchased machinery, and equipment not affixed to a structure.

1. Stand alone equipment purchased or donated must meet the following criteria before being capitalized:

   a. The item has an expected useful life in excess of 3 years; and
   b. The item's original unit cost or estimated fair market value of donated assets is over $3,000.
   c. Computer equipment purchased to enhance existing computer hardware with a unit cost in excess of $3,000 and extends the expected useful life in excess of 3 years.
   d. Items with an original unit cost or estimated fair market value of donated assets of $300 to $3,000 will be tracked as "Equipment Inventory" for accountability purposes, but will not be capitalized for depreciation purposes.

2. Improvements (Betterments) to an existing capital equipment asset must meet both of the following requirements to be capitalized:

   a. The life of the asset is prolonged for more than 3 years; and
   b. The cost of the improvement exceeds $3,000.

3. Leased equipment, not subject to lease purchase, will not be capitalized.

D. Capital Improvements

1. Improvements made to property, District-owned or leased, will be capitalized if both of the following criteria are met:

a. The total expenditure is $10,000 or more, and
b. The properties' useful life is extended for 10 years or more, or there is a change in use that significantly increases the value or extends the life.

2. Expenditures that are of a refurbishing or a repair nature will not be capitalized. Refurbishing or repair expenditures are defined as those expenses that do not change the function of the asset, significantly extend the life of the asset, or appreciably increase the value of the asset.

   For example:
   Landscaping
   Carpet installation
   Painting
   Drapery cleaning and installation
   Asbestos removal
   Insulation
   Improvements totaling less than $10,000

3. Leased property, not subject to lease-purchase, will not be capitalized.

E. Depreciation Method

1. Depreciation will be calculated on the straight-line method of accounting over the estimated life of the asset based upon the useful life table provided by the Association of School Business Officials International.

Adopted 8/20/07