Board Policy DIB: Financial Reports

Status: DRAFT

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Capitalization Policy for Fixed Assets and Right-To-Use Assets

The Superintendent and ~~Assistant Superintendent of Business Services~~ CFO shall have the responsibility for the maintenance and control of all Fixed Assets (tangible and Intangible property, both real and personal) owned by the Bulloch County Board of Education and of Right-To-Use Assets maintained by the Bulloch County Board of Education.

All tangible/intangible personal property shall be defined as Machinery and Equipment, and shall include such items as kitchen equipment, computer hardware/software, outdoor equipment, miscellaneous equipment, trucks, vans, buses, tractors, forklifts, etc. All tangible real property shall be defined as buildings, building additions, building improvements, construction in progress, land and land improvements.

A fixed asset is a piece of property that meets all of the following requirements:

1. The asset is tangible and complete.
2. The asset is used in the operation of the school system's activities.
3. The asset has a useful life of longer than the current fiscal year.
4. The asset is of significant value.

A Right-To-Use Asset is lessee's right to use an asset over the life of a lease in the operation of the school system's activities or a right to use another party's subscription-based information technology software (SBITA). Right-To-Use assets and lease obligations are recognized based on the present value of lease payments over the lease term, where the initial terms exceed 12 months. Right-To-Use SBITAs are recognized based on the subscription cost, where the initial terms exceed 12 months. Right-To-Use Assets, like fixed assets, are of significant value.

The following significant values will be used for different classes of assets:

Class of Fixed Asset	Significant Value
Computer Applications	$~~20,000~~ 50,000 or more
Machinery and Equipment	$~~20,000~~ 50,000 or more
Buildings & Building Additions/Improvements	$~~20,000~~ 50,000 or more
Land Improvements	$~~20,000~~ 50,000 or more
Intangible Assets	$50,000 or more
Subscription-based Information Technology Arrangements (SBITAs)	$50,000 or more
Bulk Purchases of Small Value Assets	$1,500,000 or more

Fixed assets may be acquired through donation, purchase or may be self-constructed. The asset value for donations will be the fair market value at the time of the donation. The asset value, when purchased, will be the initial cost plus the trade-in value of any old asset given up, plus all costs related to placing the asset into operation. The cost of self-constructed assets will include all costs of construction.

Land

Land acquired by purchase is recorded at cost to include the amount paid for the land itself and all incidental costs.

Land acquired by gift or bequest is recorded at the fair market value at the date of the acquisition.

When land is acquired with buildings erected thereon, total cost is allocated between the two in reasonable proportion at the date of acquisition. If the transfer document does not show the allocation, other sources of the information may be used such as an expert appraisal or the real estate tax assessment records.

Land is not depreciable.

Land Improvements

This category will include parking lots, outdoor lights, covered walkways, fences, tennis courts, running tracks, and grandstands, etc. The Board does not capitalize landscaping. Land improvements will be depreciated over their estimated useful lives.

Buildings

Buildings will be recorded at either their acquisition cost or construction cost. If a building is acquired by purchase, the capitalized cost should include the purchase price and other incidental expenses at the time of acquisition. If a building is constructed, the capitalized cost should include all construction costs. The constructed building will be capitalized upon completion of the project. For the first year, all the component units of the building, such as HVAC, plumbing system, sprinkler systems, elevators, etc., will be included in the capitalized cost of the building.

Building Additions and Improvements

Building additions will be recorded at their construction cost. Building additions will be capitalized separately and depreciated over their useful life. Any major renovations or alterations within an existing building will be added to the cost of the original building. These renovations/alterations will be depreciated over the remaining life of the building/structure. When building component units (HVAC, Roofs, Plumbing Systems, Sprinkler Systems, Elevators, etc.) are replaced, the new component unit will be capitalized separately and depreciated over the remaining useful life of the existing building. Likewise, the old component unit will not be removed since it was not a separately valued component.

Construction in Progress

This includes all construction projects for buildings or land improvements ~~construction~~ that are not completed at the end of the fiscal year.

Machinery & Equipment

Expenditures for machinery, equipment, or furnishings costing ~~$20,000~~ $50,000 or more per item and which have an estimated life of more than one year will be capitalized. Library books and textbooks will not be capitalized.

Computer Applications

Expenditures for software applications costing ~~$20,000~~ $50,000 or more collectively for combined modules which are essential to the operation of the day to day activities of the Board of Education will be capitalized.

Intangible Assets

Intangible assets, including but not limited to, computer software, easements, water rights, timber rights, patents, right of ways, broadband licenses, general intangibles, leases, etc., costing $50,000 or more per item and having an estimated useful life or more than one year will be capitalized.

Subscription-Based Information Technology Arrangements (SBITAs)
A SBITA is a right-to-use another vendor's information technology software, alone or in combination with tangible fixed assets. SBITAs will be initially measured as the sum of (1) the initial subscription liability amount, (2) payments made to the SBITA vendor before commencement of the subscription term, and (3) capitalizable implementation costs, less any incentives received from the SBITA vendor at or before commencement of the subscription term.

Bulk Purchases of Small Value Assets
The GASB 2021-1 Implementation Guide clarified that governmental entities should capitalize bulk purchases that are individually below the capitalization threshold but significant in the aggregate. Bulk purchases refer to the purchase of a larger quantity of similar items/products with the same unit cost in exchange for a lower price per unit. These bulk purchase items must have an estimated useful life of more than one year and must exceed $1,500,000, in the aggregate.

Depreciation Policy

The date of implementation method of depreciation should be utilized to depreciate fixed assets, except for land, over their estimated useful lives of the related assets. A right-to-use asset will be amortized over the shorter of the useful life of the underlying fixed asset or the lease term, whichever is shorter. The following chart outlines the estimated useful lives of related assets.

Computer Applications	6 years
Buildings **Mobile Classrooms** **Permanent Buildings**	 10 60 years
Building Additions	Remaining Useful Life of Building
Building Improvements	Remaining Useful Life of Building
Equipment (Other) **Computer Equipment** **Kitchen Equipment** **Vehicles**	10 years 5 years 12 years 10 years
Land Improvements **Intangible Assets**	60 years 10 years
Subscription-Based Information Technology Agreements	Subscription Term (if longer than 1 year)
Bulk Purchases of Small Value Assets	See applicable asset category useful life

Disposition of Assets

When fixed assets are sold, donated, impaired, cannibalized, traded, or otherwise disposed of, the property report should be relieved of the cost of the asset and the associated accumulated depreciation. Items will be removed on an annual basis in conjunction of the annual update.

Assets that are sold or donated must have board approval and must be supported by a bill of sale.

Assets that are traded must be supported by an invoice showing the trade-in value.

Impairment of Assets

~~The District shall undertake an evaluation each year to determine if assets have been impaired.~~ A fixed asset is considered impaired if both the magnitude of the decline in service utility is significant AND the decline in service utility is unexpected. Impaired assets must have the approval of the CFO and Assistant Superintendent of Business Services. If it is determined that assets were impaired, the impairment should be measured, recorded, and disclosed. Insurance recoveries associated with asset impairments should be netted against the impairment loss when recoveries are received in the year of the impairment and reported as other non-operating income when received in a subsequent year. Insurance recoveries for circumstances other than asset impairments should be reported net of the associated loss when recoveries are received in the year of the impairment and reported as other non-operating income when received in a subsequent year.

Cannibalization of Assets

A fixed asset is considered cannibalized when the components are removed from the fixed asset and installed on another fixed asset for the purpose of meeting a specific requirement and/or returning the asset to service. Cannibalized assets must have the approval of the CFO and Assistant Superintendent of Business Services.