



Regulation DI-R(1): Accounting and Reporting - Financial Reports

Status: DRAFT

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Capital Asset Definition

A Capital Asset is a tangible or intangible item with the following characteristics:

- Expected useful life of more than one year
- Subject to the application of depreciation or amortization expense unless inexhaustible
- Acquisition cost(s) equals or exceeds the capitalization threshold
- Not intended for sale as part of normal school operation, such as Inventory.
- Used in ordinary operations and not held for investment.

Capital Assets may be acquired via purchase, donation, construction, transfer, or lease.

Capital Asset Valuation

Capital Assets should be reported at their historical cost, which consists of the amount paid to acquire or construct the asset (including the fair value of any non-cash property given up) and the ancillary costs needed to bring the asset to the condition and location necessary for its intended use. Examples of ancillary costs include professional fees, site preparation costs, freight charges, title search, etc. Fair value of assets given up will be determined by the credit amount given to the district by the seller. If a credit amount is not explicitly stated, the fair value will be determined by one of two methods, whichever is determined to be more reliable

1. The price in an open market for the same asset, or an equivalent asset, at the time of trade-in
2. The difference between the fair value (explicitly stated or open market) of the asset received and the cash paid.

Donated Capital Assets are reported at the estimated fair value on the date of donation plus any ancillary charges. Some examples of how the district can determine estimated fair value includes, but is not limited to, examining sales price of equivalent property in the open market, having an expert appraisal done, and examining sales price of similar property in the open market.

Transferred Capital Assets are reported at their net book value (historical cost minus accumulated depreciation and impairment losses) on the date of transfer.

Valuation of leased assets are determined by GASB Statement No. 87 Leases. Refer to the Board's Lease policy for guidance on Leases.

In some instances, the acquisition cost of property may not be available. For instance, documentation may not exist to support the cost of an item and it may be impossible or very time-consuming to reconstruct the cost of that item. In these situations, the original cost of the property may be estimated and used as the amount to capitalize. Insured values and current value estimates cannot be used for Capital Asset reporting purposes. Allowable estimation methods include, but is not limited to, using the current cost of similar assets and using an index to reduce the cost to account for inflation and taking the historical cost of a similar or equivalent asset acquired around the same time period.

Capital Asset Classification and Threshold

Class of Capital Asset	Threshold
Equipment	\$5000 or more
Buildings, Building Additions, & Building Improvements	\$100,000 or more
Land Improvements	\$100,000 or more
Intangible Assets - Software	\$1,000,000 or more
Intangible Assets - other than software	\$100,000 or more
Land	Any amount
Bulk Purchases of Small Value Items	\$1,000,000 or more

Land

- All costs of land and ancillary charges should be capitalized. There is no minimum threshold.

- 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 closing document does not show the allocation, other sources may be used to determine the allocation such as an expert appraisal or the real estate tax assessment records.
- Land has an indefinite useful life and therefore is not depreciated.
- Expenditures that are capitalized to Land could include, but are not limited to the following:
 - Purchase price/estimated fair value at the time of donation
 - Title Insurance premium
 - Site preparation costs (clearing, draining, filling, leveling the property, removal of existing buildings less salvage)
 - Professional fees (legal, title search, appraisal, surveying, etc.)
 - Encumbrances assumed (Mortgage or tax liens)

Land Improvements

- Land Improvements may be either depreciable or non-depreciable.
- Depreciable Land Improvements include parking lots, outdoor lighting, covered walkways, fences, and outdoor athletic facilities.
- Depreciable Land Improvements with a cost of at least \$100,000 is capitalized and depreciated over its useful life.
- Non-depreciable Land Improvements include items that are not exhaustible such as expenditures that do not require maintenance or replacement, expenditures to bring land into condition to commence erection of structures, or expenditures for improvements that do not deteriorate with the passage of time.
- Non-depreciable Land Improvements have an indefinite useful life and therefore are not depreciated. These costs will be added to the original cost of the land. All costs will be capitalized, there is no minimum threshold.

Buildings

- Buildings that cost \$100,000 or more are capitalized and depreciated over their useful life.
- Expenditures that are capitalized for purchased buildings could include, but are not limited to the following:
 - Purchase price including any liens assumed with the purchase
 - Expenses for remodeling, reconditioning, or altering a building to prepare it for its intended use
 - Professional fees (legal, appraisal, inspections, etc.)
- Expenditures that are capitalized for constructed buildings could include, but are not limited to the following:
 - Project costs (contractor and architecture invoices and other costs incurred)
 - Costs of building permits
 - Costs of temporary buildings used during construction
- Buildings that are constructed will be capitalized on the earlier of the place in service date (when the building opens for business) or upon completion of the project (contract requirements are complete).
- All the component units of both constructed and purchased buildings, such as HVAC, plumbing system, sprinkler systems, elevators, etc. will be included in the capitalized cost of the building. As the component units are replaced or upgraded, those items should be reviewed and capitalized according to the Building Improvements guidelines.

Building Additions

- Building additions that cost \$100,000 or more are capitalized and depreciated over their useful life.
- If the building addition is a separate asset, it will be capitalized and depreciated over its own useful life
- If the building is not a separate asset (e.g. an additional floor to an existing building), it will be added to the cost of the original building and depreciated over the remaining useful life

Building Improvements

Component Units:

- Component units of a building include HVAC, plumbing systems, sprinkler systems, elevators, etc.
- When building component units are replaced, the new component unit will be capitalized separately, and the old component will be removed from the ledger along with the accumulated depreciation. However, if the old component unit was included in the original cost of the building, it will not be removed from the ledger since it was not a separately valued component. The new component unit will be depreciated over the shorter of its estimated useful life or the remaining useful life of the building.

Major Renovations or Alterations:

- Major renovations and alterations within an existing building will be added to the cost of the original building as a building improvement. The building improvement will be depreciated over the remaining useful life of the building.

Intangible Assets

- An intangible asset is an asset that has all of the following characteristics:
 - Lacks physical substance
 - Nonfinancial in nature (not in monetary form like cash and cash equivalents, receivables, etc.)
 - Initial useful life extending beyond a single reporting period
- Software that cost \$1,000,000 or more will be capitalized and amortized over its estimated useful life.
- All other intangible assets that cost \$100,000 or more will be capitalized and amortized over their estimated useful lives.

Examples and Definitions:

- Easements - The right to use land belonging to another for a particular use.
- Water rights - The right to access or use water from a water source (i.e., a river, stream, pond or source of groundwater).
- Timber rights - The right to claim trees on property belonging to another.
- Patents - The legal protection granted to an individual, company, or organization from the United States federal government or a foreign government giving the owner the exclusive right to produce and sell an invention for a given period.
- Copyrights - The legal protection granted to authors or artist for their works from the federal government. This gives the owner the exclusive rights to produce or sell the artistic or published work for a specified period of time.
- Trademark - A name, word, phrase, logo, symbol, design, or image that identifies that the product is from a unique source.
- Purchased Software - Purchased software is software that the school district pays an upfront cost in order to use. This may be software that we pay for initially and then pay an additional annual maintenance fee in order to receive upgrades and support from the vendor.
- Licensed Software - Licensed software is software that the school district has the right to use for a specified period of time based on an agreement with the vendor.
- Internally Generated Software- Internally generated software is software developed by school district staff or an entity contracted by the school district, or acquired from an external entity but requiring more than minimal incremental effort on the part of the school district to begin to achieve its expected level of service capacity.

Construction in Progress

- This includes all construction projects for buildings, building additions, building improvements, and land improvements that are not completed by the end of the fiscal year, June 30th.
- There is no threshold amount for Construction in Progress assets. All costs are capitalized as long as the underlying project's total cost will reach the minimum capitalization threshold for the applicable Capital Asset class being constructed.
- Construction in Progress is not depreciable.
- Once the asset is either placed in service or the project is completed it will be moved to the applicable Capital Asset class and depreciation will begin. Refer to the other Capital Asset classes for minimum thresholds and estimated useful lives.

Equipment

- Equipment that cost \$5,000 or more (\$5,000 per unit) are capitalized and depreciated over their estimated useful lives.
- Equipment includes machinery, furniture, vehicles, kitchen equipment, and other personal property that is either a fixed or a movable tangible asset.
- Expenditures that are capitalized to Equipment could include, but are not limited to the following:
 - Contract or invoice price
 - Freight charges
 - In-transit insurance costs

- Installation charges

Leases

- GASB Statement No. 87 might result in leases that are Capital Assets. Refer to the Board's Lease policy for guidance on Leases

Bulk Purchases of Small Value Items

- GASB Implementation Guide 2021.1 might result in small value items purchased as a group becoming Capital Assets. These small value items, whose individual acquisition costs are less than the threshold for an individual asset, but in the aggregate are significant, shall be capitalized as a single bulk purchase asset. Examples include, but are not limited to, laptops, chromebooks, security equipment, and classroom furniture. The capitalized, bulk purchase asset will be depreciated and disposed of as a single asset at the end of its useful life.
- Capturing and capitalizing the bulk purchase of these items is for financial statement accuracy only and not intended to be a method of individual asset security or control. The individual tracking and inventory methods for these types of assets are deferred to the purchaser. Damages to or lost individual assets or replacements will not impact the capitalized group purchase.

Repairs and Maintenance

- Costs for repairs and regular maintenance to keep the current service capacity of Capital Assets are expended in the period incurred and not capitalized.
- Repairs and maintenance costs expensed as incurred could include, but are not limited to the following:
 - HVAC, plumbing, and electrical repairs
 - Grounds maintenance and lawn care
 - Interior and exterior maintenance to a building (repainting, replacement of carpet, replacement of doors, decorating, etc.)
 - Vehicle maintenance (oil changes, brake replacement, tire replacement, etc.)
 - Other costs to Capital Assets that don't add to the value of the asset or increase the useful life

Depreciation/Amortization

Tangible capital assets are depreciated over their estimated useful lives using the straight-line method unless they are inexhaustible (e.g. Land). Intangible assets are amortized over their useful lives using the straight-line method.

All capital assets are depreciated/amortized using the half-year convention.

Buildings, Additions, and Improvements:	
Permanent Buildings	50 to 80 years
Building Additions	Up to 80 years
Building Improvements	Up to 80 years
Mobile Buildings	20 years

Equipment:	
Vehicles (trucks, vans, tractors, etc.)	8 to 20 years
Kitchen Equipment	15 years
Computer Hardware	5 years
Outdoor Equipment	15 to 20 years
Miscellaneous Equipment	2 to 20 years
Buses	15 to 20 years

Land Improvements:	
Fencing	20 years
Lighting	20 years
Asphalt Paving	20 years
Concrete Paving	30 years
Sidewalks & Curbs	20 years
Sewer Line	40 years

Landscaping	20 years
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Intangibles:	
Software	5-10 years
Other than Software	20 years
Bulk Purchases	3-25 years

Impairment of Capital Assets

- Asset impairment is a significant, unexpected decline in the service utility of a Capital Asset
- The determination of whether a Capital Asset is impaired is a two-step process of
 1. identifying potential impairments and
 2. testing for impairment.
- Capital Assets will be checked for impairment when events or changes in circumstances indicate that an asset may be impaired. This can occur during normal repair and maintenance, from physical inspection, after a natural disaster, accidents, or other events or circumstances that indicates that an asset may be impaired.
- Indicators of impairment include:
 - Evidence of physical damage
 - Technological development or evidence of obsolescence
 - A change in the manner or expected duration of use of a capital asset o Construction stoppage
- Capital Assets that are determined to be permanently impaired will be reduced in value and a loss will be recognized per the guidelines of GASB Statement No. 42. Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries

Physical Inventory and Tracking Assets

A physical inventory will be conducted on an annual basis for all Capital Assets. The Division of Finance Capital Asset team will coordinate the annual physical inventories. Additionally, the district will track various other items not meeting the capitalization thresholds. Physical inventories of trackable items not meeting the Capital Asset thresholds will be conducted by various other departments. Additional trackable items will include, but are not limited to the following:

- Chromebooks
 - Laptops
 - iPads/Tablets
 - Mobile Technology Carts
 - Smartboards
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