Policy 802.04: Capital Assets

The school district will establish and maintain a capital assets management system for reporting capitalized assets owned or under the jurisdiction of the school district in its financial reports in accordance with generally accepted accounting principles (GAAP) as required or modified by law; to improve the school district's oversight of capital assets by assigning and recording them to specific facilities and programs and to provide for proof of loss of capital assets for insurance purposes.

Capital assets, including tangible and intangible assets, are reported in the government-wide financial statements (i.e. governmental activities and business type activities) and the proprietary fund financial statements. Capital assets reported include school district buildings and sites, construction in progress, improvements other than buildings and sites, land and machinery and equipment. Capital assets reported in the financial reports will include individual capital assets with an historical cost equal to or greater than $2,500, except for intangible right to use lease assets. The Federal regulations governing school lunch programs require capital assets attributable to the school lunch program with a historical cost of equal to or greater than $500 be capitalized. Additionally, capital assets are depreciated over the useful life of each capital asset.

All intangible assets (except for right to use lease assets) with a purchase price equal to or greater than $25,000 with useful life of two or more years, are included in the intangible asset inventory for capitalization purposes. Such assets are recorded at actual historical cost and amortized over the designated useful lifetime applying a straight-line method of depreciation. If there are no legal, contractual, regulatory, technological or other factors that limit the useful life of the asset, then the intangible asset needs to be considered to have an indefinite useful life and no amortization should be recorded.

If an intangible asset that meets the threshold criteria is fully amortized, the asset must be reported at the historical cost and the applicable accumulated amortization must also be reported. It is not appropriate to “net” the capital asset and amortization to avoid reporting. For internally generated intangible assets, outlays incurred by the government's personnel, or by a third-party contractor on behalf of the government, and for development of internally generated intangible assets should be capitalized.

The district recognizes the importance of classifying leases of intangible assets as assets or liabilities in financial statements. When operating as a lessor, the district will recognize a lease liability and an intangible right-to-use lease asset. When operating as a lessee, the district will recognize a lease receivable and a deferred inflow of resources consistent with the requirements established in GASB 87.

The District recognizes a lease liability and an intangible right-to-use lease asset with an initial value of $25,000 or more. At the commencement of a lease, the District initially measures the lease liability at the present value of payments expected to be made during the lease term.

Subsequently, the lease liability is reduced by the principal portion of lease payments made. The lease asset is initially measured as the initial amount of the lease liability, adjusted for lease payments made at or before the lease commencement date plus certain initial direct costs to place the asset in service. The lease asset is then amortized on a straight-line basis over the life of the lease.

The capital assets management system must be updated monthly to account for the addition/acquisition, disposal, relocation/transfer of capital assets. It is the responsibility of the superintendent to count and reconcile the capital
assets with a capital assets management system on June 30 each year.

It is the responsibility of the superintendent to develop administrative regulations implementing this policy. It will also be the responsibility of the superintendent to educate employees about this policy and its supporting administrative regulations.

NOTE: This is a mandatory policy. It is suggested the board consider a capitalization threshold consistent with the GASB 34 Committee Recommendations which recommended "districts and AEAs implement capitalization levels that would capture at least 80% of the value of assets. However, the threshold should not be greater than $5,000." In addition, Boards may wish to establish guidelines at lower thresholds for keeping track of capital assets for internal control and insurance purposes.

In determining the capital asset capitalization threshold, the size of the school district, the property insurance deductible and the time and effort necessary to account for and track capital assets with a lesser value should be considered. It is strongly recommended the board consult with the school auditor prior to setting the capitalization threshold.

An intangible asset excluding right to use lease, should be recognized in the statement of net assets only if it is identifiable which means the asset is either separable or arose from contractual or other legal rights, regardless of whether those rights are transferable or separable. The intangible asset must also possess all of the following characteristics/criteria:
- lack of physical substance;
- be of a nonfinancial nature (not in monetary form like cash or investment securities); and,
- the initial useful life extending beyond a single reporting period.

Examples of intangible assets include easements, land use rights, patents, trademarks and copyrights. In addition, intangible assets include computer software purchased, licensed or internally generated, including websites, as well as outlays associated with an internally generated modification of computer software. Intangible assets can be purchased or licensed, acquired through nonexchange transactions or internally generated. Intangible assets exclude assets acquired or created primarily for purposes of directly obtaining income, assets from capital lease transactions reported by lessees, and goodwill created through the combination of a government and another entity.

A school district could, and many do, use bar code identification tags to control capital assets, such as VCRs, technology equipment, etc., even though these capital assets have a cost below the capitalization threshold. In tracking these capital assets only the information necessary to control the location and use of them needs to be maintained. Some school districts video-tape each classroom/office annually to save time and effort tracking capital assets below the capitalization threshold. The video tape is also helpful for insurance claims. Whether a school district chooses to track capital assets with a cost below the capitalization threshold or not, capital assets with a cost below the capitalization threshold should not be included in the capital assets listing for reporting purposes.

This policy provides for valuing capital assets at historical cost as required by GAAP. This policy bases the capitalization threshold on the historical/acquisition cost of the individual asset. The school district can choose to use the historical cost of all the items included in a purchase order as the basis for determining whether to capitalize the capital asset. The cost of improvements may be added to the historical cost of a capital asset. Deciding whether to add the costs of an improvement to a capital asset's historical cost is a judgment call which should be made after consulting with the school auditor.

Legal Reference: Iowa Code §§ 257.31(4); 279.8; 297.22-.25; 298A.

Approved:
Reviewed:
Revised: