

PELHAM SCHOOL DISTRICT POLICY DID-R – CAPITAL (FIXED) ASSET PROCEDURE

The Pelham School District is required to implement the changes governed by the Governmental Accounting Standards Board (GASB) Statement #34. One phase of this Statement requires inventorying and recording fixed assets owned by the District. This procedure outlines the District's operational implementation of the accounting requirements to meet this policy.

Appendix D contains inventory worksheets to catalog each asset with all of the pertinent information in preparation for recording into the fixed asset system.

Capital Asset Definitions and Guidelines

Capital assets are real or personal property that have a value equal to or greater than the capitalization threshold of the particular classification of asset and have an estimated useful life of greater than one year.

These classes include:

- Land
- Land Improvements (not depreciable)
- Land Improvements (depreciable)
- Infrastructure
- Construction in Progress
- Leasehold Improvements
- Buildings and Building Improvements
- Vehicles
- Furniture, Equipment & Machinery

All assets or at least a representative sampling, including those that are reported on a composite basis, must be evaluated once annually to reflect either an increase or decrease in total value.

Capitalization Thresholds

For financial reporting purposes, capitalization thresholds are set at \$10,000 per item or for like-kind (aggregate) purchases for all classes except Infrastructure assets, which are capitalized and depreciated if over \$100,000 per item.

Determining Asset Costs

When determining and then reporting an asset's cost, use actual cost including the cost of freight, site preparation, architect and engineering fees, etc. or an estimated historical cost if actual cost records are not available. Bond documents associated with capital projects; expenditure records from capital project funds and architectural and engineering documents are possible source documents for establishing initial actual costs. Calculating current replacement cost and then adjusting for price-level changes by using indexes or fair-market value at time of acquisition may establish historical cost. All donated assets are valued at fair-market value as of the date of

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donation. Source documents that were used to determine acquisition costs should be maintained or referenced, if available, i.e.: deeds, board minutes, invoices, insurance records, etc.

Leased Equipment

Equipment should be capitalized if the lease agreement meets any one of the following:

- The lease transfers ownership of the property to the lessee (District) by the end of the lease term;
- The lease term is equal to 75 percent or more of the estimated economic life of the lease property;
- The present value of the minimum lease payments at the inception of the lease equals at least 90 percent of the fair value of the leased property.

Leases that do not meet any of the above requirements should be recorded as an operating lease and reported in the notes of the financial statements.

Estimated Useful Life

An asset must have an estimated useful life greater than five years to be considered for capitalization and depreciation. Assets that are consumed, used-up, habitually lost or worn-out in one year are not to be considered. In determining the useful life, the District should consider the asset's present condition, use of the asset, how it's maintained and how long it is expected to meet service demands. A suggested useful life table can be found in Appendix A.

Acquiring New Assets

All requisitions for the purchase of equipment and machinery should be reviewed to ensure all items to be recorded in the fixed asset system are identified. When the asset is received, information is collected to complete the fixed asset record, including date, vendor, quantity, description, model and serial numbers, etc. Partial shipments are recorded when received if they exceed the threshold; otherwise, the composite entry is made when the purchase is complete. The chart of accounts functions and object codes correlate to the major functional category to be reported on the financial reports. Care should be taken to ensure the proper codes are used when recording the asset to make use of the features of the reporting system.

Retiring Assets

An asset adjustment form similar to the one found in Appendix B should be completed when a usable item is transferred to another location for continued use or when an item is retired from service or sold, so that the information can be entered into the fixed asset system. If an item is retired due to loss, damage or theft, the business administrator needs to be notified so that the incidents can be reported to the insurance carrier and arrangements made for proof of loss and reimbursement if appropriate. Alternatively, assets not easily identified as disposed may be removed from fixed assets and accumulated depreciation the year after the asset becomes fully depreciated.

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Capital Asset Categories

Land

Land Definition

All land owned by the District, whether improved and unimproved. Land is characterized as having an unlimited life.

Depreciation Methodology

Land is an inexhaustible asset and does not depreciate over time. It is recorded at historical cost and remains at that cost until disposal.

Examples of Land Expenditures to be Capitalized

- Acquisition price;
- Costs to acquiring land, i.e.: unpaid taxes, commissions, closing costs and professional fees.

Land Improvements (Not depreciable)

Land Improvements (Not depreciable) Definition

Land Improvements (Not Depreciable) consists of betterments, site preparation and site improvements (other than buildings) that ready the land for its intended use.

Depreciation Methodology

Land Improvements (Not Depreciable) are inexhaustible assets and do not depreciate over time. It is recorded at historical cost and remains at that cost until disposal.

Examples of Land Improvements (Not Depreciable) Expenditures to be Capitalized

- Land excavation, fill, grading, drainage
- Demolition of building less salvage

Land Improvements (Depreciable)

Land Improvements (Depreciable) Definition

Land Improvements are depreciated if the improvement is exhaustible and eventually will need to be replaced and/or repaired.

Depreciation Methodology

The straight-line, full year depreciation method (historical cost less residual value, divided by useful life) will be used for depreciable land improvements.

Examples of Land Improvements (Depreciable) Expenditures to be Capitalized

- Driveways;

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- Parking lots/Sidewalks;
- Septic Systems;
- Flagpoles;
- Retaining walls;
- Bleachers;
- Fencing;
- Outdoor lighting; and
- Other non-building improvements.

Infrastructure

Infrastructure Definition

Infrastructure assets are long-lived capital assets that are normally stationary in nature and can be either exhaustible or inexhaustible. Generally, school districts will have few, if any.

Depreciation Methodology

The straight-line, full year depreciation method (historical cost less residual value, divided by useful life) will be used for depreciable Infrastructure assets. These will require review on an individual basis.

Examples of Infrastructure Expenditures to be Capitalized

- Roads, Bridges, Tunnels;
- Water systems; and
- Drainage systems.

Construction in Progress

Construction in Progress Definition

Construction in Progress includes all uncompleted building installations and alterations that are under construction as of an accounting period ending date. Expenditures for facilities under construction will be capitalized to the appropriate category when completed or placed into service.

Depreciation Methodology

Assets categorized as Construction In Progress are capitalized but not depreciated.

Examples of Construction in Progress Expenditures to be Capitalized

- Labor used in construction;
- Materials used in construction;
- Ancillary costs to support the construction.

Leasehold Improvements

Leasehold Improvement Definition

The construction of new buildings or improvements made to existing facilities by a lessee (the District), who has the right to use said buildings/facilities over the term of a lease.

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These improvements will revert to the lessor at the expiration of the lease. Moveable furniture or fixtures that are not attached are not considered a leasehold improvement. Generally, school districts will have few, if any.

Depreciation Methodology

Leasehold improvements are capitalized by the lessee and amortized over the shorter of 1) the remaining lease term, or 2) the useful life of the improvement. Improvements made in lieu of rent should be expensed in the period incurred. The straight-line, full year depreciation method (historical cost less residual value, divided by useful life) will be used for depreciable Leasehold Improvements.

Examples of Leasehold Improvement Expenditures to be Capitalized

- Renovation to a building leased from a third party. For instance, if the SAU paid for renovations to the District owned SAU facility.

Buildings and Improvements

Buildings Definition

A building is a structure that is permanently attached to the land, has a roof, is partially or completely enclosed by walls, and is not intended to be moveable. Buildings should include all installed property that cannot be removed without impairing the use of all or a portion of the building; such as HVAC, Plumbing, Wiring, Alarm systems, Sprinklers, Lighting, Flooring, Gym Bleachers, Lockers, Walk-in Freezers, etc.

Building Improvement Definition

Building Improvements are capital events that materially extend the useful life of a building or increase the value or both.

Depreciation Methodology

The straight-line, full year depreciation method (historical cost less residual value, divided by useful life) will be used for Buildings and Buildings Improvements.

Examples of Buildings and Improvements Expenditures to be Capitalized:

- All school buildings owned or leased by the District:
 - School and Administration buildings;
 - Garages; and
 - Athletic facilities (not fields).
- Measurable improvements performed in the last 20 years, if determinable and still have a remaining useful:
 - Roof replacements;
 - Renovations; and
 - Major energy conservation measures.

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Vehicles

Vehicles Definition

All vehicles owned or leased by the District and separately identified on the District insurance policy.

Depreciation Methodology

The straight-line, full year depreciation method (historical cost less residual value, divided by useful life) will be used for Vehicles.

Examples of Vehicle Expenditures to be Capitalized:

- School buses;
- Automobiles;
- Trucks;
- Boats; and
- Lawn tractors.

Furniture, Equipment and Machinery

Furniture, Equipment & Machinery Definition

Fixed or moveable tangible assets to be used for the operation of the educational system, the benefits of which extend beyond one year from the date placed in service. Note: Costs of extended warranties and/or maintenance agreements, which can be separately identified from the cost of the equipment, should not be capitalized.

Depreciation Methodology

The straight-line, full year depreciation method (historical cost less residual value, divided by useful life) will be used for Furniture, Equipment & Machinery.

Capitalization Threshold

Individual assets, such as furniture and equipment that meet the threshold level as set by the district, should be capitalized and depreciated. Some assets may fall below the capitalization threshold individually but may be capitalized if purchased in large quantities or identified in similar type categories such as athletic equipment or classroom furnishings.

The capitalization threshold for Furniture, Equipment & Machinery is \$10,000 per item; however, an individual item less than that cost can be combined with similar items for depreciation purposes but each has to have an individual cost of \$250 or more. For example, Musical Instruments & Equipment will include all instruments, uniforms, etc., that exceed a \$250 cost individually, with the total being combined for depreciation purposes. Capitalizing combined items to meet the threshold is not required should the life expectancy of the items be varied.

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Examples of Furniture, Equipment & Machinery Expenditures to be Capitalized:

- Assets inventoried individually, but depreciated combined
 - Kitchen equipment;
 - Copiers;
 - Computer Servers/Computers/Peripherals/Software;
 - Library Books, Reference Materials and Media;
 - Science and Engineering equipment;
 - Typical Classroom Furnishings;
 - Text books;
 - Office furnishings;
 - Custodial equipment;
 - Library furnishings;
 - Grounds Equipment (not separately identified on insurance policy);
 - Athletic Equipment; and
 - Musical Instruments and Equipment.

District Policy History:

Adopted: December 18, 2013

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Appendix A

Estimated Useful Life

Asset Class	Examples	Estimated Useful Life in Years
Land and Land Improvements	Inexhaustible assets	Not depreciated
Infrastructure		Not depreciated
Construction In Progress		
Land Improvements – Structure	Paving, fencing, running track, bleachers	20
Land Improvements – Grounds	Ball field, landscaping	30
Buildings		30 to 50
Buildings Improvements		20 to 50
Buildings Improvements – Other		
Portable Classrooms		25
HVAC Systems	Air conditioning systems, heating	20
Roof Replacements		20
Carpet Replacement		7
Electrical/Plumbing		30
Leasehold Improvements		20
Vehicles		
Buses and Dump Trucks		10
Cars, Light Trucks, Cargo Vans		5 to 10
Equip, Furniture, & Machinery		
Furniture, Equipment	Desks, tables, chairs	5
Copiers	Copiers	5
Computers/Peripherals	Monitors, CPU, printers	5
Textbooks		7
Kitchen Equipment	Appliances	12
Athletic Equipment	Weight machines, mats, pitching machines	10
Custodial	Floor scrubbers, vacuums	12
Grounds	Mowers, tractors	15
Science & Engineering	Lab equipment	10
Library	Books and media	7

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Appendix B

**Pelham School District
Asset Adjustment Request Form**

School / Dept. _____ **Room** _____

Action Code *	Asset Description including Mfg./Vendor **	Serial/Model Number	To and From Location /Room#	Date	Comments

Action Codes:

A – Add, T – Transfer, R – Retired/Returned, L – Lost or Stolen

CONTACT INFORMATION

Released by _____
Signature / Date

Approved by _____
Signature / Date

* **Documentation to support removal from inventory must be attached, i.e., Police report, description of loss, credit invoice, etc.**

** **Attach additional sheets or equipment/asset lists (if needed)**