

Board Policy DIB: Financial Reports

Status: DRAFT

Original Adopted Date: 08/16/2011 | **Last Revised Date:** Pending

CAPITALIZATION POLICY FOR FIXED ASSETS

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.

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

Class of Fixed Asset	Significant Value
Machinery and Equipment	\$20,000 or more
Buildings	\$25,000 or more
Building Improvements	\$25,000 or more
Land Improvements	\$25,000 or more
Land	Any Amount

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 lighting, 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

Building additions will be recorded at their construction cost. Building additions will be capitalized separately and depreciated over their useful life.

Building Improvements

Building improvements are capital events that materially extend the useful life of a building or increase the value of a building, or both. Except for certain component units which are described below, building improvements should be capitalized and recorded as an addition of value to the existing building if the expenditure for the improvement meets or exceeds the capitalization threshold, and the expenditure increases the value or life of the building by 15 percent of the original life period.

A. Component Units (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 (subsequent to original construction) will be removed from the property report. However, if the original component unit was included in the original construction, it will not be removed since it was not a separately valued component. The new component unit will be depreciated over the remaining useful life of the building.

B. Major Renovations or Alterations

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.

Construction in Progress

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

Machinery and Equipment

Expenditures for machinery, equipment or furnishings costing \$10,000 or more per item and have an estimated life of more than one year will be capitalized. Library books will not be capitalized.

CAPITALIZATION POLICY FOR INTANGIBLE ASSETS

An intangible asset is an asset that is identifiable, created through time and effort and meets the following requirements:

1. Lacks physical substance (cannot be seen, touched or physically measured) and has a useful life of longer than the current fiscal year
2. The asset is separable, that is, the asset is capable of being separated or divided from the entity and sold, transferred, licensed, rented, or exchanged, either individually or together with a related contract, asset, or liability.
3. The asset arises from contractual or other legal rights, regardless of whether those rights are transferable or separable from the entity or from other rights and obligations.
4. The asset is non-financial (not cash or investments) in nature and not acquired or created primarily for the purpose of generating income or profit.
5. Not Goodwill

Examples of intangible assets include easements, land use rights (i.e. water rights, timber rights and mineral rights), patents, trademarks and copyrights. In addition, intangible assets include computer software that is purchased, licensed or internally generated (including websites) as well as outlays associated with an internally generated modification of computer software.

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

Class of Intangible Asset	Significant Value
Easements, Right of Ways	\$100,000 or more
Land Use Rights	
Water Rights	\$100,000 or more
Timber Rights	\$100,000 or more
Mineral Rights	\$100,000 or more
Patents	\$100,000 or more
Trademarks	\$100,000 or more
Copyrights	\$100,000 or more
Internally Generated	
Computer Software	\$100,000 or more

Websites	\$100,000 or more
----------	-------------------

Intangible assets can be purchased or licensed, acquired through donations or internally generated. 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 internally generated assets will include all costs of developing the asset.

Easement/Right of Way

The right to use the land of another party for a particular purpose.

Land Use Rights

Water Rights:

The right to draw water from a particular source, such as a lake, irrigation canal, or stream.

Timber Rights:

The right to cut and remove trees from the property of another party.

Mineral Rights:

The right to extract, exploit, mine, and/or produce any or all of the minerals lying below the surface of the property.

Patent

The right to exclude others from making, using, offering for sale, selling or importing an invention. Patents are issued by the U.S. Patent and Trademark Office.

Copyright

A form of protection provided to the authors of "original works of authorship" including literary, dramatic, musical, artistic, and certain other intellectual works, both published and unpublished. Copyrights are registered by the Copyright Office of the Library of Congress.

Trademark

A word, name, symbol or device which is used in trade with goods to indicate the source of the goods and to distinguish them from the goods of others. Trademarks used in interstate or foreign commerce may be registered with the U.S. Patent and Trademark Office.

Computer Software

The ownership of, or right to use, computer programs that control the functioning of computer hardware and other devices. Computer software comprises both operating systems and application programs. Computer software is either created by another party and ownership acquired by the school district, or created internally within the school district.

DEPRECIATION & AMORTIZATION POLICY

Depreciation refers to two very different but related concepts:

1. the decline in value of assets, and
2. the allocation of the cost of assets to periods in which the assets are used (amortization)

Amortization is not a matter of valuation but a means of allocating an asset's capitalized cost to expense in a systematic and rational manner to those periods expected to benefit from the use of the asset. Unlike fixed assets, intangible assets are not amortized on the basis of a decline in their fair market value (depreciation), but on the basis of systematic charges to expense (amortization). All fixed assets, except for land, are depreciated whereas an intangible asset is amortized only if there are legal, contractual, regulatory, technological, or other factors that limit its useful life. Useful life may vary among intangible assets and should be the shorter of the intangible asset's technological life versus its legal/contractual and regulatory life. The useful life of an intangible asset that arises from contractual or other legal rights should not exceed the period to which the service capacity of the asset is limited by those contractual or legal provisions. If there are no legal, contractual, regulatory, technological or other factors that limit the useful life of an intangible asset, then the intangible asset should be considered to have an indefinite useful life and no amortization should be recorded.

The straight line method should be utilized to depreciate and/or amortize all assets, except for land and intangible assets with an indefinite useful life, over the estimated useful lives of the related assets principally as follows:

USEFUL LIFE POLICY	
ASSET CATEGORY	YEARS
EXHAUSTIBLE LAND IMPROVEMENTS	10 to 60
BUILDINGS	In unique cases where older buildings are still in use, or have been substantially renovated, a longer useful life may be justified
School Buildings used for Educational Purposes	60 to 80

Stadiums and Ancillary Buildings	60 to 80
Administrative, Transportation, and Plant Operation	60 to 80
Portable Classrooms	25
Storage Sheds	10
BUILDING IMPROVEMENTS AND ADDITIONS	
Renovations, Additions, Retrofits	40 to 80
New Component Units, HVAC, Plumbing Systems	Life of Component generally not to exceed remaining useful Life of Asset
EQUIPMENT	
Vehicles (automobiles, trucks, vans, tractors, forklifts, etc.)	8
Kitchen Equipment	10
Computer Hardware	5 to 8
Outdoor Equipment	10 to 15
Miscellaneous Equipment	5 to 30
Buses	15
INTANGIBLE ASSETS*	To be assigned individually

* Intangible assets can have an indefinite useful life, ranging from as short as 2 years to having an indefinite useful life, depending on the circumstances and type of intangible asset involved. For that reason, useful lives for intangible assets will be evaluated on case by case basis in assigning a useful life for accounting purposes.

1. The shorter of the legal or the estimated useful life is to be used; if the life is indefinite or unlimited—as may be the case with licenses or permits, then do not amortize.
2. If the value is separable from the underlying land, then the shorter of the legal or the estimated useful life; if the life is indefinite or unlimited, then do not amortize. If the value is inseparable from the underlying land, then do not amortize.
3. If the value of the intangible asset is identifiable, then the shorter of the legal or the estimated useful life is to be used for amortization; if the legal or useful life is indefinite or unlimited, then the underlying asset is not to be amortized. If the value of the intangible resource is indeterminable, unidentifiable, or inseparable from another asset to which it appertains (as might be the case when the purchase of land includes extraction rights, but no isolatable cost is attributed to those rights), then do not amortize the intangible asset.
4. If the computer software is licensed, the shorter of the legal or estimated useful life is to be used.

Depreciation will be calculated utilizing the “Half-Year Convention” which is a permissible convention according to the Generally Accepted Accounting Principles (GAAP). Under this convention, one-half year’s depreciation shall be recorded in the year of acquisition and one-half year’s depreciation shall be recorded in the year of disposal. An asset shall be treated as though it were placed in service or disposed of on the first day of the seventh month of the fiscal year.

DISPOSITION, REMOVAL OR IMPAIRMENT OF ASSETS

A capital asset is considered impaired when its service utility has declined significantly and unexpectedly. Assets may be removed from the asset listing for various reasons. Declines can occur because of physical damage, service utility, changes in laws and/or regulations, technological changes, and obsolescence. Reasons for the removal of an asset may include, but are not limited to, the following:

1.
 1. Donated
 2. Exchanged
 3. Demolished
 4. Damaged beyond repair
 5. Sold
 6. Surplus
 7. Theft
 8. Obsolescence
 9. Technological Changes

Impairment - The District shall evaluate annually prominent events or changes in circumstances affecting assets to determine whether an impairment of a capital asset has occurred. If a permanently impaired asset will continue to be used by the School District, a determination of the amount of impairment for any asset with a net book value of \$100,000 or more, must be made for proper reporting purposes.

Measurement of the impairment will be dependent on the District's continued use of the asset. If the asset will no longer be used by the District, the lower of carrying value or fair value should be reported and disclosure should be made of the amount of the impaired assets that are idle at fiscal year-end. If the asset will continue to be used by the District, the asset should be written down based on the nature of impairment and a loss reported using the method that best reflects the diminished service utility of the capital asset. If evidence is available to demonstrate that the impairment will be temporary, the capital asset should not be written down. Any insurance recovery associated with events or changes in circumstances resulting in impairment of a capital asset should be netted with the impairment loss. Restoration or replacement of the capital asset using the insurance recovery should be reported as a separate transaction.

When assets are sold or otherwise disposed of, the property report should be relieved of the cost of the asset and the associated accumulated depreciation, if applicable. Items will be removed from the asset list at the time they are sold, disposed or deemed impaired. The appropriate depreciation will be taken the year of disposal.

All policy revisions are retroactive for all assets owned or to be acquired in the future (Revised September 2017).

Policy Reference Disclaimer:

These references are not intended to be part of the policy itself, nor do they indicate the basis or authority for the board to enact this policy. Instead, they are provided as additional resources for those interested in the subject matter of the policy.

Note: To access the policy references, click here [State of Georgia Terms and Conditions](#) and close the LexisNexis tab, which will return you to the policy. Click on the links below to be taken to each specific code. **You should only have to do this one time per session.**

State	Description
O.C.G.A. 20-02-0058	Regular monthly meeting of local boards; adjournment; temporary presiding officer; notice of date; template for financial review; open meetings
O.C.G.A. 20-02-0067	Local school system or school subject to corrective action plan for budget deficit; financial operations form; publication; mailing to Department of Education and local governing body.
O.C.G.A. 20-02-0109	Duties of local school superintendents; reporting
O.C.G.A. 20-02-0164	Local five mill share funds
O.C.G.A. 20-02-0167	Funding for direct instructional, media center and staff development costs; computerized uniform budget and accounting system; submission of local budget to state board; provision of certain information by local boards
O.C.G.A. 20-02-0272	RESA board of control; membership; powers and duties; planning boards
O.C.G.A. 20-02-0320	State-wide comprehensive educational information system; identification of data to implement Quality Basic Education Program
O.C.G.A. 20-14-0049.10	Legislative intent-transparency and accuracy of financial information of school systems and schools
O.C.G.A. 20-14-0049.11	Financial information available on websites
O.C.G.A. 20-14-0049.12	Rules and regulations; deadline for publication of information required by Code Section 20-14-49.11
O.C.G.A. 48-07-0001	State income taxes; definitions
O.C.G.A. 48-08-0141	Manner of imposition of tax; report
O.C.G.A. 50-06-0032	Short title; definitions; creation, operation, and maintenance of searchable website; public access to state expenditure information
Rule 160-5-2-.21	Annual Financial and Budget Reports

PROPOSED REVISION