



NEWTON COUNTY SCHOOL SYSTEM
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MEMORANDUM

TO: Members of the Board of Education

FROM: Gary S. Mathews

RE: Revisions to Board Policy DIB: CAPITALIZATION OF FIXED ASSETS

DATE: July 19, 2011

RECOMMENDATION:

The Superintendent recommends the revision of NCSS Policy DIB: Capitalization of Fixed Assets, per the attached, to include procedures for accounting for intangible assets.

BACKGROUND:

The Governmental Accounting Standards Board (GASB) Statement No. 51 requires governments to account for intangible assets along with fixed assets. We are currently accounting for those assets that are fixed. Intangible assets may include timber rights, water rights, patents, trademarks, and internally developed software. At this time NCSS does not have any intangible assets, but as required in the Governmental Accounting Standards we are asking the Board to approve language that would take into account such assets.

July 19, 2011

FINANCIAL REPORTS

Date: ~~March 18, 2008~~~~CAPITALIZATION OF FIXED ASSETS~~

CAPITALIZATION POLICY FOR FIXED AND INTANGIBLE ASSETS

~~Capitalization Limits of Fixed Assets~~

I. Fixed Assets

~~For financial reporting purposes only, the Newton County Board of Education has established the capitalization limit of fixed assets at ten thousand dollars (\$10,000).~~

A record and inventory shall be maintained on all tangible and intangible (software) fixed assets that have a historical cost of \$10,000 or more and a normal expected life of five years or more. Each School Principal/Building Manager shall have the responsibility for the maintenance and control of all tangible personal property located in the school/building. Tangible personal property is defined within the asset class of Machinery and Equipment, and further defined to include kitchen equipment, computer hardware, outdoor equipment, miscellaneous equipment, trucks, vans, 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.

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

<u>Class of Fixed Asset</u>	<u>Significant Value</u>
Machinery and Equipment	\$10,000 or more
Buildings & Building Improvements	\$10,000 or more
Land Improvements	\$10,000 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. 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. ~~and~~ **Building additions** will be capitalized separately and depreciated over their useful life.

Building Improvements - Major Renovations or Alterations

Any major renovations or alterations within an existing building will be accounted for separately and depreciated for twenty years.

Construction in Progress includes all 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 \$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.

DEPRECIATION POLICY

The "straight line" method of depreciation shall be utilized to depreciate fixed assets, except for land, over the estimated useful lives of the related assets principally as follows:

Buildings		
	Mobile Classrooms	25 years
	Permanent Buildings	20 to 80 years
Building Additions		Remaining Useful Life up to 80 years
Building Improvements		20 years
Machinery & Equipment		
	Vehicles (trucks, vans, tractors, forklifts, etc)	4 to 6 years
	Kitchen Equipment	10 years
	Computer Hardware \$10,000	5 years
	Outdoor Equipment	20 years
	Miscellaneous Equipment	5 to 10 years
	Buses	8 to 14 years
Land Improvements		20 to 80 years

Depreciation will be calculated utilizing the "Half-Year Convention." Under this convention, an asset is treated as though it were placed in service or disposed of the first day of the seventh month of the fiscal year. One-half of a full year's depreciation is allowed for the asset in its first year placed in service, regardless of when it was actually placed in service during that year.

DISPOSITION OF ASSETS

When fixed assets are sold 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. The appropriate depreciation

will be taken the year of disposal.

IMPAIRED ASSETS

A capital asset will be reported as impaired when it meets the following two tests:

1. The magnitude of the decline in service utility is significant. The expenses associated with continued operation and maintenance (including depreciation) or costs associated with restoration of the capital asset are significant in relation to the current service utility. This modifier would limit testing to only those capital assets that have experienced significant events or changes in circumstances.
2. The decline in service utility is unexpected. The restoration cost or other impairment circumstance is not a part of the normal life cycle of the capital asset. This modifier would limit testing to only those capital assets that have experienced events or circumstances other than a normal decline in utility during the capital asset's expected useful life and normal changes in estimated useful lives.

Losses from permanent impairments of capital assets will be recognized in the financial statements. Capital assets which are impaired, but the test of the impairment indicates that an impairment has not occurred, will have its estimated useful life and salvage value reevaluated accordingly.

Impaired capital assets that will continue to be used by the agency will be revalued using the service units approach. Impaired capital assets that will no longer be used by the agency will be reported at the lower or carrying value or fair value.

II. Intangible Assets

Intangible assets are defined as assets having all of these characteristics:

1. **Lack physical substance.** However, an intangible asset may be contained within a physical presence, such as computer software contained on compact discs or right of way easements associated with land.
2. **Non financial in nature.** They are neither claims nor a right to assets in monetary form similar to receivables, nor prepayments for goods or services.
3. **Used in the operation of the school system's activities.**
4. **Have a useful life of longer than the current fiscal year.**
5. **Is of significant value.** For intangible assets, significant value is five hundred thousand (\$500,000) or more.

Intangible assets consist of three broadly defined types as follows:

1. **Intangible assets associated with software.** This includes computer programming or coding language that provide the necessary instructions to enable the computer hardware to perform a series of tasks. Software may be:

- Packaged software with substantial modifications,
 - Software developed by an outside contractor on behalf of the Board, or
 - Software developed internally by district personnel or a combination of the aforementioned.
2. Intangible assets associated with real property. This includes "land use rights" that provide specific benefits related to the property such as:
- Easements,
 - Right-of-ways,
 - Water rights,
 - timber rights, and
 - mineral rights.
- Land use rights may be defined as rights that provide the right to control the use of real property (right-of-way) or provide other benefits derived from the Real Property (mineral rights).
- NOTE: If the District actually owns the associated land and the recorded land valuation already include the "land use rights," then the intangible asset's portion associated with the land should not be reported separately because it is already included in the land valuation.
3. Intangible assets that are not software or "land use rights." Examples of this category are assets generally created through intellectual property such as:
- patents,
 - copyrights, and
 - trademarks

All intangible assets meeting the threshold of five hundred thousand dollars (\$500,000) should be capitalized on the District Wide Statements and depreciated using the "straight line" method according to the estimated useful life as follows:

- Computer Software 60 to 50 years or contractual limit
- Other Intangible Assets - 5 to 80 years or contractual limit

Depreciation will be calculated utilizing the "half-year convention." Under this convention, an asset is treated as though it were placed in service or disposed of the first day of the seventh month of the fiscal year. One-half of a full year's depreciation is allowed for the asset in its first year placed in service during that year.

Governmental Accounting Standards Board (GASB) Statement 51 requires reporting of intangible assets as follows:

1. Effective fiscal year 2010
2. Retroactively for intangible assets acquired after June 30, 1980, with the exception of internally generated software.
3. Prospectively for internally generated software.

Intangible assets acquired on or after July 1, 2009 with indefinite useful lives will not be amortized.

When intangible assets are sold 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. The appropriate depreciation will be taken the year of disposal.

ADOPTED: 4/23/2002
~~3/18/2008~~

Revised: 7/19/2011

Newton County Board of Education