

# THE SCHOOL DISTRICT OF PHILADELPHIA

No. 624

Section: 600 Finances

Title: Capital Assets

Adopted: January 18, 2018

Revised: November 19, 2020

## 624 CAPITAL ASSETS

### **Purpose**

The Board of Education (“Board”) recognizes the need to implement the required accounting and financial reporting standards stipulated by the Pennsylvania Department of Education which require adherence to generally accepted accounting principles. [1]

The purpose of this policy is to coordinate the compilation and preparation of all information pertaining to the valuation and recording of capital assets necessary to meet generally accepted governmental accounting and reporting standards.

### **Definitions**

For purposes of this policy, terms are defined as follows:

**Capital assets:** Tangible and certain intangible assets that are used in operations and that have initial useful lives extending beyond a single reporting period. Capital assets include, but are not limited to, land, improvements to land, easements, buildings and building additions, building improvements, leases, furniture, fixtures and equipment, vehicles, works of art and historical treasures, construction-in-progress, infrastructure, and intangible assets. [2]

**Infrastructure assets:** Capital assets that are normally stationary in nature and that can normally be preserved for a significantly greater number of years than most capital assets. Infrastructure assets include roads, electrical distribution systems, street lighting, water wells, etc. [2]

**Lease:** A contract that conveys control of the right to use another entity’s nonfinancial asset (the underlying asset) as specified in the contract for a period of time in an exchange or exchange-like transaction. Examples of nonfinancial assets include buildings, land, vehicles, and equipment. Any contract that meets this definition should be accounted for under the leases guidance, unless specifically excluded in the GASB Statement.

**Intangible assets:** Assets that possess all of the following characteristics: (1) lack of physical substance, (2) nonfinancial in nature, and (3) an initial useful life extending beyond a single reporting period. The provisions of this statement apply to all intangible assets except for the following: (1) assets acquired or created primarily for the purpose of directly obtaining income or profit, (2) assets resulting from capital lease transactions reported by lessees, (3) goodwill created through the combination of a government and another agency. [2]

### **Authority**

The Public School Code authorizes the Board to adopt and enforce such reasonable rules and regulations as it may deem necessary and proper, regarding the management of its school affairs, including such rules for financial accounting and mandatory reporting. The Board's Capital Asset Policy follows the principles set forth in the Manual of Accounting and Financial Reporting for Pennsylvania Public Schools and the Governmental Accounting Standards Board Statement ("GASB") No. 34 as it pertains to Capital Asset Reporting, GASB Statement No. 51 as it pertains to Reporting Intangible Assets, GASB Statement No. 87 as it pertains to leases, as well as any new applicable GASB Statements that are put into effect after the date of adoption of this policy. [1][2][3]

### **Delegation of Responsibility**

The Board directs the Superintendent or their designee, through the Chief Financial Officer, to coordinate the compilation and preparation of all information necessary to meet generally accepted governmental accounting and reporting standards for capital assets. To meet these standards, the Chief Financial Officer shall implement administrative procedures to establish and maintain a capital asset inventory, including depreciation schedules as outlined by this policy. [1]

### **Mandatory Regulatory Procedures**

#### **Capital Asset Addition Overview**

Purchased personal property capital assets (to include furniture, fixtures, equipment, vehicles, and works of art and historical treasures) equal to or greater than \$5,000 should be recorded at original cost. Any purchase less than \$5,000 that has use expectancies that extend beyond one year and need to be controlled for insurance purposes, shall be classified as non-capital equipment expenditures. Any purchases consumed within the fiscal year are treated as supplies. Purchased real property capital assets (to include land, improvements to land, easements, buildings, and building additions and improvements) equal to or greater than \$5,000 should be recorded at original cost. The cost of a capital asset should include capitalized interest and ancillary charges necessary to place the asset into its intended location and condition for use. Ancillary charges include costs that are directly attributable to asset acquisition, such as freight and transportation charges, site preparation costs, and professional fees.

Capital assets valued at less than the thresholds established herein do not require capitalization and depreciation and shall be inventoried by the department responsible for custody of the assets. The inventory records should include the critical information necessary to identify the item, location or staff member responsible for custody of the asset, date of acquisition, date of disposal, and any other information pertinent to the asset.

Capital assets above the thresholds established herein shall be depreciated over their useful lives as determined for each asset class. Land and land improvements are considered inexhaustible and, therefore, are not subject to depreciation.

If determining original costs is not practical due to inadequate records, reporting should be based on estimates of original cost at the date of construction or purchase.

Depending upon the information available and the category of the asset, fixed asset records shall include all or part of the following:

1. Asset tag number,
2. Estimated useful life,
3. Description,
4. Depreciation method,
5. Asset class salvage value,
6. Serial number,
7. Accumulated depreciation cost,
8. Depreciation expense,
9. Location or functional area,
10. Replacement cost, and
11. Acquisition date.

### *Donations*

Donated capital assets above the thresholds established herein must be reported at fair market value plus ancillary charges, if any, at the time of donation. Donated assets are depreciated over their useful lives as determined for each asset class. If determining original costs is not practical due to inadequate records, reporting shall be based on estimates of fair market value at the date of donation.

Works of art, historical treasures, and similar assets shall be capitalized at their fair value at date of donation (estimated if necessary) whether they are held as individual items or in a collection. Due to the lack of historical records to establish carrying values and immateriality of the estimated replacement value, artwork is inventoried but not reported in the financial statements. Capitalized collections or individual items that are exhaustible shall be depreciated over their useful lives. Depreciation is not required for collections or individual items that are inexhaustible.

### *Infrastructure Assets*

Infrastructure assets above the thresholds established herein shall be depreciated over the useful lives.

Routine repairs and maintenance costs to infrastructure assets are charged to operations as incurred. Expenditures that extend the useful life of the infrastructure assets are capitalized as part of the asset and depreciated over the newly established useful life.

### *Useful Lives*

Useful lives of fixed assets relate to the life expectancy as used by the specific governmental unit. The District will estimate the useful life of a capital asset based on accepted valuation standards.

### GASB Statement No. 34 and 51

#### *Depreciation*

Depreciation is required for the District's capital assets above the thresholds established herein. Depreciation is allocated to expense in a systematic and rational manner. Depreciation is calculated using the Straight Line/Month method and reported by area of activity (function). The District calculates depreciation on all capital assets reported in the District financial statements other than land, permanent improvements to land, and construction in progress.

Depreciation shall be calculated for a class of assets, a network of assets or individual assets.

#### *Disposals*

**Sale of fixed assets:** When fixed assets despite value are sold, calculation of gain or loss on disposal is required. The calculation is based upon the amount of proceeds received less the net book value (cost less accumulated depreciation taken on the asset).

**Trade-ins:** The value given for a trade is part of the cost of the newly acquired asset. The costs and accumulated depreciation of the traded-in asset must be removed from the books. Any gain or loss resulting from the disposition of the asset will be recognized as a gain or loss on disposal.

### GASB Statement No. 87

GASB Statement No. 87, *Leases*, is effective for periods beginning after June 15, 2021 (fiscal year ending June 30, 2022).

Leased assets are nonfinancial assets acquired through a leasing transaction.

Leases that convey control of the right to use another entity's nonfinancial asset (the underlying asset, i.e. land, buildings, vehicles, and/or equipment) above the thresholds established herein as specified in the contract for a period of time in an exchange or exchange-like transaction shall be capitalized and recorded as an asset of the District as financed purchases or sales.

To determine if the contract conveys the right to use the underlying asset, a government should assess whether it has both of the following:

1. The right to obtain the present service capacity from use of the underlying asset as specified in the contract, and
2. The right to determine the nature and manner of use of the underlying asset as specified in the contract.

#### *Assets Acquired By Capital Lease*

Assets acquired by capital lease above the thresholds established herein are recorded at the net present value of the future minimum lease payments. A corresponding liability is established at this time. Assets acquired under the terms of capital leases are depreciated over the useful lives designated for the asset class.

#### **Legal References:**

1. [24 P.S. § 2-218](#)
2. [Governmental Accounting Standards Board Statements No. 34, 51, and 87](#)
3. [24 P.S. § 5-510](#)