CHAPTER 7.00 – BUSINESS SERVICES

CAPITAL ASSETS	**7.771**

PURPOSE:
To provide for the safeguarding of capital assets and to provide School Board of Sarasota County (SBSC) personnel with accounting guidance applicable to the several categories of capital and intangible assets.

The policy of the SBSC is to capitalize assets when a piece of property meets all of the following requirements:
1. The asset is tangible, intangible or real or personal property.
2. The asset is used in the operation of the school system's activities.
3. The asset has a useful life of greater than one year.
4. The asset has a value equal to or greater than the capitalization threshold for their respective asset class set by the SBSC in accordance with state and federal guidelines and the Governmental Accounting Standards Board (GASB).

CAPITAL ASSET DEPRECIATION/AMORTIZATION:
Capital and intangible assets shall be depreciated/amortized over their estimated useful lives unless they are:
- Inexhaustible (i.e. land and land improvements)
- Construction in progress

SCSB uses the straight-line method of depreciation over the following estimated useful lives:

Asset Category	**Useful Life**
Improvements Other than Buildings	5 – 40 years
Buildings and Fixed Equipment	10 – 50 years
Building Improvements	10 – 20 years
Furniture, Fixtures, and Equipment	3 – 15 years
Motor Vehicles	5 – 10 years
Enterprise Software	5 – 10 years
Intangible Assets - Software	5 years
Intangible Assets - Other	As determined by contracts

Capital assets may be acquired through donations, purchase or may be self-constructed. The asset value for donations will be the fair market value at the time of the donation. The value of the purchased asset will be the initial cost plus the value received for any asset traded in, plus all costs related to placing the asset into service (i.e. installation, delivery), or estimated historical cost. The cost of self-constructed assets will include all costs associated with construction.

Intangible assets are defined as assets that are identifiable and posses all of the following criteria:

1. Lack of physical substance;
2. Nonfinancial nature (not in monetary form like cash or investment securities); and
3. 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 that is 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.

An intangible asset should be considered to have an indefinite useful life if there are no legal, contractual, regulatory, technological, or other factors that limit the useful life of the asset (i.e. permanent right-of-way easement). Intangible assets with indefinite useful lives should not be amortized.

Intangible assets with limited useful lives (i.e. by legal or contractual provisions) should be amortized over their estimate useful lives. Amortization of computer software should begin when the program is placed into service. Renewal periods related to such provisions may be considered in determining the useful life of the intangible asset if SCSB expects to exercise the renewal option and any anticipated outlays to be incurred as part of achieving the renewal are nominal (in relation to the level of service capacity obtained through the renewal).

THRESHOLD TABLE

	Tracking	**Capitalization**
Land	$1	$1
Land Improvements (non-depreciable)	N/A	$750
Improvements Other Than Buildings	$750	$750
Buildings	$750	$750
Building Improvements	N/A	$1,000,000
Construction In Progress	N/A	$750
Furniture, Fixtures and Equipment	$750	$750
Enterprise Software Systems	N/A	$50,000
Vehicles	$750	$750
Intangible Software	N/A	$50,000
Intangible – Other	N/A	$5,000

ASSET CATEGORIES:

1. LAND

- Land shall be capitalized at its purchase price or at fair market value if donated.
- The capitalized cost shall include the following: Commissions, Professional fees (title insurance, title searches, legal, engineering, architect, appraisal, surveying, environmental assessments, etc.), recording fees, demolition of existing buildings and improvements and removal, relocation or reconstructing the property of others (railroad, telephone and power lines, etc.)
- Land is not depreciable.

2. LAND IMPROVEMENTS (NON-DEPRECIABLE)

Land improvements consist of betterments, site preparation and site improvements that ready land for its intended use. Land improvements are characterized as having an unlimited life and are therefore **not depreciated**.

- Includes: right-of-way, excavation, fill grading, site work, landscaping, roads, bridges, drainage systems, water & sewer systems, irrigation, outdoor lighting systems (i.e. parking lot lights, ball field lights, traffic lights), fiber optic & telephone distribution systems (between bldgs), fire hydrants, radio/TV transmitting tower, street signage, etc.

3. IMPROVEMENTS OTHER THAN BUILDINGS (DEPRECIABLE)

Improvements other than buildings are used for permanent (i.e., non-moveable) improvements, other than buildings, that add value to land, but do NOT have an indefinite useful life, and therefore are depreciated.

- Includes: recreation & athletic fields, outdoor bleachers, fences, gates, retaining walls, parking lots, driveways, tracks, plazas, pavilions, etc.
- Useful lives vary depending on the asset.
- Capitalize if it meets the dollar threshold.

4. BUILDINGS

Buildings are defined as permanent structures to house persons, animals, plants, materials, or equipment and are not intended to be transportable or moveable. The structure must be attached to a foundation and roofed.

Examples of specific cost of buildings, whether constructed or purchased, include:

1. Original contract price or cost of construction.
2. Expenses incurred in reconditioning or altering a building to make it available for the purpose for which it was acquired.
3. Temporary access roads, fencing, road repair allowance, etc.
4. Expenses incurred for the preparation of plans, specifications, and blueprints.
5. Cost of building permits.
6. Architects' and engineers' fees for design and supervision.
7. Temporary buildings used during the construction period.
8. Fixed Equipment consisting of equipment, components, machinery, and other furnishings that are attached to a building. Fixed equipment generally cannot be

removed without detaching the item from the building itself. Fixed equipment acquired after the original construction of a building will be capitalized and depreciated under the capitalization standards for Furniture, Fixtures and Equipment. Such equipment might include bleachers (inside & bolted), gym equipment, cafeteria equipment, etc.

9. Demolition of old buildings

In following the Governmental Finance Officers Association guidelines in their "Accounting for Capital Assets" publication, components with a significantly shorter useful life (e.g., roof, HVAC, telecommunication systems, etc.) shall be deemed to be an integral part of the larger asset (i.e. building) and shall be depreciated over the useful life of the building. Therefore, the subsequent replacement of the roof, HVAC, etc. shall be treated as a repair (i.e., an expense of the period), unless meeting requirements of a capitalized building improvement (see below).

5. <u>BUILDING IMPROVEMENTS</u>

Building Improvements consist of significant costs incurred to extend the useful life or increase the functionality of a building in a period subsequent to the initial acquisition or construction. Improvements shall be capitalized if they first meet the appropriate threshold and then, meet one of the following criteria:

- The improvement adds square footage to the existing building.
- The improvement is a major renovation that prepares an existing building for a new use.
- The improvement expenditure increased the life or value of the building by 25 percent of the original life or cost.

Building improvements will be recorded at their construction cost. Building improvements will be capitalized separately and depreciated over their useful lives if they meet the above requirements.

Definitions and Categories of Building Improvements:

A. <u>Remodeling/Improvement</u>:

From Red Book: Takes place within existing floor area.

From FL Statutes: Changing of existing facilities by rearrangement of spaces and their uses.

B. <u>Renovations:</u>

From Red Book: Expenditures for major permanent structural alterations and the initial installation of HVAC systems, electrical systems, plumbing systems, fire protection systems, and other service systems in existing buildings.

From FL Statutes: Rejuvenating or upgrading of existing facilities by installation or replacement of materials and equipment and includes but is not limited to, interior or exterior reconditioning of facilities and spaces, HVAC equipment, fire alarm systems, emergency lighting, electrical systems, and complete roofing or roof replacement of membrane or structure.

If improvements, remodeling, or renovations prepare the building for a new use or extend the life or value of the building by 25 percent of the original life or cost, these costs shall be capitalized as Building Improvements if they meet the capitalization threshold.

C. Repairs & Maintenance

From Red Book: Maintenance of plant.

From FL Statutes: Upkeep of educational and ancillary plants, including, but no limited to, roof or roofing replacement short of complete replacement of membrane or structure; repainting of interior or exterior surfaces; resurfacing of floors; repair or replacement of glass; repair of hardware, furniture, equipment, electrical fixtures, and plumbing fixtures; and repair or resurfacing of parking lots, road, and walkways.

Maintenance and repair expenses shall NOT be capitalized. Repairs keep the property in ordinary efficient operating condition. The cost of the repair does not add to the value or prolong the life of the asset.

6. CONSTRUCTION IN PROGRESS

This includes all projects for capital assets that are not completed at the end of the fiscal year. Projects are considered complete and moved to the appropriate capital asset category when the District has received a transfer of title for land acquisition, or the latter of a final Certificate of Occupancy issued from the local governmental entity or the date the asset is placed into service.

7. FURNITURE, FIXTURES AND EQUIPMENT

This class includes any fixed or movable tangible assets to be used for District operations, the benefits of which extend beyond one year from date of acquisition.

Library Books will not be capitalized.

All donated equipment will be recorded at the fair market value at the date of the gift. Generally, the fair market value of such an item is the price at which the item or a comparable item would be sold at retail, taking into consideration the age and condition of the property on the date of the gift.

8. ENTERPRISE SOFTWARE SYSTEMS

Enterprise software systems that are used to support district-wide administration or state mandated reporting requirements shall be capitalized and depreciated over its useful life if the cost of the software meets the capitalization threshold. Other software should be reviewed to determine if it meets qualification for an intangible asset. See intangible assets section for capitalization and definitions. Costs associated with software maintenance, licensing and customer support will NOT be capitalized. The value of software may be included in the capitalized value of a computer if it is pre-loaded at the time of purchase and the value of the software is not separately identified on the invoice.

9. <u>VEHICLES</u>

This includes all types of motor vehicles. When an equipment item is acquired for a permanent installation in/on a vehicle and that item will not be removed, transferred, or in any way separated from the vehicle during its depreciable life, the cost of the item will be recorded as part of the vehicle. Equipment items that are installed in/on a vehicle that may be removed transferred, or separated from the vehicle during the depreciable life of the vehicle shall not be recorded as part of the vehicle, but rather as a separate piece of equipment subject to their own capitalization threshold.

10. <u>INTANGIBLE ASSETS</u>

Intangible assets should be capitalized, except intangible assets acquired or created primarily for the purpose of directly obtaining income or profit, which should be classified as investments (i.e. copyright material sold to a third party to generate income).

Assets from capital lease transactions reported by lessees, except licensing agreements to lease commercially available software and goodwill created through the combination of a government and another entity should not be considered intangible assets.

Retroactive Reporting:

Retroactive reporting is required for intangible assets, except as follows. Retroactive reporting is not required for 1) internally generated intangible assets, including those in development as of July 1, 2009 and 2) intangible assets with an indefinite estimated useful life as of July 1, 2009.

Computer software is a common type of intangible asset that is often internally generated. Intangible assets are considered internally generated if they are created or produced by SCSB or an entity contracted by SCSB, or if they are acquired from a third party but require more than minimal incremental effort on the part of the government to begin to achieve their expected level of service capacity.

Internally Generated Intangible Assets:

Capitalization of internally generated capital assets can occur only after all of the following conditions have been met:

1. Determination of the specific objective of the project and the nature of the service capacity that is expected to be provided by the intangible asset upon the completion of the project;

2. Demonstration of the technical or technological feasibility for completing the project so that the intangible asset will provide its expected service capacity; and

3. Demonstration of the current intention, ability, and presence of effort to complete or, in the case of a multiyear project, continue development of the intangible asset.

Only outlays incurred subsequent to meeting the above criteria should be capitalized. Outlays incurred prior to meeting those criteria should be expensed as incurred.

Specific Application to Computer Software:
The activities involved in developing and installing internally generated computer software can be grouped into the following stages:

1. Preliminary Project Stage: Activities in this stage include the conceptual formulation and evaluation of alternatives, the determination of the existence of needed technology, and the final selection of alternatives for the development of the software.

2. Application Development Stage: Activities in this stage include the design of the chosen path, including software configuration and software interfaces, coding, installation to hardware, testing, including the parallel processing phase, and date conversion needed to make the software operational.

3. Post-Implementation/Operation Stage: Activities in this stage include application training, data conversion that is beyond what is strictly necessary to make the software operational, and software maintenance.

All outlays associated with activities in the preliminary project stage should be expensed as incurred.

All outlays related to activities in the application development stage should be capitalized, provided the following conditions are met: 1) the outlays were incurred subsequent to the completion of the preliminary project stage and 2) management authorizes and commits to funding (either implicitly or explicitly), at least through the current period. (Note: When these two conditions are satisfied, the above criteria for internally generated intangible assets are considered to be met). For commercially available software that will be modified to the point that it is considered internally generated, those two conditions generally are met at the time the commitment to purchase or license the computer software. Capitalization of such outlays should cease once the software is substantially complete and operational.

All outlays associated with activities in the post-implementation/operation stage should be expensed as incurred.

The activities within the three stages of development may occur in a different sequence. The recognition guidance for outlays associated with internally generated computer software should be applied based on the nature of the activity, not the timing of its occurrence. For example, outlays associated with application training activities that occur during the application development stage should be expensed as incurred. If the software consists of many modules, the guidance for reporting outlays based on the stages of software development should be applied for each individual module of the system rather than the system as a whole.

An improvement to existing computer software must do at least one of the following to qualify for capitalization:

1. Increase the software's functionality;
2. Increase the software's efficiency; or
3. Extend the software's estimated useful life.

If the modification does not result in any of the above outcomes, the modifications should be considered maintenance, and the associated outlays should be expensed as incurred.

ASSET IMPAIRMENT

As part of the inventory process, a determination will be made by the Cost Center Head as to whether any assets should be considered impaired.

Definition of Impairment:
Asset impairment is a significant, unexpected decline in the service utility of a capital asset. The events or changes in circumstances that lead to impairments are not considered normal or ordinary. That is, at the time the capital asset was acquired, the event or change in circumstances would not have been expected to occur during the useful life of the capital asset. Service utility, in turn is defined as the usable capacity that a capital asset was expected to provide at its acquisition.

- **Evidence of physical damage:** Examples would include a building damaged in a natural disaster (i.e. hurricane or fire), or a buildings facing the costs associated with mold remediation or asbestos removal.

- **Technological change or obsolescence:** Examples would include equipment that is rarely used because a newer model provides better service or results.

- **Changes in manner or duration of use:** Examples would include an office building now used as a warehouse,.

- **Permanent construction stoppage:** Examples would include the halting of building construction due to a lack of funding or a stoppage following the discovery of an endangered species at the construction site.

Should an asset be deemed to be impaired, all reasonable attempts shall be made to salvage all or part of any item of property. Any remaining asset impairment shall be included in the recommendation for disposition and handled in the manner described in the Asset Disposition section of this policy.

ASSET DISPOSITION

When capital assets are sold or otherwise disposed of, the cost of the asset shall be removed from the records with the associated accumulated depreciation. Pursuant to Sarasota County School Board Rule 7.77, recommendations for the disposition of obsolete and surplus equipment beyond economical repair including any property that has been lost or stolen shall be presented to the School Board for approval. Once approved, the assets will be removed from the Fixed Assets system with the appropriate depreciation taken in the year of disposal.

STATUTORY AUTHORITY: 1001.41; 1001.42; 1001.43, F.S.

LAWS IMPLEMENTED: Chapter 274; 1001.42, 1001.43(2); 1011.011; 1011.012; 1013.01

STATE BOARD OF EDUCATION RULE: 6A-1.001

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