

Sample Capitalization Policy

(Each district should fill in the underlined portions with their own information. Suggested amounts have been included, but may be modified based on the needs and conditions of each district. In general, it is recommended that a capitalization threshold be set at no less than \$5,000. However, there are also several federal awards that prohibit capitalization thresholds in excess of \$5,000.)

The ENTER YOUR NAME HERE District establishes the following Fixed Asset Capitalization Policy:

SECTION 1: Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. The District has adopted the following *minimum* capitalization amounts for its capital asset acquisitions:

Works of Art and Historical Treasures – \$5,000.00
Non-Depreciable Land – \$5,000.00
Depreciable Land – \$5,000.00
Permanent Buildings – \$10,000.00
Temporary Buildings – \$10,000.00
Improvements other than Buildings (Infrastructure) – \$20,000.00
Equipment (Three-Year Schedule) – \$5,000.00
Equipment (Five-Year Schedule) – \$5,000.00
Equipment (Ten-Year Schedule) – \$5,000.00
Construction in Progress – All amounts until project is completed
Non-Capitalized Equipment – \$500.00-4,999.99

Purchases not meeting these capitalization thresholds should be charged to a supply object.

SECTION 2: The range of estimated useful life by type of asset has been established by the Illinois State Board of Education and is as follows:

Works of Art and Historical Treasures – Permanent
Non-Depreciable Land – Permanent
Depreciable Land – 50 Years
Permanent Buildings – 50 Years
Temporary Buildings – 20 Years
Improvements other than Buildings (Infrastructure) – 20 Years
Equipment (Three-Year Schedule) – 3 Years
Equipment (Five-Year Schedule) – 5 Years
Equipment (Ten-Year Schedule) – 10 Years
Construction in Progress – Not Applicable
Non-Capitalized Equipment – 10 Years

SECTION 3: Items should only be capitalized if they have an estimated useful life of at least two years.

SECTION 4: If costs for normal maintenance or repairs are incurred to keep an asset in its normal operating condition, and the life of the asset is not materially extended, the costs are expensed. Additions and improvements are capitalized if the total historical cost of the asset, including the asset or improvement, is \$5,000.00 or more and extends the life of the asset.

SECTION 5: The District will capitalize items with an individual value equal to or greater than the applicable minimum capitalization threshold. The District will capitalize a group of items purchased together with a total value equal to or greater than the applicable minimum capitalization threshold. An example of a group of items would be the purchase of several desks or other pieces of classroom furniture. Small electronic devices, such as laptops, iPads, Chromebooks, etc. with an individual value less than the applicable minimum capitalization threshold should be charged to supplies, even if they are purchased as a group.

SECTION 6: Most major construction projects should be recorded in the Capital Projects Fund. Capital expenditures that can be identified as part of an approved life safety survey or amendment should be recorded in the Fire Prevention & Safety Fund.

SECTION 7: In accordance with the Illinois School Code (105 ILCS 5/10-20.21), except for construction, remodeling, or renovation projects, all capital purchases exceeding \$25,000 will be subject to the required bidding process. Construction, remodeling, or renovation projects exceeding \$50,000 will be subject to the bidding process.

SECTION 8: The District's Board of Education will periodically review capital assets and identify excess equipment that is obsolete, non-repairable, damaged, lost, or stolen.

Items of excess equipment purchased with grant funds with a current fair market value of \$5,000 or less may be retained, sold, or otherwise disposed of with no further obligation to the granting agency. Excess equipment purchased with grant funds with an acquisition cost of \$5,000 or more will be offered for sale to the general public by sealed bid, in accordance with Federal Regulation 2 CFR 200.313(e). The District will obtain prior approval from the appropriate granting agency before disposing of or selling any equipment purchased with grant funds.

The District will maintain an inventory listing of all equipment or other assets purchased with grant funds.

Substantial insurance proceeds received for capital assets that were either damaged or destroyed will be recorded as an Other Financing Source. Assets that were irreparably damaged should be identified and removed from the inventory of capital assets.

SECTION 9: A lease will be considered a capital lease if it meets one of the four following criteria:

- Ownership of the asset transfers to the District at the end of the lease.
- The lease contains a bargain purchase option at the end of the lease.
- The term of the lease covers at least 75% of the useful life of the leased asset.
- The present value of the minimum lease payments is at least 90% of the fair value of the leased asset at inception of the lease.

Leases that do not meet any of the four criteria will be considered operating leases and the leased asset will not be included in capital outlay.

Capital leases may be accounted for two different ways. The asset may be capitalized at the inception of the lease, and the unpaid principal portion of the lease would be recorded in the General Long-Term Debt Account Group. Or, the principal portion of the lease/purchase payments may be capitalized as payments are made. *(Gorenz recommends that each District choose only one of these methods and apply that method to all capital leases. This paragraph may be altered accordingly to only include that one method.)*

Lease purchases that are to be paid for using grant funds must be budgeted as either capital outlay or non-capitalized equipment.

SECTION 10: Capitalized assets must be recorded at historical cost. The following expenditures may be included in historical cost:

NON-DEPRECIABLE LAND –purchase price, legal and title fees, surveying fees, appraisal and negotiating fees, and damage payments. This category includes land *other than* land acquired or used for bus parking or maintenance, and is claimable under the Pupil Transportation Reimbursement program.

DEPRECIABLE LAND – purchase price, legal and title fees, surveying fees, appraisal and negotiating fees, and damage payments. This category includes land acquired or used for bus parking or maintenance, and is claimable under the Pupil Transportation Reimbursement program.

PERMANENT BUILDINGS – purchase price, contract price, or job order costs, and any other expenditures necessary to put a building or structure into its intended state of operation, or remodeling costs that include any major permanent structural improvements to a building. Additional expenditures incurred during the period of construction may include professional fees (e.g. architectural fees), damage claims, cost of fixtures, and insurance premiums. Buildings and additions in this category are properly classified as real estate.

TEMPORARY BUILDINGS – purchase price, contract price, or job order costs, and any other expenditures necessary to put a building or structure into its intended state of operation, or remodeling costs that include any major permanent structural improvements to a building. Additional expenditures incurred during the period of construction may include professional fees (e.g. architectural fees), damage claims, cost of fixtures, and insurance premiums. Buildings and additions in this category are primarily characterized by the absence of a permanent foundation.

IMPROVEMENTS OTHER THAN BUILDINGS (INFRASTRUCTURE) – purchase price, contract price, or job order costs, and any other expenditures necessary to put the improvement into its intended state of operation. Additional expenditures incurred during the period of construction may include professional fees (e.g. architectural fees), damage claims, cost of fixtures, and insurance premiums. This category includes work such as grading, landscaping, seeding, and planting of shrubs and trees; constructing new sidewalks, roadways, retaining walls, sewers and storm drains; installing hydrants; initial surfacing and soil treatment of athletic fields and tennis courts; furnishing and initial installment of fixed playground apparatus, flagpoles, gateways, fences, and underground storage tanks that are not parts of building service systems; and demolition work. Special assessments against the district for capital improvements such as streets, curbs, and drains is also included in this category.

EQUIPMENT (THREE-YEAR SCHEDULE) – the total purchase price, including any ancillary payments required to place the asset in its intended state of operations (such as shipping, delivery, or set-up charges), less any applicable discounts. This category includes repairs or modifications to a pupil transportation vehicle, pupil monitoring equipment installed on school busses (including video cameras), and computer equipment used exclusively in the food service program.

EQUIPMENT (FIVE-YEAR SCHEDULE) – the total purchase price, including any ancillary payments required to place the asset in its intended state of operations (such as shipping, delivery, or set-up charges), less any applicable discounts. This category includes pupil transportation vehicles used to transport students, driver education cars, vehicles or transportation equipment used exclusively in the food service program, and equipment necessary for the operation of a special educational facility.

EQUIPMENT (TEN-YEAR SCHEDULE) – the total purchase price, including any ancillary payments required to place the asset in its intended state of operations (such as shipping, delivery, or set-up charges), less any applicable discounts. This category includes all capitalized equipment not included in the three-year or five-year schedules.

CONSTRUCTION IN PROGRESS – the total amount expended on a construction project at a given time prior to the completion of the project.

NON-CAPITALIZED EQUIPMENT – The purpose of the 700 object is to record any purchases greater than \$500, but less than the minimum capitalization threshold set in other equipment categories. If the minimum capitalization amounts set in other equipment categories is \$500, than this category will not be used.