

**DEVELOPMENT AND MAINTENANCE OF AN INVENTORY OF FIXED ASSETS AND A FIXED ASSET ACCOUNTING SYSTEM**

**I. PURPOSE**

The purpose of this policy is to provide for the development and maintenance of an inventory of the fixed assets of the School District and the establishment and maintenance of a fixed asset accounting system.

**II. GENERAL STATEMENT OF POLICY**

The policy of this School District is that a fixed asset accounting system and an inventory of fixed assets be developed and maintained.

**III. DEVELOPMENT OF INVENTORY AND ACCOUNTING SYSTEM**

The Superintendent or such other school official as designated by the Superintendent or the school board shall be responsible for the development and maintenance of an inventory of the fixed assets of the School District, and for the establishment and maintenance of a formal fixed asset accounting system. The accounting system shall be operated in compliance with the applicable provisions of the Uniform Financial Accounting and Reporting Standards for Minnesota School Districts (UFARS). In addition, the inventory shall specify the location of all continued abstracts showing the conveyance of the property to the School District; certificates of title showing title to the property in the School District; title insurance policies; surveys; and other property records relating to the real property of the School District.

**IV. REPORT**

The administration shall annually update the property records of the School District and provide an inventory of the fixed assets of the School District to the school board.

**V. DEFINITIONS**

Capital assets include land, land improvements, buildings, building improvements, construction in progress, machinery and equipment, vehicles, easements, works of art and historical treasures acquired by the District for use in providing services to the public. A capital asset is to be reported and depreciated in government-wide financial statements. In the government-wide financial statements, assets that are not capitalized are expended in the year of acquisition.

## **VI. ACCOUNTING**

- A. **Inventory Record.** The District shall inventory all capital assets. Each inventory record should include: description, year of acquisition, method of acquisition (e.g. purchase, donation, etc.), cost or estimated cost, salvage value, estimated useful life, location, serial # (if applicable), and program code.
  
- B. **Recording Land.** Land is to be capitalized but not depreciated. It is recorded at historical cost and remains at that cost until disposal. If there is a gain or loss on the sale of land, it is reported as a special item in the statement of activities.
  
- C. **Recording Land Improvements.** Land improvements include items such as excavation, non-infrastructure utility installation, driveways, sidewalks, parking lots, flagpoles, retaining walls, fencing, signs, outdoor lighting, and other non-building improvements intended to make the land ready for its intended purpose. Land improvements can be further categorized as non-exhaustible and exhaustible.
  - 1. **Non-Exhaustible** - Expenditures for improvements that do not require maintenance or replacement expenditures to bring land into condition to commence erection of structure, expenditures for improvements not identified with structures, and expenditures for land improvements that do not deteriorate with use or passage of time are additions to the cost of land and are not exhaustible and therefore not depreciable.
  
  - 2. **Exhaustible** - Other improvements that are part of a site, such as parking lots, landscaping and fencing, are usually exhaustible and are depreciable. Depreciation of site improvements is necessary if the improvement is exhaustible.
  
- D. **Recording Buildings.** Buildings should be recorded at either their acquisition cost or construction cost. The cost of new construction should be carefully evaluated because projects usually consist of major components such as land, land improvements, building construction (including professional fees and permits), furniture, fixtures and equipment. In addition, buildings include components such as roof, air conditioner system, etc that should be recorded separately when significant because these building components have different useful lives. The value of each component needs to be determined and placed within its own category.
  
- E. **Recording Building Improvements.** Building improvements that extend the useful life should be capitalized. Examples of building improvements include roofing projects, remodeling or replacing major building components.

- F. Recording Construction in Progress. Construction in progress should be capitalized and not depreciated. It should be reported with land and other non-depreciating assets at the government-wide level.
- G. Recording Machinery and Equipment (Including Office Equipment). Assets such as furniture, machinery and equipment (that meet threshold levels) should be capitalized and inventoried. Some assets, individually, may fall below the capitalization threshold but may be purchased in large quantities by the District e.g. computers, books. District staff should aggregate such assets and consider the materiality and significance of them and if material or significant capitalize such items either individually or in the aggregate.
- H. Recording Vehicles. Vehicles should be identified, inventoried, and depreciated.
- I. Recording Easements. An easement is an interest in land owned by another that entitles its holder to a specific limited use of the land. Therefore, easements are not required to be reported unless the District paid for the easement.
- J. Establishing and Setting the Threshold Levels for Recording Capital Assets. The following elements of useful life and asset costs are established for capitalization of assets:
  1. Estimated Useful Life - The first criterion is useful life. An asset must have an estimated useful life greater than one (1) year to be considered for capitalization and depreciation. Assets that are consumed, used-up, habitually lost or worn-out in one year or less will not be capitalized.
  2. Asset Cost - The second criterion for determine depreciable capital assets is cost. The capitalization threshold shall be established as follows for per individual asset item:

	Capitalize and Depreciate
Land & Construction in Progress	Capitalize only
Land Improvements – Improvements other than Bldgs.	\$2,500
Building & Improvements	\$2,500
Equipment & Transportation Vehicles	\$2,500

- K. **Depreciation Definition.** Depreciation is the process of allocating the cost of tangible property over a period of time rather than deducting the cost as an expense in the year of acquisition.

It is the District's policy to use the straight-line depreciation method. The basis of the asset is written off evenly over the useful life of the asset. The same amount of depreciation is taken each year. In general, the amount of annual depreciation is determined by dividing an asset's depreciable cost by its estimated life. The total amount depreciated can never exceed the asset's historic cost less salvage value. At the end of the asset's estimated life, the salvage value will remain.

To calculate depreciation on a capital asset, the following five factors must be known:

1. The date the asset was placed in service
  2. The asset's cost or acquisition value
  3. The asset's salvage value
  4. The asset's estimated useful life, and
  5. The depreciation method.
- L. **Obtaining an Asset's Cost of Acquisition Value.** Capital assets are reported at historical cost and should include the cost of freight, site preparation, architect and engineering fees, etc. If something other than cash is used to pay for the asset, then the fair-market value of the non-cash payment or consideration determines the asset's cost or acquisition value. When the value of the consideration paid can't be determined, the asset's fair-market value determines its cost. With few exceptions, an asset's cost should also include necessary costs incurred to place the asset in service. Costs include the invoice price plus incidental costs (insurance during transit, freight, capitalized interest as described earlier, duties, title search, registration fees, and installation costs). Exceptions to this rule include interest expenses associated with deferred payments and real estate taxes paid, if any, in the acquisition of property.
- M. **Establishing Classes of Assets.** The District establishes the following major categories of capital assets:

Land  
Construction in Progress  
Land Improvements – Improvements other than buildings  
Buildings and Improvements  
Equipment & Transportation Vehicles

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