



MANAGEMENT SUPPORT

Capital Asset Accounting

Purpose

The purpose of the capital asset accounting procedure is to establish guidelines and criteria in defining a capital asset, and to articulate practices to account for assets owned by the district, in accordance with [Generally Accepted Accounting Principles](#) (GAAP) and other federally or state imposed restrictions.

Capital Assets

Capital assets are long-lived assets such as land, buildings, improvements, or equipment such as vehicles, machinery, software and technology systems, and other types of equipment. Motor vehicles licensed to be operated on the road are not charged to the Capital Projects Fund. Pupil transportation vehicles are charged to the Transportation Vehicle Fund and all other vehicles are charged to the General Fund. The original cost (or fair market value if received by donation) of the asset must exceed the capitalization threshold amount as applicable to its asset category. The estimated useful life of the asset must exceed one year. Capital assets may be real, intangible or tangible property, and may be acquired through purchase, donation or construction.

Capital Projects Fund

The capital projects fund is an independent fiscal and accounting entity with a set of self-balancing accounts. Its primary purpose is to account for financial resources to be used for the acquisition or construction of major capital facilities. Funds can be used for purposes as defined by laws in the State of Washington and per the [Accounting Manual for Public School Districts in the State of Washington](#). Allowable uses include, but are not limited to, the acquisition of land or existing facilities, construction of buildings, purchase of equipment, conducting energy audits, and implementing technology systems. In addition, major repairs and improvements to buildings and/or grounds, remodeling of buildings, and the replacement of roofs, carpets and service systems are included in the Capital Projects Fund.

Capital Outlay Expenditures

Capital outlay expenditures are those which result in the acquisition of capital assets or additions to capital assets. They include capital expenditures for land or existing buildings, improvements to grounds, construction of buildings, additions to buildings, remodeling of buildings, and purchase or installment of initial or additional major items of equipment. They also include expenditures for facilities to house students during the construction or remodeling of a school building.

Generally Accepted Accounting Principles (GAAP)

The finance and business services department together with the facilities and planning department of the district will follow GAAP in accounting for capital assets. According to GAAP, capitalization thresholds for capital assets must be elected, a depreciation method must be defined (one acceptable under GAAP), and useful lives to depreciate capital assets under must be established. In addition, this procedure articulates the acceptable methods and practices of allocating construction management costs and including them as part of the value of capitalized assets, where appropriate.

Capitalization Thresholds

The capitalization threshold is the minimum cost per unit at which an asset must be valued to be considered a capital asset. The various capital asset categories have different capitalization thresholds as set out in this procedure. Assets purchased with grant funds may have a different threshold amount as stipulated by the grant. Usage and disposal of assets acquired by a grant are subject to the grant agreement which supersedes this procedure. If capital funding sources are used to build, construct, improve, or renovate, by the nature of the definition of allowable expenditures to the capital projects fund, these expenses, including allocated construction management costs, will qualify to be added to the historical cost of the site or location to which the project pertained. In the event that capital project funds are used for the purchase of equipment, the **\$5,000 \$10,000** threshold will be applied. Equipment with per unit costs less than **\$5,000 \$10,000** will not be capitalized; however, if a capital project requires multiple items of equipment that collectively function as a system, such system, together with all installation, labor, and other ancillary expenses will be capitalized and depreciated accordingly. The district will determine, in its discretion and on a case-by-case basis, whether such equipment functions as a “system.” In determining a system, the district analyzes the project with the following criteria: materiality, functionality, similarity to prior projects, and divisibility. Except as described above, the district does not capitalize groups of similar equipment items that individually do not meet the minimum capitalization threshold amount for its equipment asset category. The finance and business services department together with the facilities and planning department establishes capitalization thresholds. The following listing provides the capitalization threshold for each capital asset category:

<u>Capital Asset Category</u>	<u>Capitalization Threshold</u>
Land	No minimum threshold
CIP	No minimum threshold
Buildings and Improvements	Capital fund sources, no minimum threshold
Equipment	\$5,000 \$10,000 or more/unit
<u>Leased Equipment & Facilities</u>	<u>\$100,000 Lease Present Value</u>
<u>Subscription Based IT Arrangements</u>	<u>\$5,000 or more/unit</u>

Depreciation of Capitalized Assets

Depreciation is the systematic allocation of expending the exhaustible cost of capital assets according to their estimated useful lives. With the exception of land, which has an inexhaustible useful life, capital assets have limited useful lives, and systematically decrease in value while used in operations. The district uses the straight-line method of depreciating its capital assets. The period of depreciation is based on the estimated useful life of the asset, as determined by the district’s useful life schedule for categories of assets. An asset’s scrap value will be considered in determining the asset’s depreciable basis if the scrap value of such asset is expected to exceed ten percent of the original cost of the asset. Construction-In-Progress (CIP) is not depreciated.

When a capital project is placed into service, it is removed from CIP and recorded under its appropriate capital asset category, where it is then depreciated according to its estimated useful life. Equipment is depreciated pro-rata based on the in-service date and straight-line method from thereon. All other depreciable capital assets use the full year convention, with a full year of depreciation taken in the first year the asset is taken out of CIP and added to the asset listing.

Estimated Useful Lives

Useful life is the estimated average life (in years) over which a depreciable capital asset is expected to provide service. The district depreciates capital assets according to the following estimated useful asset lives:

<u>Capital Asset Category</u>	<u>Estimated Useful Asset Life/For Depreciation Purposes</u>
Land	Useful life not assigned; land is inexhaustible
CIP	Useful life not assigned; CIP is non-depreciable
Buildings	20 to 50 years
Improvements	5 to 50 years
Vehicles	8 to 13 years
Equipment	5 to 15 years

The facilities and planning department may elect to use a useful life that deviates from the above, where appropriate, in certain unique or exceptional circumstances. Documentation of the rationale used will be maintained in the asset records.

Construction Management Costs

Construction management costs are defined by the [Accounting Manual for Public School Districts in the State of Washington](#). Construction management includes, but is not limited to, salaries and other direct expenditures of school district employees who are hired or assigned to the planning or construction management of capital projects. Capital projects planning includes the development of facility specifications and construction design. Capital projects construction management is the directing, managing, or inspecting of one or more capital projects. Salaries of staff project directors, inspectors, or monitors who spend significant time performing these services are designated as construction management salaries. Salaries of individuals who spend time performing duties that directly support capital project planning or construction management are also included. Construction management costs are allocated to projects. Construction management costs within a fiscal year are allocated within the capital fund to projects with direct expenditures in that same fiscal year. No further construction management costs are allocated beyond the fiscal year in which the project reaches final acceptance by the board.

Capital Asset Types

The district capitalizes the following types of assets:

- Land

The land category of capital assets includes all land and land rights acquired by the district for its own use. Acquisition could be by purchase, donation, or other acquisition. Right-of-ways and easements are included. Right-of-ways and easements are areas of land needed to provide the right of passage that is a servitude imposed by law or convention, and by virtue of which one has a right to pass through the estate of another.

- Construction-in-Progress (CIP)

Construction-in-Progress is a category of capital assets that represent the cost of buildings and improvements under construction and not completed by fiscal year end. Once completed, the total cost is removed from CIP and reclassified under the appropriate capital asset category, such as buildings or improvements. CIP is not depreciated.

- Constructed Capital Assets

The original cost of the capital asset is the sum of all costs necessary in placing the capital asset into service. Constructed capital assets include project costs from the time the district commits to a purchase or project, until the project is completed and placed into operation, including any Additional Project Costs (as defined below). A project is considered to be committed if the money is budgeted for and a project number is assigned for the building or specific type of improvement project to a particular site.

Costs incurred within one year of final acceptance or within one year of the asset being placed into service, that are substantially related to the initial project (such as during the period of warrantability) that are not deemed standard maintenance or repairs, will also be considered and tracked to the original cost of the asset (collectively, “Additional Project Costs”). Costs incurred outside of the period of warrantability or outside of one year from final acceptance/final completion/placement into service shall be expensed out-right and will not be included in the original cost.

All costs related to the construction of a capital asset must be capitalized and the capitalization thresholds shall apply to the total cost after completion of the project. These costs generally include amounts paid for contract work (for work done by third-party contractors), materials and supplies furnished for the district, labor of district employees and construction management costs. Ancillary charges necessary in placing the asset into service such as transportation, insurance, shipping/freight/installation, modifications, accessories, professional services, licensing/permitting are also included in the project cost. Travel costs incurred by employees in their duties directly associated with the projects, and payroll and payroll-related costs of employees directly associated with or devoting time to the project are also included. Some costs will be direct costs and readily assignable while other costs will be indirect costs, which will be allocated to the benefited assets in a reasonable manner.

- Improvements & Repairs

Major improvements and repairs may be capitalized upon determination by the facilities and planning department if such improvements and repairs result in substantial betterments or improvements. For capital outlays that are partial replacements and/or partial betterments or improvements, the facilities and planning department will determine to what extent the project replaces the “old” part of the capital asset and to what extent the project is a betterment or improvement. To the extent that the “old” part can be identified as its own project/line item within a building site, such part will be fully depreciated, and such part’s historical cost will be removed from the asset listing. If the distinction between the old part of the asset and its replacement and/or betterment or improvement is not easily determinable, the facilities and planning department will determine a reasonable method to apply in estimating the amount to remove from the asset listing. Reasonable methods may include, but are not limited to, a set percentage, an estimate based on square footage, and/or an estimate based on like cost for portion if done as a stand-alone project basis.

Methods may be applied on a case-by-case basis as appropriate and will be documented and maintained as part of the capital asset records at the point of removal from the capital asset listing.

- Equipment

To be eligible for capitalization, the costs of each individual item of equipment must meet the minimum capitalization threshold amount (except for equipment that is part of a “system,” as described above) for its particular asset category. In addition to the equipment cost, the district may incur ancillary charges necessary in placing the asset into service. These ancillary costs should be added to the equipment cost when calculating the total original cost for the capital asset.

- Asset Number

An asset number is a number uniquely assigned to an asset. It is used for identification in the asset listing. For moveable property (equipment), the asset number is the tag number which is affixed to the asset. If the tag cannot be physically attached to an asset because of size, use, or structure, the asset will be assigned a number and recorded in district inventory listings. In the event of real property (all land, buildings, and improvements) the asset will be assigned to a property number and/or project description and will be recorded in the appropriate asset listing.

- Maintenance

Routine maintenance and repair costs are treated as non-capital expenditures and expensed as an operating cost when they are incurred.

Cross reference:

[Board Policy 6801](#)

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