

October 25, 2017

**ADOPT A NEW ACCOUNTING AND FINANCIAL
REPORTING FOR CAPITAL ASSETS POLICY**

THE CHIEF EXECUTIVE OFFICER RECOMMENDS THE FOLLOWING:

That the Board adopt a new Accounting and Financial Reporting for Capital Assets Policy.

PURPOSE:

The "Policy on Capital Assets" defines requirements for accounting for capital assets and expands upon the "Policy on Asset Management" to identify capital asset categories, capitalization thresholds, useful lives, in-service dates, and depreciation methods.

SCOPE:

This policy covers all assets purchased, constructed or donated that meet or exceed the established capitalization thresholds and useful lives as defined in Section II B. Capitalization Thresholds and Useful Lives.

APPLICABILITY:

This policy applies to all CPS organizational units, including central office departments, network offices, and schools. Adherence to this policy is necessary to comply with federal and state regulations, governmental accounting standards, and to maintain adequate internal control over financial reporting and accounting for capital assets. In addition, Illinois Administrative Code Title 23 Part 100 Section 100.60 (23 IL 100.60.a) requires each school board to adopt a capitalization threshold in order to properly account for capital assets. Finally, proper accounting for capital assets is necessary in order to comply with generally accepted accounting principles as promulgated by Government Accounting Standards Board (GASB) Statements 34, 42, 51, 62, etc. and subsequent amendments.

POLICY TEXT:

I. CAPITAL ASSET DEFINITIONS

Capital assets are real or personal property that have a value equal to or greater than the capitalization threshold for the particular classification of the asset and have an estimated life of greater than a year.

A. Classification of Capital Assets

Assets purchased, constructed or donated that meet or exceed the established capitalization thresholds or minimum reporting requirements must be uniformly classified. CPS records assets in the following categories:

- Land
- Buildings
- Building improvements
- Leasehold improvements
- Personal property (including equipment and furniture)
- Works of art and historical treasures
- Intangible assets
- Construction in progress

B. Classification Definitions

"Land" is the surface of the earth, which can be used to support structures and may be used to grow crops, grass, shrubs, and trees. Land is characterized as having an unlimited life.

“Buildings” are structures that are permanently attached to the land, have a roof, are partially or completely enclosed by walls, and are not intended to be transportable or moveable.

“Building improvements” are capital events that materially extend the useful life of a building or increase the value of a building by at least 25 percent of the original life period or cost, or both. For a replacement to a portion of a building to be capitalized, it must be part of a major repair or rehabilitation project, increase the value and/or useful life of the building, and be of significantly improved quality and higher value compared to the replaced portion. Replacement or restoration to original utility level is not capitalized.

“Leasehold improvements” are improvements made to existing structures by the lessee, who has the right to use these leasehold improvements over the term of the lease. These improvements will revert to the lessor at the expiration of the lease. Moveable equipment or office furniture that is not attached to the leased property is not considered a leasehold improvement.

“Personal property” is any movable tangible asset used for operations, the benefits of which extend beyond a year from the date acquired and rendered into service. Improvements or additions to existing personal property that constitute a capital outlay or increase the value or life of the asset by 25 percent of the original cost or life will be capitalized as a betterment and recorded as an addition of value to the existing asset. Note: Costs of extended warranties and/or maintenance agreements, which can be separately identified from the cost of the equipment, will not be capitalized.

“Works of art and historical treasures” are collections or individual items of significance which are not held for financial gain, but rather for public exhibition, education or research in furtherance of public service.

“Intangible assets” are assets that have these three characteristics: lack physical (tangible) substance, nonfinancial in nature, and initial useful life that is greater than one reporting period (see GASB 51). Intangible capital assets include:

1. Major computer system software – Any trademarked software package that is purchased or donated which comprises or adds to the useful life of the legacy database systems, the Oracle™ database system, or the Peoplesoft database system.
2. Minor computer system software – Any trademarked software package that is purchased or donated, or software that is internally developed to create new systems, that is not classified as Major Computer System Software.

“Construction in progress” is the economic construction activity status of assets (buildings, building improvements, software, etc) which are substantially incomplete.

II. CAPITAL ASSET GUIDELINES

A. System of Record and Tracking

Initial purchases are first recorded via vendor invoice entry into the District’s designated software system for disbursements, then compiled by location and project and recorded for capital asset financial reporting purposes. Donated assets and other non-monetary transactions will be recorded directly in the financial reporting software. In addition to the data elements identified in the “Policy on Asset Management,” capital asset records should include the following:

- In service date
- Useful life
- Depreciation method

B. Capitalization Thresholds and Useful Lives

Capitalization thresholds and useful lives for each asset class are as follows:

Class of Asset	Threshold	Useful Lives
Land	Capitalize All	N/A
Buildings	Capitalize All	50 years
Building improvements	Capitalize All	25 years
Leasehold improvements	Capitalize All	Remaining term of lease
Personal property (including Equipment)	\$25,000	5 years
Works of art/historical treasures	Capitalize All	N/A
Intangible assets		
Major software	\$25,000	20 years
Minor software	\$75,000	3 years
Construction in progress	Capitalize All	N/A

C. Capital Asset Acquisition Cost

Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Historical cost includes the vendor's invoice plus the value of any trade-in or educational allowance, initial installation cost, modifications, attachments, accessories or apparatus necessary to make the asset usable and render it into service. Historical cost also includes ancillary charges such as freight and transportation charges, site preparation costs and professional fees.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Capitalization of computer software includes software license fees if the total dollar amount of the fee divided by the number of units served (terminal or user count) meets the criteria to capitalize the purchase.

Internally developed software costs associated with the preliminary project and the post-implementation/operating phases should be expensed as incurred. Capitalization of costs should begin when the preliminary project phase is complete and management has explicitly authorized or commits to funding the software project with the intent it will be completed and used to perform its planned functions. Capitalization should cease no later than the time at which substantial testing is complete and the software is ready for its intended purpose or rendered in service.

During the application development phase, internal and external costs should be capitalized, including costs to develop or obtain software that allows for access or conversion of old data by new information systems. General and administrative costs and overhead expenditures associated with software development should not be capitalized as costs of internal use software.

D. Leased Assets

Per GASB Statement No. 62, assets should be capitalized if the lease agreement meets any one of the following criteria:

- The lease transfers ownership of the property to the lessee by the end of the lease term.
- The lease contains a bargain purchase option.
- The lease term is equal to 75 percent or more of the estimated economic life of the leased property.
- The present value of the minimum lease payments at the inception of the lease, excluding executory costs, equals at least 90 percent of the fair market value of the leased property.

Leases that do not meet any of the above requirements should be recorded as operating leases.

E. Depreciation Method

Capital asset costs are depreciated over their estimated useful lives. The straight-line depreciation method (historical cost divided by useful life) will be used. Depreciation expense and accumulated depreciation will be calculated in the system of record and posted to the accounting general ledger on a monthly basis.

Land and works of art and historical treasures are deemed inexhaustible and are not depreciated.

Depreciation is not applicable while assets are accounted for as Construction in Progress.

Buildings designated as "historical" by the City of Chicago will not be depreciated unless used in the operations of CPS. However, building improvements not deemed "historical" by the City of Chicago will be depreciated the same as any other building improvements.

Leasehold improvements are amortized over the shorter of (1) the remaining lease term, or (2) the useful life of the improvement. If the lease contains an option to renew and the likelihood of renewal is uncertain, the leasehold improvement is amortized over the life of the initial lease term or useful life of the improvement, whichever is shorter.

F. Impairments

Per Statement No. 42 of the Governmental Accounting Standards Board, "governments are required to evaluate prominent events or changes in circumstances affecting capital assets to determine whether impairment of a capital asset has occurred. Such events or changes in circumstances that may be indicative of impairment include evidence of physical damage, enactment or approval of laws or regulations or other changes in environmental factors, technological changes or evidence of obsolescence, changes in the manner or duration of use of a capital asset, and construction stoppage. A capital asset generally should be considered impaired if both (a) the decline in service utility of the capital asset is large in magnitude and (b) the event or change in circumstance is outside the normal life cycle of the capital asset."

The general ledger and fixed asset subledger book value of impaired assets will be reduced to reflect the impairment amount. Impaired assets will not be retired from the general ledger and fixed asset subledger until disposal.

G. Disposals and Retirements

Disposal of capital assets purchased with grant funds must be coordinated with the appropriate grant administrator. Disposal of capital assets purchased with bond funds must be coordinated with the CPS Treasury Department.

Upon disposal, capital assets and their related accumulated depreciation are removed from the general ledger and fixed asset subledger. The use of proceeds from the sale of capital assets may be restricted, depending on the funding source used to purchase the assets.

LEGAL REFERENCES: Illinois Administrative Code Title 23 Part 100 Section 100.60 (23 IL. 100.60.a)

Approved for Consideration:



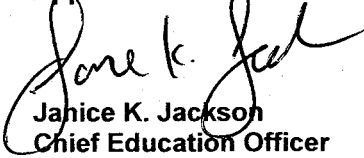
Ronald DeNard
Senior Vice President of Finance

Respectfully submitted,



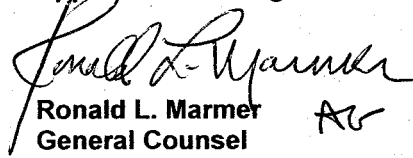
Forrest Claypool
Chief Executive Officer

Approved for Consideration:



Janice K. Jackson
Chief Education Officer

Approved as to Legal Form:



Ronald L. Marmor
General Counsel

AR