Office of the Board
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24-1101-PO6 **Agenda Date:** 11/1/2024

**AMEND BOARD REPORT 17-1025-PO2
ACCOUNTING AND FINANCIAL
REPORTING FOR CAPITAL ASSETS POLICY**

THE CHIEF EXECUTIVE OFFICER RECOMMENDS:

That the Board amend Board Report 17-1025-PO2, Accounting and Financial Reporting for Capital Assets Policy in response to the biennial review required by Board Rule 2-6. This policy was posted for public comment from August 30, 2024 until September 30, 2024.

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, 87, 94, 96 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, GASB 87, GASB 96, and GASB 94). 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.

3. Intangible right-to-use leased asset - Lease agreements that are capitalized under GASB 87 include an intangible right-to-use leased asset which is valued at the net of the present value of the lease agreement upon capitalization and related accumulated amortization for that lease.

4. Intangible right-to-use subscription asset - Subscription-based information technology arrangements (SBITA) that are capitalized under GASB 96 include an intangible right-to-use subscription asset which is valued at the net of the present value of the SBITA agreement and related accumulated amortization for that SBITA.

5. Intangible right-to-use PPP asset - PPP arrangements that are recognized under GASB 94 include an intangible right-to-use PPP asset which is measured based on the guidance provided by GASB 94.

"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
Aggregated Assets*	$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
Intangible right-to-use leased asset	$25,000	Term of lease
Intangible right-to-use subscription asset	$25,000	Term of agreement
Intangible right-to-use PPP asset	$25,000	Term of agreement
Construction in progress	Capitalize All	N/A

**Aggregated Assets includes multiple assets purchased as a group that have been capitalized under GASB Implementation Guide 2021-1. See section D below for details.*

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. Aggregation and Capitalization of Groups of Assets

Per GASB Implementation Guide No. 2021-1, governments are able to aggregate purchased assets whose individual acquisition costs are less than the capitalization threshold if those assets in aggregate are significant and exceed the capitalization threshold. This enables governments to ensure that all significant capital assets are collectively capitalized.

CPS will aggregate and capitalize the costs related to all electronic devices (iPads, laptops, tablets, etc.) that are purchased on an annual basis through the Information Technology Department's standard processes which ensure that each student and staff member (as applicable) are issued a device. The Information Technology Department in cooperation with the Asset Management Department maintains inventory details related to these devices and completes annual procedures to determine obsolescence and impairment of the devices, replaces and issues devices as necessary and to ensure adequate safety stock for the District. These capitalized assets will be depreciated on a straight-line basis as discussed within section H below.

E. Leased Assets : (Land, Building, Vehicle & Equipment)

~~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.~~

Per GASB Statement No. 87, a lease is defined as a contract that conveys both (1) the right to obtain the present service capacity of an underlying asset and (2) the right to determine the nature and use of the underlying asset as identified within the contract. Examples of nonfinancial assets that may be leased include buildings, land, vehicles and equipment. Leases may include contracts that are not explicitly defined as leases and excludes leases of intangible assets, biological assets, leases of inventory, service concession arrangements, supply contracts and other similar items.

A lease that meets the criteria above should be capitalized if it meets the following criteria:

- the lease term exceeds 12 months, and
- the present value of the lease exceeds the capitalization threshold of $25,000.

Leases that do not meet ~~any of~~ the ~~above~~ requirements ~~should be recorded as operating leases~~ above are not required to be capitalized as a lease under the guidance.

Upon capitalization, the following must be recognized by the organization as either the lessor (landlord) or lessee (tenant):

Lessor:

1. Lease receivable asset valued at the present value of lease payments expected to be received during the life of the lease less any estimated uncollectible amounts, and
2. Deferred inflow of resources at the amount of the lease asset plus any lease payments received at or before the beginning of the lease term related to future periods and less any lease incentives paid to the lessee at the beginning of the lease term.

Lease receivable assets will be reduced by lease payments received over time net of interest revenues. Deferred inflow of resources will be amortized systematically using the straight-line method over the life of the lease.

Lessee:

1. Lease liability valued at the present value of the payments expected to be made over the life of the lease, and
2. Right-to-use lease asset at the amount of the lease liability plus any lease payments made to the lessor at or before the beginning of the lease term related to future periods and any initial direct costs required to place the leased asset into service.

Lease liabilities will be reduced by lease payments made over time net of interest expenses. Right-to-use lease assets will be amortized systematically using the straight-line method over the life of the lease.

Modifications and Terminations:
Lease agreements may be modified or terminated prior to the contractual end date. Modifications and terminations of contracts will be reassessed in accordance with the guidance provided by GASB 87 and appropriate accounting treatment will be used to record these changes per the guidance.

F. Public-Private and Public-Public Partnerships and Availability Payment Arrangements

Per GASB Statement No. 94, a public-public partnership ("PPP") is defined as an arrangement in which one government contracts with another government to provide public services by conveying control of a nonfinancial asset - such as infrastructure or another capital asset (the underlying PPP asset) such as land, buildings, vehicles and equipment - for a period of time in an exchange or exchange-like transaction. A PPP under GASB 94 may meet the definition of a lease under GASB 87 and be subject to the guidance provided by GASB 87 provided that the transferred assets are the only underlying PPP assets, the assets are not required to be improved as part of the agreement and the PPP does not meet the definition of a service concession arrangement ("SCA").

Public-Private and Public-Public Partnerships

Transferor:
If an underlying PPP asset is an *existing* asset of the transferor at the time of the commencement term, the transferor should recognize the following at the commencement of the PPP term:

- The underlying PPP asset at its carrying value and continue all other accounting and financial reporting requirements related to the asset including depreciation and impairment,
- A receivable for installment payments at the present value, if any, to be received in relation to the PPP, and
- A deferred inflow of resources related to the PPP as provided by the guidance.

If an underlying PPP asset is *purchased* or *constructed* by the operator, the transferor should recognize the following when the PPP asset is placed into service:

- A receivable for the underlying PPP asset purchased or constructed to be received from the operator based on the estimated carrying value of the underlying PPP asset on the expected date that ownership is transferred from the operator to the transferor,
- A receivable for installment payments at the present value, if any, to be received in relation to the PPP, and

- A deferred inflow of resources related to the PPP as provided by the guidance.

Operator:
If an underlying PPP asset is an *existing* asset of the transferor at the time of the commencement of the PPP term, the operator should recognize the following:

- A liability for installment payments at present value, if any, to be made in relation to the PPP, and
- An intangible right-to-use asset related to the PPP as provided by the guidance.

If an underlying PPP asset is a new asset *purchased* or *constructed* by the operator, the operator should recognize the underlying PPP asset until ownership of the PPP asset is transferred to the transferor, if applicable. The operator should continue to apply other accounting and financial reporting requirements related to the asset including depreciation and impairment. When the underlying PPP asset is placed into service, the operator should recognize the following:

- A liability for the underlying PPP asset based on the estimated carrying value of the underlying PPP asset as of the expected date of the transfer of ownership to the transferor, if applicable,
- A liability for installment payments at present value, if any, to be made in relation to the PPP, and
- A deferred outflow of resources for the underlying PPP asset to be transferred to the transferor as provided by the guidance.

Service Concession Arrangement

An SCA is a PPP arrangement between a transferor and operator in which the right and obligation to provide public services through the use and operation of the underlying PPP asset in exchange for significant consideration (up-front payments, installment payments, new facility, improvements to a new facility, etc.) and the operator collects and is compensated by fees from third parties. Further, under an SCA, the transferor determines or has the ability to modify or approve what services an operator is required to provide and the rates to be charged for said services and the transferor is entitled to significant residual interest in the service utility of the underlying PPP asset at the end of the arrangement.

Transferor:
Under an SCA, the transferor will recognize the following items:

- An asset for the purchased or constructed underlying PPP asset when the underlying PPP asset is placed into service,
- A receivable for installment payments expected to be received during the PPP term, if any, to be received related to the PPP at the commencement of the PPP term, and
- A deferred inflow of resources related to the PPP at the commencement of the PPP term.

Operator:
Under an SCA, the operator will recognize the following items:

- A liability for installment payments, if any, to be made in relation to the PPP at the commencement of the PPP term, and
- A right-to-use asset for the underlying PPP asset at the commencement of the PPP term.

Availability Payment Arrangements ("APA")

An APA is an agreement in which a government enters into a contract with an operator to design, construct, finance, operate and maintain an asset in exchange for fixed payments designed to
compensate the operator for those services and variable payments made to the operator based on whether certain measures have been met. An APA may have multiple components and may require treatment as separate components based on the guidance provided.

Components of an APA related to design, construction, or financing of a nonfinancial asset in which ownership of the asset transfers to the government by the end of the contract should be reported as a financed purchase by the government of the underlying nonfinancial asset.

Components of an APA related to providing services for the operation or maintenance of the nonfinancial asset should be accounted for as outflows of resources by the government for the period in which the payment relates.

G. Subscription-Based Information Technology Arrangements

Per GASB Statement No. 96, Subscription-Based Information Technology Arrangements ("SBITAs"), a SBITA is a contract that conveys the right to use another party's IT software - alone or in combination with tangible IT assets (such as GASB 87 related assets) - for the duration of the agreement in an exchange or exchange-like transaction. The government must obtain both (1) the right to obtain the present service capacity from use of the underlying IT asset(s) and (2) the right to determine the nature and manner of use of the underlying IT asset(s) as specified in the contract. SBITAs may include contracts that are not explicitly defined as a SBITA and specifically excludes contracts that solely provides IT support services.

A SBITA that meets the definition above should be capitalized if it meets the following criteria:

- the SBITA term is longer than 12 months, and
- the present value of the SBITA exceeds the capitalization threshold of $25,000.

SBITAs that do not meet the requirements above are not required to be capitalized as a lease under the guidance.

Upon capitalization, the following must be recognized by the organization:

- Subscription liability valued at the present value of all subscription payments expected to be made during the life of the agreement plus any other payments made to the vendor associated with the contract and any incentives or penalties related to the agreement, and
- Subscription asset at the value of the subscription liability plus any payments made to the vendor at the commencement of the agreement term and any capitalizable implementation costs related to the SBITA.

The subscription liability will be reduced by SBITA payments made over time net of interest expenses. The subscription asset will be amortized systematically using the straight-line method over the life of the SBITA.

Modifications and Terminations:
SBITA agreements may be modified or terminated prior to the contractual end date. Modifications and terminations of contracts will be reassessed in accordance with GASB 96 and appropriate accounting treatment will be used to record these changes per the guidance.

H. 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 (as determined by the guidance), 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.~~

Intangible right-to-use assets (discussed within section B above) that relate to GASB pronouncements 87, 94 and 96 will be amortized on a straight-line basis over the life of the related agreement. An accumulated amortization account will be maintained in the accounting general ledger annually to present the net carrying value of these assets.

I. 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.

J. 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); Governmental Accounting Standards Board (GASB) Statement No.87; GASB Statement No. 94; GASB Statement No. 96; GASB Implementation Guide No. 2021-1

Approved for Consideration:

Signed by:

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