



STANDARD POLICIES AND PROCEDURES

POLICY NAME Asset Capitalization	Section: B Policy Number: 2 Effective Date: 8/17/2023 Review Date:
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The Governing Council of La Academia de Esperanza realizes that it is necessary to establish guidelines for the control of Assets owned by the school pursuant to 2.20.1 et seq. NMAC. The purpose of such controls is to comply with both Federal and State reporting requirements, protect the school's Capital Assets, preserve the life of the Capital Assets, to avoid any unnecessary duplication of Assets, to establish a guideline for future Asset replacement, and to establish a basis for insurance coverage required. All Assets shall be recorded in accordance with Generally Accepted Accounting Principles (GAAP), and an Asset register shall be maintained in either a hard copy or in a computerized format.

I. DEFINITION

For the purpose of this policy, Capital Assets are defined as tangible or intangible property owned by the school which meets the definition and minimum dollar amount for capitalization as determined by statute, and as may be amended from time to time by Legislative mandate, per the following categories:

- A. Land** - The cost of real property exclusive of the cost of any constructed Assets on the property. Land is recorded as an Asset but is not depreciated. Land is recorded at book market value at the time of acquisition.
- B. Buildings** - The cost of real property, exclusive of the land that it is located on, of any constructed Assets with a recorded value of \$5,000.00 or more. The recorded value is:
 - The current one-time actual acquisition value of the structure, or
 - The lesser of the present value of future payments or the market value per external appraisal.

Building modifications or improvements after the purchase sale agreement that do not extend the useful life and are \$5,000.00 or more will also be recorded under the "Buildings" category.

- C. Land Improvements** – The constructed improvements to land that occur after the purchase sale agreement, such as driveways, walkways, lighting, parking lots, landscaping, and safety features that are \$5,000.00 or more.
- D. Furniture, Fixtures, and Equipment** - Tangible personal property with a total cost of \$5,000 or more with a useful life of more than one (1) year that is employed in the



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operating activities of the charter school. Items which fall into this category may be purchased or acquired by gift and include, but are not limited to, computer equipment, desks, filing cabinets, copiers, and laboratory equipment. Equipment will be recorded at either:

- The current one-time actual acquisition value, or
- The lesser of the present value of future payments or the market value

E. Subscription-Based IT Arrangement (SBITA) – Intangible property that references a contract, or expected renewal with a high likelihood of continuation, between the school and one or more software or Information Technology vendors that grants the right to use IT software for a set period, not perpetually, in an exchange or exchange-like transaction. A SBITA Capital Asset will be recorded if the present value of the planned expenditures for the SBITA through either the specific contract, or maximum of a five-year period, exceeds \$5,000.00. Expenditures for one-time implementation or setup and required training shall be considered in the capitalization costs. Only Software arrangements with an annual expenditure of \$500.00 or more will be evaluated, and the rest will be waived.

Any other costs directly related to the purchase or acquisition which make the equipment operable as intended, such as shipping charges or set-up fees, may be included as part of the acquisition cost. Improvements or repairs to existing assets will be capitalized only if the result of the expense meets all the following conditions:

- If the total costs exceed \$5,000.
- The Asset's useful life is extended three (3) or more years.
- The total costs will be greater than the book value and less than the fair market value.

II. DONATED ITEMS

Donated items, valued at the thresholds contained in this policy and which are items that the school otherwise would have bought and used in operations, shall be recorded in the school's general ledger account titled Fixed Assets (over \$5,000) and in the Asset register at its fair market value at the date of donation. Donated items, which are valued at less than the threshold contained in this Capitalization Policy, will be recorded in the school's general ledger account titled Supply Assets (less than \$5,000) at fair market value at the date of donation. Donated items, which are determined to have no fair market value, will not be recorded.

III. DEPRECIATION



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Depreciation is the rational and systematic allocation of the cost of a Capital Asset over its estimated useful life. For purposes of this policy, all depreciable Assets will be depreciated using the **straight-line method** of allocation. The straight-line method allocates the acquisition cost of a depreciable Asset evenly over its estimated useful life. Most Assets retain some recovery at the end of their useful lives, which is known as salvage value. All depreciable property for the purposes of this policy shall be deemed to not have a fair market value at the end of their useful lives.

The school will use the tables derived from Revenue Procedure 87-56 1987-2 CB 674 for establishing the useful life using the General Depreciation System (GDS) recovery period. In the event the category of Asset is not included in Revenue Procedure 87-56 1987-2 CB 674, the school will use the table found in the most recent New Mexico Manual of Procedures PSAB Supplement as may be amended from time to time. SBITAs without a written agreement will not have a useful life of more than five (5) years.

Depreciation expense is recognized for financial statement purposes at year-end only. For budgetary purposes, the full acquisition cost of a Capital Asset is recognized at the time of acquisition. The depreciated term at year-end will be rounded to the closest half-month based on the asset's acquisition date.

IV. ASSET DISPOSITION

Capital Assets which are deemed to be obsolete or no longer meet the requirements of the school may be disposed of pursuant to NMSA (1978) 13-6-1 to 13-6-4, Sale of Public Property, transferred to another office or classroom, or traded in. An Inventory disposition form must be prepared and presented to the Governance Council for all tangible inventory dispositions. SBITAs will be deleted from the Fixed Asset list at the end of the agreement/useful life. Upon approval of the disposition, each member of the Governance Council making up the voting quorum must sign the disposition. Each Fixed Asset Disposal should be identified on the disposition form and any Fixed Asset disposal with a market value exceeding \$5,000 must be accompanied by a form PED-947. Pursuant to NMSA (1978) 13-6-1 and 13-6-2, all licensed software and any electronic media (computer hard drives) must be completely erased before being disposed of. The charter school Business Manager shall retain the approved forms to preserve the integrity of the asset records.