I. Purpose:

The purpose of this policy is to establish guidelines for the acquisition and reporting of capital assets in order to provide information for capital investment and management decisions.

II. Definitions:

A. Capital Asset – A capital asset is property that is used in district operations and has an initially estimated useful life in excess of three years following the date of acquisition.

B. Capital Improvement Plan (CIP) – The plan that describes the acquisition and/or construction of capital facilities and assets (capital projects) and associated funding sources the district intends to undertake during future fiscal years.

C. Capital Project – Construction projects and capital purchases that generally cost in the aggregate more than $100,000 and/or have an initially estimated useful life greater than seven years.

D. Capitalization Threshold – The monetary criterion used to determine whether a given capital asset should be reported as a long lived asset subject to depreciation in the financial statements.

E. Depreciation – The systematic and rational allocation of the acquisition cost of a capital asset over its useful life.

F. Operating Budget – Annual expense plan that details the expected costs associated with providing district services.

III. Policy:

A. The purpose of the CIP is to document the planning, scheduling, approval, and anticipated financing for capital projects over a rolling multi-year period.

B. Construction projects and capital asset purchases that generally cost in the aggregate more than $100,000 and/or have a useful life of greater than seven years are included in the CIP.

C. The Director of Schools is to prepare CIP project proposals and present the requests to the Board. Once a request has been approved by the Board, the district is to forward to the
Knox County Department of Finance the approved request along with the Director of
Schools estimate of any and all future operating costs associated with the project that are
not included in the CIP.

D. The Knox County Department of Finance and County Mayor will review the CIP requests
and make recommendations to the County Commission. The final CIP recommended by
the County Mayor will include financing of the CIP request. Budget appropriations for
projects included in the first year of the CIP are included in the district’s annual Capital
Budget which is subject to Board and County Commission review and approval. Financing
for the Capital Budget will come from General Obligation Bonds and other sources. If a
specific current revenue source is identified for a CIP request, then that funding is included
in the CIP.

Budget appropriations included in the first year of the approved CIP, for which financing is
planned for the upcoming fiscal year, are required to be approved by the County
Commission. Budgetary approval for projects planned for subsequent years, for which
financing is planned in those future years, is generally not obtained during the first year of
the CIP and is subject to revision in subsequent years.

E. Capital assets, whether purchased or constructed, are recorded at historical acquisition cost
(or estimated historical cost, if historical cost is not available). Donated capital assets are
recorded at estimated fair market value at the date of donation. Historical acquisition cost
includes the purchase price of the asset, plus related ancillary charges necessary to place
the asset in its intended location or to prepare it for its intended use. Such charges include,
for example, legal and title fees, closing costs, land-preparation costs, architect fees, and
transportation charges.

F. The capitalization threshold is used to determine the proper reporting of capital asset
additions based on the expenditures, individually or in the aggregate, incurred to acquire
the asset. For district capital asset additions (for example land, buildings and building
improvements, vehicles, machinery and equipment, and intangible assets), the
capitalization threshold is $10,000.

G. Additions to existing capital assets are recorded as capital assets only if (1) the additional
expenditures, individually or in the aggregate, exceed $10,000 and (2) the addition extends
the useful life of an existing asset or enhances its functionality. Costs of routine recurring
maintenance and repairs that do not add to the value of an asset or do not materially extend
the useful life of an asset are not capitalized. Such items are reported as
expenditures/expenses in the period in which they are incurred.

H. Capital assets that meet the capitalization threshold and, therefore, are recorded as district
assets are depreciated, the exception being land, which is not depreciated. Depreciation is
calculated using the straight-line method over the estimated useful lives of classes of
assets, which are:
<table>
<thead>
<tr>
<th>Asset Class</th>
<th>Useful Life (Years)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Buildings</td>
<td>45</td>
</tr>
<tr>
<td>Land Improvements</td>
<td>10-20</td>
</tr>
<tr>
<td>Public Domain Infrastructure</td>
<td>40</td>
</tr>
<tr>
<td>System Infrastructure</td>
<td>25</td>
</tr>
<tr>
<td>Vehicles</td>
<td>5</td>
</tr>
<tr>
<td>Machinery and Equipment</td>
<td>5-20</td>
</tr>
<tr>
<td>Intangible Assets</td>
<td>5-10</td>
</tr>
</tbody>
</table>

I. Any capital assets that are declared surplus property shall be disposed of in accordance with the Procurement Code of Knox County.

IV. Quality Control and Quality Assurance:

It is the responsibility of the Director of Schools to ensure the presence of procedures that provide sufficient guidance to affected KCS personnel to fulfill the intent of this policy.

Approved as to Legal Form
By the Knox County Law Department 12/19/2016
/Gary T. Dupler/Deputy Law Director