FIXED ASSET CAPITALIZATION POLICY

Purpose

The library will maintain an inventory of fixed assets and a record of capital expenditures. Administration and execution of this policy are the responsibility of the Treasurer and Executive Director acting under the authority of the Library Board of Trustees.

Guidelines

The library will maintain an inventory for external financial statement purposes of all fixed assets put into place as of the date of this policy. Fixed assets are property, plant, furniture and equipment with an initial acquisition cost of $2,500 or more per item. Initial cost is the cash outlay, or its fair value equivalent, made to acquire the asset and put in operating condition.

Fixed assets will be inventoried, using the historical cost of the asset. A record which includes item name, description, inventory ID number, location, manufacturer, vendor, historical cost, replacement cost, serial number, and estimated replacement date, will be maintained going forward from the date of this approved policy. Capital expenditures do not include: (1) ordinary repairs that do not increase the value or extend the life of the asset, (2) routine operating costs such as annual maintenance contracts.

Retirement procedure: A retirement record will be maintained as items are withdrawn or retired.

Review procedure: The inventory should be reviewed on an annual basis.

Asset Classification

Fixed assets should be categorized into the following:

- Land
- Land improvements and infrastructure
- Buildings
- Equipment

General Policy for Capitalization

Fixed assets should be capitalized as follows:

- All land acquisitions,
- All building acquisitions,
- Equipment costing more than $2,500 with a useful life beyond a single reporting period (generally one year)

Land

The recorded cost of land includes (1) the contract price, (2) the costs of closing the transaction and obtaining title, including commissions, options, legal fees, title search, insurance, and past due taxes, (3) the costs of surveys, and (4) the cost of preparing the land for its particular use such as clearing and grading.

Capitalization of land costs include, but are not limited to, the following:

- Original contract price,
- Brokers' commissions,
- Legal fees for examining and recording title,
- Cost of title guarantee insurance policies,
- Cost of real estate surveys,
- Cost of an option when it is exercised,

- Special paving assessments,
- Cost of excavation, grading or filling of land and razing of an old building,
- Cost of cancellation of unexpired lease, and
- Payment of noncurrent taxes accrued on the land at date of purchase, if payable by purchaser.

Buildings

Capitalization of building costs include, but are not limited to, the following:

- Original contract price of cost of construction,
- Expenses incurred in remodeling, reconditioning, or altering a purchased building to make it available for the purpose for which it was acquired,
- Expenses incurred for the preparation of plans, specifications, blueprints, etc.,
- Cost of building permits,
- Payment of noncurrent taxes accrued on the building at date of purchase, if payable by purchaser,
- Architects' and engineers' fees for design and supervision, and x cost of temporary buildings used during the construction period.

Furthermore, the cost of interest incurred during building construction should be capitalized in accordance with Generally Accounting Standards Board (GASB).

Land Improvements and Infrastructure

Land improvements include items such as excavation, non-infrastructure utility installation, driveways, sidewalks, parking lots, flagpoles, retaining walls, fencing, outdoor lighting, and other non-building improvements intended to make the land ready for its intended purpose. Land improvements can be further categorized as non-exhaustible and exhaustible. Expenditures for land improvements that do not deteriorate with use or passage of time are additions to the cost of land and are generally not exhaustible, and therefore not depreciable.

Infrastructure assets are defined as long-lived capital assets that normally are stationary in nature and normally can be preserved for a significantly greater number of years than most capital assets. Examples of infrastructure assets include roads, bridges, tunnels, drainage systems, water and sewer systems, dams, and lighting systems. Improvements to infrastructure or land improvements which extend the useful life or capacity of the asset and meet capitalization thresholds will be capitalized as a separate asset/component and depreciated over its estimated useful life.

Equipment and Leased Equipment

Equipment should be capitalized in accordance with Generally Accounting Standards Board (GASB).

Capitalization of Computer Software Costs

Computer software costing more than $2,500 with a useful life beyond a single reporting period (generally one-year) should be capitalized. Upgrades and enhancements are defined as modifications to existing internal-use software that result in the ability for the software to perform tasks that it was previously incapable of performing. In order for costs of specified updates and enhancements to internal-use computer software to be capitalized, it must be probable that those expenditures will result in additional functionality.

Depreciation

Depreciation is the process of allocating the cost of tangible property over a period of time, rather than deducting the cost as an expense in the year of acquisition. Generally, at the end of an asset's life, the sum of the amounts charged for depreciation in each accounting period will equal original cost less the salvage value.

Information Needed to Calculate Depreciation

To calculate depreciation on a fixed asset the following five factors must be known:

1. The date the asset was placed in service
2. The asset's cost or acquisition value
3. The asset's salvage value
4. The asset's estimated useful life, and
5. The depreciation method

Estimated Useful Life

Estimated useful life means the estimated number of months or years that an asset will be able to be used for the purpose for which it was acquired. Eligible fixed assets should be depreciated over their estimated useful lives with the following guidelines:

	Years
Buildings and building improvements	7-50
Furniture and equipment	5-30

Depreciation Method

The library has established the straight-line methodology for depreciating all fixed assets. Under the straight-line depreciation method the basis of the asset is written off evenly over the useful life of the asset. A half year depreciation will be taken in the year of acquisition and disposal. The amount of annual depreciation is determined by dividing an asset's cost reduced by the salvage value, if any, by its estimated life. The total amount depreciated can never exceed the asset's historic cost less salvage value. At the end of the asset's estimated life, the salvage value will remain.

Asset Retirement

When retiring an entire asset or building component, remove the entire asset and related accumulated depreciation from the fixed asset file. Any un-depreciated balance will be reported as a disposal expense net of any value received. Generally, with a building rehabilitation or renovation, only a section of the asset is retired (partial retirement) for the piece of the asset being renovated. To determine the value of the asset being renovated, the library's methodology is based on the current costs of the renovation and discounting back to the date of the asset being renovated. An escalation table (discounting rates) is used which reflects annual escalation (de-escalation) factors developed using industry data and other relevant information.