

## Fixed Asset Capitalization Policy and Procedures

Policy: The assembly shall have a financial policy that defines a fixed asset, the types of assets to be included as a fixed asset and the types of assets to be excluded. The policy shall also address depreciation of fixed assets and periodic inventory requirements. The Treasurer has overall responsibility for this policy and its procedures.

Procedure I: Awakening Together (AT) defines a fixed asset as an asset acquired through donation, purchase or self-construction.

- A. To qualify for inclusion as a capitalized asset in the AT's fixed asset system, the following four criteria must be met:
  1. The asset must have a cost or dollar value of \$1,000 or more.
  2. The asset must have a useful life exceeding one year or more (based upon reasonable estimates).
  3. The asset must be land, building, building improvement or be of a tangible nature (possess physical substance).
  4. The asset is not a repair part or supply item.
- B. AT has determined that assets having a value under \$1,000, regardless of their useful life, will not be capitalized for financial reporting purposes.
- C. The asset value for donations will be the fair market value at the time of the donation. The asset value, when purchased, will be the initial cost plus all costs related to placing the asset into operation. The cost of self-constructed assets will include all costs of construction.

Procedure II: The types of assets to be included are:

- A. Land:
  1. Land acquired by purchase is recorded at cost to include the amount paid for the land itself and all incidental costs.
  2. Land acquired by gift or bequest is recorded at the fair market value at the date of the acquisition.
  3. Land is not depreciable.
  4. Land records should include the assessor's parcel number and/or lot, book and tract, as well as an identification of use and location.
- B. Land Improvements:
  1. This category will include parking lots, outdoor lighting, covered walkways, fences, etc.
  2. Landscaping is not capitalized.
  3. Land improvements will be depreciated over their estimated useful lives.
- C. Buildings:
  1. Buildings will be recorded at either their acquisition cost or construction cost.
  2. If a building is acquired by purchase, the capitalized cost should include the purchase price and other incidental expenses at the time of acquisition.
  3. If a building is constructed, the capitalized cost should include all construction costs. The constructed building will be capitalized upon completion of the project.
  4. For the first year, all the component units of the building, such as HVAC, plumbing system, sprinkler systems, elevators, etc. will be included in the capitalized cost of the building. These latter assets may be replaced several times during the life of the building shell and therefore, take a shorter useful life estimate.
- D. Building/Leasehold Improvements:
  1. Building or leasehold improvements consist of additions, improvements and replacements made to existing buildings (If the building is owned, classify as building improvement. If the building is leased, classify as leasehold improvement).

2. Examples are the addition of a building wing, installation of a sprinkler system, central air conditioning or replacement of an elevator. A building improvement must have significant impact and be a material amount (\$1,000 or more per improvement) in order to be capitalized. For this reason, carpeting, partitions, and renovation of an office wall structure will generally be expensed..
  3. Building improvement costs include construction costs, contractor payments and other costs required to place the improvement in its finished state.
  4. These improvements are capitalized and depreciated separately from buildings.
- E. Construction in Progress
1. This includes all projects for buildings or land improvements construction that are not completed at the end of the fiscal year.
  2. Construction in progress is not depreciable until the assets are placed into service.
- F. Furniture, Fixtures and Equipment
1. Included in this category are office furniture, cars, trucks, computers and the like.
  2. The amount capitalized should include costs associated with direct purchase (e.g., shipping costs, related site preparation and installation charges).
  3. Fixed asset records should include location and department codes and identifying descriptions (manufacturer, model and serial numbers, etc.).

Procedure III: Types of costs to be excluded:

- A. Costs incurred for materials and supplies consumed in the normal course of AT's operations.
- B. Costs incurred to repair and maintain the AT's capitalized assets.

Procedure IV: Depreciation is required for AT assets. Depreciation will be calculated on the useful life of the assets using the half-year convention. Useful lives of fixed assets relate to the life expectancy as used by AT. Useful lives are assigned to each asset unit. The following are general categories of useful lives for its fixed assets:

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|---------------------------|---------------------------------|
| A. Land Improvements      | 15 years                        |
| B. Buildings              | 40 years                        |
| C. Leasehold Improvements | The remaining life of the lease |
| D. Office Furniture       | 5 years                         |
| E. Office Equipment       | 3 years                         |

Procedure V: A periodic physical inventory is necessary for accountability and control. An inventory will confirm the reliability (or lack of reliability) that can be placed upon the fixed asset accounting system by verifying the actual existence of the items represented by the fixed asset records. A physical inventory will be performed in the fourth quarter of the fiscal year on a bi-annual basis.