

MacDonald Public Library Asset Capitalization Policy

Adopted: June 2023

Next scheduled review: June 2024

Purpose

The MacDonald Public Library (“Library”) establishes this Asset Capitalization Policy (“Policy”) to provide accountability and safeguard its capital assets.

The Library will maintain a capital asset system (“System”). The System will maintain information sufficient to enable the Library to:

- A. Identify and manage its assets.
- B. Generate year-end financial statements according to generally accepted accounting principles (“GAAP”).
- C. Adhere to this Policy.

Definitions

- A. Capital Assets. Capital Assets means tangible assets of the Library with an estimated useful life exceeding one accounting period (one year) and an initial cost equal to or exceeding its category’s capitalization threshold (provided below). A Capital Asset’s historic cost or estimated historic cost will be carried on the balance sheet of the Library, and capitalized or depreciated until the asset is retired under this Policy.
- B. Controlled Assets. Controlled Assets means any tangible assets with an estimated useful life exceeding one accounting period (one year) and an initial cost of less than its applicable Capitalization Threshold. Any Controlled Asset’s historic cost or estimated historic cost will be reflected as an expense of the Library in the year that controlled asset is acquired.
- C. Fixed Assets. Fixed Assets includes Capital Assets and Controlled Assets, except as provided under this Policy. All assets meeting the definition of a fixed asset will be considered a long-term asset and recorded in the System. Fixed assets should be timely and accurately recorded. The Library will establish an internal control structure that provides reasonable assurance of effective and efficient operations, reliable financial reporting, and compliance with applicable laws and regulations.
- D. Literary Inventory. Literary Inventory includes books, magazines, manuscripts, electronic files, and recorded materials, including audiobooks and music.
- E. Historic Cost. Historic cost means the cash or fair market value equivalent price exchanged for goods and services on the date acquired. Land, buildings, and equipment are common examples of items recognized whose cost is determined by historic cost. The application of historic cost principles to certain classes of assets are described more fully below.

Management Responsibilities

The Library will appoint one or more persons to manage the System (“Business Manager”). The Business Manager will be responsible for the Library’s assets and ensuring control of assets and compliance with the Library’s purpose and the provisions of this Policy. The Business Manager will be responsible for determining which assets require control, unless that responsibility is delegated to another person in writing. The Business Manager may allocate control of assets to an automated system at his or her discretion.

Assets

General Assets of the Library will be capitalized according to the following Capitalization Thresholds:

CATEGORY	THRESHOLD
Land	\$0
Building/Improvements/Infrastructure	\$5,000.00
Construction in Progress	Any Major Project, not yet completed
Moveable Assets (Excluding Literary Inventory)	\$1,000.00
Literary Inventory	\$0 – Treated Collectively

- A. Land. The Library will capitalize all land acquisitions, regardless of cost. Original cost of land will include the full value given to the seller. Capitalization of land costs include, but are not limited to: (i) original contract price; (ii) brokers' commissions; (iii) legal fees for examining and recording title; (iv) title guarantee insurance policies; (v) real estate surveys; (vi) options when exercised; (vii) special paving assessments; (viii) the cost of preparing the land for its particular use, including excavation, grading, or filling of land and razing of an old building; (ix) cost of cancelling an unexpired lease; (x) payment of noncurrent taxes accrued on the land at date of purchase, if payable by purchaser; and (xi) wages, salary, benefits, or other compensation of any employees, contractors, or third-parties incurred in connection with acquisition.

If the land is purchased for the purpose of constructing a building, all costs incurred up to the excavation for the new building should be considered land costs. Removal of an old building, clearing, grading, and filling are considered land costs because they are necessary to get the land in condition for its intended purpose. Any proceeds obtained in the process of getting the land ready for its intended use, such as salvage receipts on the demolition of the old building or the sale of cleared timber, are treated as reductions in the price of the land.

- B. Buildings. The Library will capitalize buildings at their full cost, without separately categorizing the cost of attachments. For purposes of this paragraph, attachments include roofs, heating, cooling, plumbing, lighting, or any part of the

building. The full cost capitalized for any Building will include: (i) original contract price; (ii) items designed or purchased exclusively for the building; (iii) expenses related to preparation of plans, specifications, blueprints, and architectural or engineering fees; (iv) bond issuance fees; (v) interest costs (while under construction); (vi) accounting costs (if material); (vii) costs directly attributable to the construction of the building, including remodeling, reconditioning, or alteration to make a building fit for its intended purpose; (viii) building permits; and (ix) temporary facilities used during construction.

- C. Land Improvements. Land Improvements include improvements to land or real estate, attached or not easily removed, exclusive of buildings, with a life expectancy greater than one year. Examples include 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. Improvements to Land do not include roads, streets, or other assets that are valuable only to the public.

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.

- D. Improvements to Assets (Other than Land). Improvements to Assets means the cost of improvements, renovations, or changes to existing buildings. Improvements to furniture and equipment or improvements other than to buildings will be capitalized only if the change meets the following conditions:

1. The total cost exceeds \$5,000.
2. The asset's useful life is extended two years or more.
3. The improvement or renovation exceeds ordinary or routine repairs and maintenance.

- E. Literary Inventory. The aggregate of all Literary Inventory with a useful life of more than one year, regardless of original cost, will be considered a Capital Asset. The Library will acquire, transfer, and dispose of Literary Inventory according to the Library's policy.

A. Cost. The cost of property, plant, and equipment includes all expenditures necessary to make an asset ready for use (such as delivery, installation, calibration, set-up, programming, and placement in service). For purposes of recording capital assets of the Library, the valuation of assets will be determined by historic cost as of the date acquired or constructed. If historic cost information is not available, assets are recorded at estimated historic cost by calculating current replacement cost and deflating the cost using the appropriate price-level index.

Historic cost will be substantiated by invoices or other adequate records evidencing the cost, date, and form of consideration for any acquired asset. The Business Manager will maintain a register of assets that provides a detailed record of the capital assets of the Library and retain all substantiating records for at least four years.

B. Depreciation and Useful Life. Pursuant to GASB Statement No. 34, except for Literary Inventory, depreciation will be recorded for capital assets using straight-line depreciation over the useful life of assets, applying an actual month convention, and depreciating down to applicable salvage value. Literary Inventory will be collectively depreciated according to the composite method of depreciation (*i.e.*, annual depreciation is equal to historical cost divided by estimated useful life).

The Business Manager will assign an estimated useful life to all assets for the purposes of recording depreciation. The table below will determine lives for most assets. Asset lives will be adjusted as necessary depending on the present condition and use of the asset and based on how long the asset is expected to meet current service demands.

Adjustments should be properly documented.

The applicable useful life of each asset class follows:

CATEGORY	USEFUL LIFE
Land	Indefinite (non-depreciable)
Construction in Progress	Indefinite (non-depreciable)
Buildings and Improvements	30-40 years
Improvements to Assets (other than buildings)	15 years
Appliances	10-15 years
Furniture and Fixtures	7-10 years
Large Electronics and Large Equipment	10-20 years
Computers/Small Electronics/Small Equipment	5 years
Vehicles	5 years
Literary Inventory (excluding art/treasure, below)	10 years
Works of Art, Historical Treasures, Artifacts, etc.	Indefinite (non-depreciable)

One or more Business Manager will design, implement, and maintain accounting controls that provide reasonable assurances of the following:

- A. Detailed Records. Books and records will be kept and maintained with sufficient detail to assure accountability for library-owned assets.
- B. Comparison. At least every two years, the Library will carry out a full recorded accounting and inventory of assets to be compared against the previous accounting. The Library will take appropriate action with respect to any changes or discrepancies, as determined in the reasonable discretion of the Business Manager.
- C. Fixed Assets. Each fixed asset item (including machinery, equipment, vehicles, and furniture) will be assigned an asset number and identified with a fixed asset tag. A physical inventory of fixed assets will be taken annually on or about June 30, and compared to the most recent physical inventory record.

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