

MID MICHIGAN LIBRARY LEAGUE
CAPITALIZATION POLICY
FOR PERIOD BEGINNING OCTOBER 1, 2005

I. Policy Statement

All property, real property and personal property obtained by Mid Michigan Library League is to be capitalized in accordance with this Administrative Policy.

II. Responsibilities

The Library Director of Mid Michigan Library League has the responsibility to administer and oversee the provisions of the policy.

III. Capitalization Policy

A. Valuation

Valuation is the amount, expressed in U.S. dollars, assigned in the financial records as the recorded value of a long-lived asset.

1. Land

- a. Land acquired by purchase is recorded at cost and includes the amount paid for the land itself and all related acquisition costs.
- b. Land acquired by gift or bequest is recorded at the fair market value at the date of acquisition.
- c. When land is acquired with buildings erected thereon, total cost is allocated between land and building in reasonable proportion at the date of acquisition. If the transfer document does not show the allocation, other sources of information may be used, such as an expert appraisal or the real estate tax assessment records.
- d. Land improvements with a total cost greater than \$1,000 and an estimated life greater than one year will be capitalized. Examples of such improvements include (but are not limited to) land-scaping, utility distribution systems, runways, taxiways and parking lots, etc.

2. Buildings and Building/Leasehold Improvements

- a. Buildings are recorded at cost and include all permanent structures and all integral fixtures, machinery, and other appurtenances that cannot be

readily removed without disrupting the basic building structure or services to the building.

- b. Buildings acquired by gift or bequests are recorded at the fair market value at the date of acquisition.
- c. When buildings are constructed, all identifiable costs are included, such as contract costs and ancillary charges necessary to place the asset into its intended location and condition for use.
- d. Structural remodeling/renovation and additions are capitalized when they enhance the use of, or extend the life of the building beyond its original estimated useful life, and the total cost equals or exceeds \$1,000 or 20% of the buildings cost, whichever is less.

3. Personal Property

- a. This includes all equipment that is not permanently affixed to land or buildings, and has a useful life greater than one year and has a unit cost of \$1,000 or more. Personal property acquired for resale is not to be recorded as personal property but as merchandise inventory.
- b. For equipment purchased, the valuation is the net amount paid through Accounts Payable, which is the invoice price less all discounts (except trade-in allowances). Freight and installation costs are also included if they are shown on the original invoice, or if they are readily available on related freight bills.
- c. The rebuilding of equipment will be capitalized if the total rebuilding costs exceed \$1,000 and the rebuilding project effectively restores the equipment to "like-new condition" and/or significantly extends the item's useful life or markedly increases the item's net book value. An example of this could be the rebuilding of a car or bus engine. Without the rebuilding, the car or bus is only worth the metal it is made from. After the rebuilding, the vehicle is totally operational and has resale value.
- d. Leased equipment is capitalized if it meets the capitalization criteria outlined in this Administrative Policy and the Financial Accounting Standards Board (FASB) Standard No. 13, dated November 1976. If any one of the following conditions exist at the initiation of the lease, then the lease is to be treated as a capital lease:
 - (a) The lease transfers ownership of the leased asset to the lessee by the end of the lease term. There must be a provision in the lease contract that legal ownership will be transferred.

- (b) The lease contains a bargain purchase option (BPO). The lease must have a provision that gives the lessee the right (an option) to buy the leased asset at a price that is significantly lower than the expected market value at the option date.
- (c) The lease term is equal to 75% or more of the total estimated economic life of the leased asset. If the estimated economic life is 5 years and the term of the lease is 4 years, then the lease is a capital lease ($4/5=80\%$).
- (d) The present value of the minimum lease payments at the inception of the lease is at least 90% of the market value of the leased asset at the time. Minimum lease payments are the rental payments that the lessee is obligated to make in connection with the leased property. If the lease contains a BPO, the minimum lease payments equal the minimum rental payments plus the BPO amount. If the lease does not contain a BPO, the minimum lease payments include: (1) the minimum rental payments called for by the lease over the lease term. (2) Any residual value guarantee by the lessee at the expiration of the lease term; and (3) any penalty payment the lessee can be required to make if the lease is not renewed or extended at the expiration of the lease term.
- e. Desktop or laptop computers and printers will have a capitalization threshold of \$1,000.

B. Definitions for Non-Capital Expenditures

1. Expenditures for repairs, maintenance or replacement of component parts, or accessories, which do not extend the unit's original estimated useful life or significantly enhance its net value is considered non-capital expenditures.
2. Expenditures incurred in demolishing or dismantling equipment including those expenditures related to the replacement of units or systems are non-capital expenditures.
3. Expenditures incurred in connection with the rearrangement, transfer, or moving of capitalized items from one location to another, including expenditures incurred in dismantling, transporting, reassembling and reinstalling such items in a new location are non-capital expenditures.

C. Useful Life Policy

Listed below is the Capital Assets useful life table:

<u>Asset Class</u>	<u>Examples</u>	<u>Est. Useful Life In Years</u>
Land	No depreciation	N/A
Buildings		50
Site Improvements	Paving, flagpoles, retaining walls Sidewalks, fencing, outdoor lighting	20
HVAC Systems	Heating, ventilation, and air Conditioning systems	20
Roofing		20
Interior Construction		20
Electrical/Plumbing		20
Sprinkler/Fire System	Fire suppression systems	20
Furniture & Accessories	Office furniture	10
Vehicles		10
All Office Equipment		5
Computer Hardware	PCs, printers, network hardware	5
Computer Software	Administrative or long-term	5

D. Salvage Value Policy

A fixed assets salvage value is an estimate of what an asset can be sold for at the end of its useful life. It is this Public Library's policy that buildings will have a 10% salvage value and all other assets will have no salvage value associated with them.