Interfaith Food Ministry of Nevada County
Fixed Asset Capitalization Policy

Approved October 26, 2013

I. STATEMENT OF PURPOSE

This policy provides a framework for recording any fixed assets for Interfaith Food Ministry of Nevada County.

II. RESPONSIBILITIES

The Treasurer has the following responsibilities:

Ensure that all fixed assets are properly recorded for Interfaith Food Ministry of Nevada County.

III. CAPITALIZATION CRITERIA

Fixed assets should be capitalized when all the following criteria are met:

- The asset is tangible or intangible in nature, complete in itself, and is not a component of another capitalized item.
- The asset is used in the operation of the Interfaith Food Ministry of Nevada County activities.
- The asset has a useful life of one year or more and provides a benefit throughout that period.
- The assets should be capitalized if its cost is $2,500 or more.

The cost of a fixed asset should include capitalized interest and ancillary charges necessary to place the asset into its intended location and condition for use. Ancillary charges include costs that are directly attributable to asset acquisition—such as freight and transportation charges, site preparation costs, and professional fees. Donated fixed assets should be reported at their estimated fair value at the time of acquisition plus ancillary charges, if any. This estimation should be made on the basis of the best documentary evidence available. Examples of such documentary evidence would include independent appraisals, market quotations, information on actual sales of similar assets within an appropriate time frame, etc.

Assets not capitalized should be tracked for insurance and control purposes. Assets costing $2,500 or more with a useful life of one year or more should be tracked.

IV. FIXED ASSET CATEGORIES

To disclose fixed asset activity, four asset classes will be used as applicable:

<u>Equipment</u>
Equipment includes costs of office equipment, machinery, furniture and fixtures, furnishings, and similar items. For trade-ins, the cost of the new equipment item can be calculated as follows: fair value of the asset surrendered (normally the trade-in value) + amount paid – amount received. This category contains property that does not lose its identity when removed from its location.

<u>Construction-In-Progress</u>
Construction-In-Progress (CIP) contains amounts expended on an uncompleted building or other capital construction project. Fixed assets that are substantially complete and available for use on

March 31 of any fiscal year are not CIP. Assets substantially complete should be properly classified as Buildings and Improvements, Infrastructure, or Equipment, based upon the nature of the constructed asset(s).

Building and Building Improvements

Buildings are permanent structures housing persons or personal property. Building Improvements are long-lived attachments to buildings that significantly increase the building's life, usefulness, or value. One cannot move or separate Building Improvements from the building. Building Improvements include assets such as elevators, central air conditioning, heating, and fire alarm systems. Building and Building Improvements include the value of all buildings at purchase price or construction cost (including all charges applicable to the building, which includes capitalizable costs at and subsequent to the date of asset acquisition). Donated Buildings and Building Improvements should be reported at fair value at the time of donation.

Land and Land Improvements

Purchased land should be carried on the books at cost (purchase price) plus any additional costs needed to place the land in its intended condition for use. Donated land should be reported at fair value at the time of its donation. Land Improvements are permanent in nature and include costs directly related to preparation of existing land for its intended use. Land Improvements should not include infrastructure type assets.

V. CAPITALIZABLE COSTS ASSOCIATED WITH ASSET ACQUISITIONS

Capitalizable costs associated with asset acquisition that should be included in the original capitalizable cost of the asset include (not all-inclusive):

Land

Original purchase price; Brokers' commissions; Closing fees, such as title search, and legal fees; Real estate surveys; Grading, filling, draining, clearing; Demolition costs (e.g., razing of an old building); Assumption of liens or mortgages; Judgments levied through suits.

Buildings

Cost of construction; Expenses incurred in remodeling, reconditioning, or altering a purchased building to make it available for its intended purpose; Design and supervision costs; Building permits; Legal and architectural fees; Insurance costs during construction phase; Interest costs during construction.

Construction in Progress

Contractor's fees; Freight and transportation costs; Professional fees attributable to the construction; Certain interest expenses.

Equipment

Original contract or invoice price; Freight, import duties, handling and storage costs; Specific in-transit insurance premiums; Assembling and installation costs; Reconditioning costs related to used equipment to make it available for its intended use.

Fixed asset components that have a unit cost under stated capitalization levels should be capitalized if they are originally acquired as part of a system and the system cost equals or exceeds capitalization levels. A system is defined as a group of interacting, interrelated, or interdependent components forming a whole. For example, the components of computer hardware would include the computer monitor, the keyboard, the Central Processing Unit, and the modem. These components should be considered part of the computer system and capitalized as a unit. The logic behind capitalizing each individual component as part of the entire system is that the component, standing alone, cannot function or serve its intended purpose by itself. Any components, with a cost greater than the capitalization thresholds, subsequently added to a system should be capitalized as part of the entire system.

Not all expenditures incurred relating to placing an asset in its intended use should be capitalized. The following are types of expenditures that should not be capitalized:

Cost relating to the removal or demolition of buildings, structures, equipment or other facilities. Two exceptions are as follows:

- Cost to remove or demolish a building or other structure existing at the time of acquisition of land when the intention of the removal or demolition is to accommodate the land's intended use (such cost is considered part of the land).
- Cost to remove or demolish a building or other structure with the intention of replacing the old asset (such costs are considered a part of the cost of the new building).
- Extraordinary costs incidental to the construction of fixed assets such as those due to strike, flood, fire, or other casualties.
- Cost of abandoned construction.

VI. COSTS SUBSEQUENT TO ACQUISITION

Costs incurred to achieve greater future benefits (e.g. improves efficiency, or materially extends the useful life of the asset, etc.) and which costs greater than $1,000 should be capitalized, whereas expenditures that simply maintain a given level of service should be expensed. Generally three major types of costs subsequent to original construction are incurred relative to existing fixed assets:

<u>Additions (Extensions, Enlargements or Expansions)</u>
Any addition (costing greater than $2,500) to a fixed asset should be capitalized since a new asset has been created. For example, the addition of an air conditioning system to an office building increases the service potential of that facility and should be capitalized. Other examples of additions include:

- Elevator or Dumbwaiter
- Fire Alarm Systems
- Security Windows
- Sprinkler Systems (Internal)
- Acoustical Treatment

<u>Improvements and Replacements</u>
The distinguishing feature between an improvement and a replacement is that an improvement is the substitution of a better asset, which possesses superior performance capabilities – (e.g., a concrete floor for a wooden floor) for the one currently used, whereas a replacement is the substitution of a similar asset (a wooden floor for a wooden floor). In both of these instances it should determined whether the expenditure increases the future service potential of the fixed assets, or merely maintains the existing level of service. When the determination is made that the future service level has been increased, the new cost is capitalized.

<u>Repairs</u>
Repairs maintain the fixed asset in its original operating condition. Ordinary repairs are expenditures made to maintain plant assets in operating condition. Preventive maintenance, normal periodic repairs, replacement of parts, structural components, and other activities such as repainting, equipment adjustments, that are needed to maintain the asset so that it continues to

provide normal services should expensed not be capitalized. Examples of ordinary repairs include:

- Roof and/or Flashing Repairs
- Window Repairs and Glass Replacement
- Painting
- Masonry Repairs
- Floor Repairs

VII. DEPRECIATION

Depreciation is the concept of allocating the cost of fixed assets over their estimated useful lives. Interfaith Food Ministry of Nevada County currently relies IRS guidelines to calculate depreciation using an accepted depreciation method. Depreciation is to be calculated and reported as appropriate.

VIII. LEASED ASSETS

A lease of a fixed asset either qualifies as a capital lease or an operating lease. If a lease meets any one of the following classification criteria, it is a capital lease:

- The lease transfers ownership of the asset to Interfaith Food Ministry of Nevada County by the end of the lease term.
- The lease contains an option to purchase the leased asset at a bargain price. A bargain price represents a price that is sufficiently lower than the expected fair value of the asset at the date of option becomes exercisable.
- The lease term is equal to 75 percent or more of the estimated economic life of the asset.
- The present value at the beginning of the lease term of the minimum lease payments equals or exceeds 90 percent of the fair value of the land to the lessor at the inception of the lease. Minimum lease payments are the payments that Interfaith Food Ministry of Nevada County is obligated to make or can be required to make in connection with the leased asset.

Capital lease assets are recognized as assets of Interfaith Food Ministry of Nevada County. Therefore, the leased asset must be recorded in Interfaith Food Ministry of Nevada County's fixed asset records at the present value of the future minimum lease payments, not to exceed the fair value of the asset. Upon entering into a lease, Interfaith Food Ministry of Nevada County should request that the vendor provide all the information necessary to determine if the lease is capital or operating.