



## Policy and Procedure # 172

### Capitalization

Approval: /S/ Dani Cook

Effective Date: 7/28/21

#### POLICY:

This policy is to be used by the management and staff of the EFI who are directly concerned with the accounting and management of company-owned fixed assets related to the purchase, maintenance, sale and final disposition.

The guidelines set forth in this policy are in accordance with Generally Accepted Accounting Principles, federal regulations and requirements of authorized examining bodies.

#### PROCEDURE:

##### 1. Fixed Assets and Capital Purchases

###### DEFINITIONS:

- a. Fixed assets refer to the non-consumable, tangible or intangible objects purchased by EFI as implements, tools, equipment, furniture and fixtures bought for the purpose of carrying out all aspects of business operations.
- b. Fixed assets are movable or immovable and are located at EFI and EFI's off-site work premises.
- c. Capital Purchases - Capital purchases are buildings, furniture, fixtures, equipment, vehicles and land improvements, etc. that meets two criteria: a useful life of at least three years and a cost of \$500 or more.
- d. Useful life means the wear and tear and technological usefulness of the asset in carrying out the business of EFI.
- e. Capitalization means that the assets will be included in the company's fixed assets inventory and whose purchase cost will be recovered throughout the years of its estimated useful life by means of depreciation or amortization.

##### 2. Purchase of Fixed Assets

- a. In order to qualify as a capitalized fixed asset, the cost of purchased items should not be less than \$500 and should include the related costs to have the items delivered, installed, licensed or to make the purchase as fully and legally operational for their use in the EFI's business operations.
- b. All other fixed asset items in which the purchase costs are less than \$500 and the useful life of which will not benefit the company for more than three years and the absence of which will not hamper the ordinary flow of business operations, will be treated as outright expenses during the year that the expenses were incurred.
- c. The \$500 capitalization rule includes the purchase of peripheral computer equipment for purposes of replacing the original devices, like mouse, keyboards, hard drives, memory upgrades, and other miscellaneous add-ons to the computer. If the cost of these purchases are less than \$500 they are to be expensed in the year they are purchased.



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- d. Approval of fixed asset purchases will be done by the Executive Director. The Executive Director can approve capital purchases up to \$10,000 without board approval. Capital purchases over this amount must be specifically approved by the Board of Directors.
  - e. To receive this approval, the Board must be given the price and rationale for the purchase and the assurance of the availability of the resources to support the purchase.
  - f. Competitive Bids - For purchases in excess of \$1,000, competitive bids (preferably three) should be sought. At the Executive Director's discretion, an exemption can be made to this bid procedure.
3. Renovation or Major Repairs of Fixed Assets
- a. Renovations and major repairs of fixed assets amounting to \$500 or more which were approved on the basis that the alterations or repairs will improve the usefulness, efficiency or capability of the fixed asset, will be depreciated over the remaining useful life of the fixed asset. Major renovations or major repairs must have board approval if cost will exceed \$10,000.
4. Fixed Asset Depreciation Schedules
- a. EFI allocates the cost of capitalized fixed assets over the years of their estimated useful life by using the straight-line depreciation method. Depreciation expense will be included in EFI's annual operating budget.
  - b. To provide a clear guideline on how each type of fixed asset should be depreciated, a chart of the fixed assets depreciation components is provided below:

<u>FIXED ASSET TYPE</u>	<u>ESTIMATED USEFUL LIFE</u>
Buildings	39 years
Building Improvements	10-20 years (Depending on useful life)
Equipment, furniture, fixtures	5 years
Land Improvements	20 years
Vehicles	5 years

5. Fixed Asset Disposition
- a. The Executive Director will determine if a fixed asset has decreased in value to the point where replacement becomes a better alternative to major repairs or if the asset has become obsolete. The following methods of disposition will be considered:
    - i. Donation
    - ii. Sale to staff
    - iii. Sale to the public
    - iv. Recycling



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- b. All approved fixed asset dispositions will be made in writing and signed by the Executive Director and the documentation will be filed together with any other documents supporting the final disposition.
  - c. Recordkeeping - EFI will maintain a list of fixed assets showing the date of purchase, its cost, and a schedule for the depreciation of the asset. EFI will keep documentation on file for each purchase.
  - d. A yearly inventory will be conducted that will identify property, including small and attractive items, and where it is located. Any discrepancies from existing lists will be investigated.
6. BUDGET
- a. A capital budget will be prepared in conjunction with the annual operating budget if any individual item will be more than \$10,000. Individual items on the capital budget will be considered approved for purchase when the budget has been approved by the Board.
  - b. The source of funding for capital purchases will be from contracted services funding such as DVR, DDA, Thurston County, grants and private services.