Mark Twain Health Care District Policy No. 30

Fixed Asset Capitalization:

1. Policy:

The scope of this policy defines the parameters of items that can be included as capital purchases and recorded as assets.

2. Purpose:

This policy defines Mark Twain Health Care District requirements for the capitalization of assets.

3. Definitions:

Capitalization is defined as the process of recording the purchase of a fixed asset or the collection of costs related to an internally produced project as an asset. Examples of capital expenditures include the purchase of land, buildings, machinery, office equipment, leasehold improvements and vehicles. An example of an internally produced project is internally developed software or a construction project.

4. Principally Affected Departments:

Primarily, Finance Committee and Accounting Departments.

5. Procedures:

A. Effective ____________(date) all assets with a useful life of greater than two years and falling into one of the following categories shall be capitalized**.**

- An individual item with a cost greater than $2,500 (including personal computers).
- Items purchased in bulk with an individual cost exceeding $2,500,

B. When replacement parts are purchased, or repairs and maintenance are made to an asset for a cost of $2,500 or more, a decision must be made about capitalizing or expensing the cost.

- If the cost was incurred to restore or maintain the original useful life of the asset, then the cost should be expensed.
- If the cost was incurred to extend the asset's useful life, increase capacity, or improve the efficiency or safety of the property, then the cost would be added to the carrying amount of the related asset and the existing useful life should be extended in accordance with the cost incurred.

C. If the asset has component parts that must be replaced at regular intervals, those parts may be recorded as separate assets because their useful lives are different than the useful life of the asset as a whole. When those parts are replaced, the original component may be written off (and a loss on disposition is recorded, if needed) and a new asset may be recorded for the cost of the replacement part.

D. The cost basis of furniture and equipment assets will include all charges relating to the purchase of the asset including the purchase price, freight charges, sales taxes and installation, if applicable.

E. Leasehold improvements including painting are to be capitalized if they relate to the occupancy of a new office or major renovation of an existing office. Expenditures incurred in connection with maintaining an existing facility in good working order should be expensed as a repair.

F. The cost of buildings should include all expenditures related directly to their acquisition or construction. These costs include materials, labor and overhead incurred during construction and fees, such as attorneys, architects and building permits.

G. The cost of building should also include the amount of retention payable to construction contractors, if applicable. In most construction labor and material contracts, the contractor will request payment each month for labor and materials supplied during that month. However, the contractor will receive payment for only 90 percent or 95 percent of those labor and materials supplied. The remaining 5 percent or 10 percent will not be paid monthly but will be “retained” until the entire project is completed. Retention is usually set up in the construction contract to ensure prompt and thorough completion of the project. Retention will motivate tradesmen working for the contractors to return to the project to complete small unprofitable punch-list items in order to complete the project successfully. Retention provides the owner and general contractor with money to correct defective work if a sub-contractor abandons the project, and provides funds to pay the mechanics lien claims of unpaid suppliers, etc. Retention and retainage are terms both used for the same concept.

H. Start-up costs are to be expensed as incurred (excluding those costs associated with getting fixed assets into a condition whereby they can be placed into service).

I. During construction or development of a capital project. There may be certain costs incurred that should not be capitalized to an asset. Examples of the costs that should not be capitalized as apart of the cost of the asset are as follows;

- General and administrative costs and overhead costs should be charged to expense as incurred. Such costs include rent, depreciation, and other occupancy costs associated with the physical space occupied by employees, and all costs (including payroll and payroll benefit-related costs) of support functions, which may include executive management, corporate accounting, acquisitions, purchasing, corporate legal, office management and administration, marketing, human resources and information systems.

- Costs related to training (learning) in any manner or at any time (e.g., IT system or application) should be charged to expense. Time spent training (learning), even if the tools are “on-the-job”, cannot be considered a future economic benefit (i.e., a capitalized asset) since the Mark Twain Health Care District has no control over the length of time an employee will stay with the District.

J. The cost of the asset should not be reduced by any amount for salvage value. Typically, salvage values will be nominal or offset by the cost of removing the assets (since the salvage value will not be realized without incurring costs of removal) and, thus, can be ignored.