

TOWN OF POUGHKEEPSIE CAPITAL ASSET POLICY—Proposed Revised

CAPITALIZATION ASSET OVERVIEW

Capital assets are assets purchased or constructed by the Town of Poughkeepsie that have a useable life of more than 3 years and a value equal to or greater than the established capitalization threshold for each asset. The Town shall use the following categories:

1. Land
2. Land Improvements
3. Buildings
4. Building Improvements
5. Machinery and Equipment (including vehicles, heavy equipment, furniture, computers and office equipment)
6. Infrastructure and components thereof (including bridges, roads, traffic control systems, drainage, sewer, and water systems)

CAPITALIZATION THRESHOLDS AND USEFUL LIVES

| <u>Class of Asset</u> | <u>Threshold</u> | <u>Useful Life</u> |
|-------------------------------|------------------|--------------------|
| Land | \$10,000 | Note 1 |
| Land Improvements | 10,000 | 20 |
| Building | 20,000 | 40 |
| Building Improvements | 10,000 | 20 |
| Machinery & Equipment: | | |
| Office Equipment in aggregate | \$10,000 | 5 |
| Furniture | 10,000 | 5 |
| Computers | 10,000 | 5 |
| Vehicles | 10,000 | 3 |
| Heavy Equipment | 10,000 | 5 |
| Other | 10,000 | 5 |
| Infrastructure: | | |
| Bridges (includes culverts) | \$10,000 | 30 |
| Roads | 10,000 | 10 |
| Traffic Control Systems | 10,000 | 40 |
| Drainage Systems | 10,000 | 100 |
| Sewer Systems | 10,000 | 30 |
| Water Systems | 10,000 | 30 |
| Construction in Progress | | Note 2 |

Note 1 - Not Depreciated

Note 2 - Depreciation will not be recorded on Construction in Progress. Upon completion, the asset will be recorded in appropriate asset classification and depreciation will begin in accordance with the threshold

CAPITAL ASSET CATEGORIES AND DEFINITIONS

1. LAND

Land is the surface or crust of the earth, which can be used to support structures and may be used to grow crops, grass, shrubs, and trees. Land is characterized as having an unlimited life (indefinite); it is an inexhaustible asset and is not depreciated.

Examples of Expenditures to be Capitalized as Land:

- Purchase price or fair value at time of acquisition
- Commissions
- Professional fees (title searches, architect, legal, engineering, appraisal, surveying, environmental assessments, etc.)
- Accrued and unpaid taxes at date of purchase
- Other costs incurred in acquiring the land
- Rights-of-Way

2. LAND IMPROVEMENTS

Land improvements consist of betterments, site preparation, and site improvements (other than buildings) that ready land for its intended use. Land improvements include such items as excavation, non-infrastructure utility installation, driveway, sidewalks, parking lots, flag poles, retaining walls, fences, and outdoor lighting. They can be exhaustible or non-exhaustible.

Non-Exhaustible Land Improvements: Expenditures for improvements that do not require maintenance or replacement. Expenditures to bring land into condition to commence erection of structures, and expenditures for land improvements that do not deteriorate with use or over the passage of time are additions to the cost of land and are generally not exhaustible and therefore not depreciated.

Exhaustible Land Improvements: Expenditures for improvements that are part of a site, such as parking lots, landscaping and fencing, are usually exhaustible and depreciated. Exhaustible land improvements are depreciated on a straight-line basis (historical cost less residual value, divided by useful life) over 20 years.

Examples of Expenditures to be Capitalized as Land Improvements:

- Site improvements such as excavation, fill, grading, and utility installation
- Removal, relocation, or reconstruction of property of others (railroad, telephone, and power lines)
- Fencing
- Landscaping
- Parking lots
- Skating rinks, basketball courts, soccer fields, etc.
- Retaining walls

3. BUILDINGS

A building is a structure permanently attached to the land that has a roof, is partially or completely enclosed by walls, and is not intended to be transportable or movable. Buildings that are an ancillary part of the state's highway network, such as rest area facilities, will be reported as infrastructure rather than as buildings.

The straight-line depreciation method (historical cost less residual value, divided by useful life) will be used for buildings.

Examples of Expenditures to be Capitalized as Buildings:

Purchased Buildings:

- Original purchase price
 - Expenses for remodeling, reconditioning, or altering a purchased building to make it ready to use for the purpose for which it was acquired.
 - Environmental compliance (i.e., asbestos abatement)
 - Professional fees (legal, architect, inspections, title searched, etc.)
 - Payment of unpaid or accrued taxes on the building to date of purchase
 - Cancellation or buyout of existing leases
 - Other costs required to place the asset into operation.
- ##### Constructed Buildings:
- Completed project costs
 - Interest accrued during construction
 - Cost of excavation, grading, or filling of land *for a specific building*
 - Expenses incurred for the preparation of plans, specifications, blueprints, ect.
 - Professional fees (architect, engineer, management fees for design and supervision, legal)
 - Costs of temporary buildings used during construction
 - Unanticipated costs such as rock blasting, piling or relocation of the channel of an underground stream
 - Permanently attached fixtures that cannot be removed without impairing the use of the building
 - Additions to buildings (expansions, extensions, or enlargements)

4. BUILDING IMPROVEMENTS

Building improvements are capital events that materially extend the useful life of a building, increase the value of a building, or both. A building improvement should be capitalized as a betterment and recorded as an addition of value to the existing building if the expenditure for the improvement is at the capitalization threshold, or the expenditure increases the useful life or value of the building.

The straight-line method (historical cost less residual value, divided by the useful life) will be used for building improvements and their components.

Examples of Expenditures to be Capitalized as Building Improvements:

Note: For a replacement to be capitalized, it must be a part of a major repair or rehabilitation project, which increases the value and/or useful life of the building. A replacement may also be capitalized if the new item or part is of significantly improved quality or higher value compared to the old item or part, such as a replacement of an old shingle roof with a new fireproof tile roof. Replacement or restoration to original utility level would not be capitalized. Determinations must be made on a case-by-case basis.

- Conversion of attics, basements, etc., to usable office, clinic, research, or classroom space
- Structures *attached* to the building, such as covered patios, sunrooms, garages, car ports, enclosed stairwells, etc.
- Installation or upgrade of heating and cooling systems, including ceiling fans and attic vents
- Original installation or upgrade of wall or ceiling covering, such as carpeting, tiles, paneling, or parquet
- Structural changes, such as reinforcement of floors or walls, installation or replacement of beams, rafters, joists, steel grids, or other interior framing
- Swimming Pools
- Installation or upgrade of window or door frames, upgrading of windows or doors, built-in closet and cabinets
- Interior renovation associated with casings, baseboards, light fixtures, ceiling trim, etc.
- Exterior renovation, such as installation or replacement of siding, roofing, masonry, etc.
- Installation or upgrade of plumbing and electrical wiring
- Installation or upgrade of phone or closed circuit television systems, networks, fiber optic cable, wiring required in the installation of equipment (that will remain in the building)

Maintenance Expenses. The following are examples of expenditures **not** capitalized as improvements to buildings. Instead, these should be recorded as maintenance expenses:

- Adding, removing, and/or moving of walls relating to renovation projects that are no considered major rehabilitation projects and do not increase the value of the building
- Improvement projects of minimal or no added life expectancy and/or value to the building
- Plumbing or electrical repairs

- Cleaning, pest extermination, or other periodic maintenance
- Maintenance-type interior renovations such as repainting, touch-up plastering, replacement of carpet, tile, or panel sections; sink and fixture refinishing, etc.
- Maintenance-type exterior renovations such as repainting, replacement of deteriorated siding, roof, or masonry sections
- Replacement of a part or component of a building with a new part of the same type and performance capabilities, such as replacement of an older boiler with a new one of the same type of performance capabilities
- Any other maintenance-related expenditure which does not increase the value of the building

5. MACHINERY AND EQUIPMENT

Machinery and equipment are fixed or movable tangible assets to be used for operations, the benefits of which extend beyond one year from the date acquired and rendered into service. Improvements or additions to existing personal property that constitute a capital outlay or increase the value of life of the asset should be capitalized as a betterment and recorded as an addition of value to the existing asset.

Note: Costs of extended warranties and/or maintenance agreements, which can be separately identified from the equipment, should not be capitalized.

Examples of Categories of Machinery & Equipment:

- Office equipment
- Furniture
- Computers
- Vehicles
- Heavy Equipment
- Other

The straight-line depreciation method (historical cost less residual value divided by useful life) will be used for machinery and equipment.

Examples of Expenditures to be Capitalized as Machine & Equipment:

- Original contract or invoice price
- Freight charges
- Handling and storage charges
- In-transit insurance charges
- Sales, use and other taxes imposed on the acquisition
- Charges for testing and preparation for use
- Costs of reconditioning used items when purchased
- Computer software and hardware
- Parts and Labor associated with the construction of equipment
- Road Graders and other heavy equipment

- Dump Trucks and passenger cars
- Lawn maintenance equipment, compressors, and tool kits

6. INFRASTRUCTURE

Assets that are long-lived capital assets that normally are stationary in nature but can be preserved for significantly greater number of years than most capital assets. Infrastructure assets are often linear and continuous in nature. Infrastructure improvements are capital events that can either materially extend the useful life, increase the value of the infrastructure, or both. Infrastructure improvements should be capitalized as a betterment and recorded as an addition of value to the infrastructure if the improvement or addition of value is at the capitalization threshold or increases the life or value of the asset.

Jointly Funded Infrastructure

Infrastructure paid for jointly by multiple governmental entities should be capitalized by the entity responsible for future maintenance.

Maintenance Costs

Maintenance costs are recurring costs that allow an asset to continue to be used during its originally established useful life. Maintenance costs are expensed in the period incurred.

Preservation Costs

Preservation costs are generally considered to be those outlays that extend the useful life of an asset beyond its original estimated useful life, but do not increase the capacity or efficiency of the asset. Preservation costs should be capitalized under the depreciation approach.

Additions and Improvements

Additions and improvements are those outlays that generally increase the capacity or efficiency of the asset. A change in capacity increases the level of service provided by an asset. For example, additional lanes can be added to a highway or the weight capacity of a bridge could be increased. A change in efficiency maintains the same service level, but at a reduced cost. The cost of additions and improvements should be capitalized.

Depreciation Methodology

The straight-line depreciation method (historical cost less residual value, divided by useful life) will be used for infrastructure assets.

Infrastructure Classifications:

- Bridges (includes culverts)

- Roads
- Traffic Control Systems
- Drainage Systems
- Sewer Systems
- Water Systems

Examples of Expenditures to be Capitalized as Infrastructure:

- Highway and rest areas
- Roads, streets, curbs, gutters, sidewalks, fire hydrants
- Bridges, culverts, trestles
- Dams, drainage facilities
- Electric, water, and gas (main lines and distribution lines, tunnels)
- Fiber optic and telephone distribution systems (between buildings)
- Light system (traffic, outdoor, street, etc.)
- Signage
- Sewer systems
- Water systems

CONSTRUCTION IN PROGRESS

Construction in Progress reflects the economic construction activity status of buildings and other structures, infrastructure (highways, energy distribution systems, pipelines, etc.), additions, alterations, reconstruction, installation, and maintenance and repairs, which are substantially incomplete.

Depreciation is not applicable while assets are accounted for as construction in progress. Upon placement into service, the value of such asset is removed from construction in progress. Depreciation then begins based upon depreciation life of the appropriate asset category. See appropriate capital asset category when asset is capitalized.

Construction in progress assets should be capitalized to their appropriate capital asset categories upon the earlier occurrence of execution of substantial completion contract documents, occupancy, or when the asset is placed into service.

ADDITIONAL DEFINITIONS

Acquisition Cost

Capital assets should be recorded at their historical costs. The costs of a capital asset should include any ancillary costs that are necessary to place the asset in its intended condition for use. These include the vendor's invoice (plus the value of any trade-in, if reflected on the invoice), initial installation cost (excluding in-house labor), modifications, attachments, accessories, or apparatus necessary to make the asset usable and render it into service. Historical costs also include charges such as freight and transportation charges, site preparation costs, and professional fees.

The costs of the capital assets for government activities do not include capitalization interest.

Donations

Donated capital assets should be reported at fair value at the time of acquisition plus ancillary charges, if any. Donations are defined as voluntary contributions of resources to a government entity by a non-government entity. Note: Fair value is the amount at which an asset could be exchanged in a current transaction between willing parties.

Modified Accrual Basis

The Town shall not report revenue from the donation of a capital asset when using the modified accrual basis except in the following situations:

If the Town receives a donation of a capital asset and intends to sell the asset immediately, revenue should be recognized in the period the asset is donated, and the capital asset should be reported in the same fund used to report the revenue as "Asset Held for Sale". Intent to sell should be evidenced by a sale of or contract to sell the capital asset before financial statements are issued.

Revenue should be measured at the amount at which the capital asset is sold or its contract price. If the Town does not intend to sell the donated capital asset immediately, or does not meet the criteria for intent to sell stated above, the donation should not be reported in the operations of the governmental funds.

Revenue from donations of financial resources such as cash, securities, or capital assets, should be recognized when the entity has an enforceable legal claim to the donation and when it is probable the donation will be received – regardless of when the financial resources are actually received. Revenue should be measured at the fair value of the financial resources donated.

Full Accrual Basis

According to the GASB Statement No. 33, *Accounting and Financial Reporting for Non-Exchange Transactions*, entities currently using proprietary fund accounting must recognize capital asset donations as revenues and not as contributed capital.

Governmental funds must meet the standards of GASB No. 33. Donations must be recorded and reported at fair value on the date of acquisition. Recipients of donated capital assets will recognize the donation and related revenue when the transaction is complete and the assets are received, providing all eligibility requirements have been met. Promises of capital asset donations should be recognized as receivables and revenues (net of estimated uncollectible amounts)

when all applicable eligibility requirements have been met, providing that the promise is verifiable and the resources are measurable and probable of collection.

In some cases, donated capital assets are given with the stipulation (time requirement) that the assets cannot be sold, disbursed, or consumed until a specified number of years reported in the statement of Net Assets as “*Net Assets – Restricted*” as long as the restrictions or time requirements remain in effect.

Leased Equipment

Equipment should be capitalized if the lease agreement meets any one of the following criteria:

- The lease transfers ownership of the property to the lessee by the end of the lease term.
- The lease contains a bargain purchase option
- The lease term is equal to 75% or more of the estimated economic life of the leased property
- The present value of the lease, excluding executory costs, equals at least 90% of the fair value of the leased property.

Leases that do not meet any of the above requirements should be recorded as an operating lease and reported in the notes of the financial statements.

Depreciating Capital Assets

Capital assets should be depreciated over their estimated useful lives in accordance with this policy, unless they are inexhaustible. For depreciating assets, the Town shall use the straight-line depreciation method (historical cost divided by useful life).

Depreciation shall be calculated on an annual basis. The first year of depreciation will be recorded in the first full fiscal year following the completion or acquisition of the asset. Also, a full year of depreciation expense will be included in the year of disposition. Accumulated depreciation will be summarized and posted to the accounting general ledger for the entity-wide financial statements.

Residual Value

Residual value is the estimated fair value of a capital asset or infrastructure remaining at the end of its useful life. In order to calculate depreciation for an asset, the estimated residual value must be established before depreciation can be calculated. The use of historical sales information becomes a valuable method for determining the estimated residual value. Proceeds from sales of assets must be netted against residual value in computing net gain or loss from sale.

The Town generally purchases assets with the intent to use them until their usefulness is exhausted. Therefore, the Town will estimate residual value for all capital assets to be zero.

Sale of Capital Assets

When an asset is sold, a gain or loss must be recognized when:

- Cash is exchanged and the amount paid does not equal the net book value of the asset.
- Cash is not exchanged and the asset is not fully depreciated or has a residual value.

A gain or loss is not reported when:

- Cash exchanged equals the net book value and the asset does not have a residual value.
- Cash is not exchanged and the asset is fully depreciated and has no residual value.

Computation of Gain and Loss from Sales of Assets

To compute a gain or loss, proceeds received must be subtracted from the asset's net book value.

| | | |
|----------|--------------------------------|----------------|
| Example: | Asset's Historical Value | \$10,000 |
| | Less: Accumulated Depreciation | <u>\$7,000</u> |
| | Net Book Value | \$3,000 |
| | Less: Proceeds Received | <u>\$2,000</u> |
| | Loss from Sale of Asset | \$1,000 |