MOTION TO ADOPT ASSET CAPITALIZATION POLICY

MOTION M25-

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Motion to adopt the Asset Capitalization Policy for the Town of Lansing effective immediately. The policy has been reviewed by the Town's auditors, Insero Advisors, LLC, with their acknowledgement of its appropriateness for the Town. The policy reads as follows:

1. Overview

The Governmental Accounting Standards Board's (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments,* requires that governments depreciate their exhaustible capital assets, including infrastructure.

Capital assets are tangible and intangible assets that are used in operations and that have initial useful lives that extend beyond one year. They include land, land improvements, easements, buildings and improvements, equipment, and works of art and historical treasures.

2. General Objectives

This Asset Capitalization policy establishes guidelines for determining:

- which expenditures should be capitalized as a capital asset and which expenditures should be expensed,
- how to value capital assets that are reported, and
- the estimated useful lives of capital assets.

3. Capital Asset Types

Capital assets are divided between assets that are not subject to depreciation and assets that are subject to depreciation.

Assets that are not subject to depreciation include:

- **Land**. The amount that should be capitalized for land should include the cost of the land itself; professional fees used to acquire the land (legal, engineering, appraisal, survey fees); costs for excavation, fill, grading, or drainage; demolition of any existing buildings or other improvements; and any other costs that are incurred to acquire the land and make the land suitable for use by the Town. Land is characterized as having an unlimited life and is therefore not depreciated.
- **Construction in progress.** The costs of assets that the Town is constructing, where expenses are incurred over more than one fiscal year, are accumulated as construction-in-progress until the asset is placed in service. At that time, the total costs are then transferred to the appropriate asset type and depreciated.

Assets that are subject to depreciation include:

- **Land improvements.** Land improvements are those improvements, other than ordinary and regular site preparation, which ready the land for its intended use. Such improvements can include parking lots, athletic fields, fencing, paths and trails, and landscaping.

- **Buildings and building improvements.** Buildings are permanent structures that are intended for shelter of persons, materials, or equipment. Building improvements are capital events that extend the useful life of a building or increase the value of a building, or both. Repairs that simply maintain the existing life or restore a building to its original condition do not constitute an improvement.
- **Equipment.** Equipment is an item of tangible, nonexpendable personal property with a useful life of more than one year and includes machinery and vehicles.

Assets that are subject to depreciation include (continued):

- **Infrastructure.** Infrastructure assets are long-lived capital assets that are stationary in nature and can be preserved for a significantly greater number of years than most capital assets. Such assets can include streets and roadways, bridges, sidewalks, water mains and distribution lines, sewer mains and collection lines, and treatment plants.
- **Collections.** Collections (works of art or historical artifacts) meet the definition of capital assets and ordinarily would be reported in the financial statements. However, the requirement for capitalization of these assets is waived if the collection is held for reasons other than financial gain; the collection is protected, kept unencumbered, cared for, and preserved; and the collection is subject to a policy requiring that the proceeds from sales of collection items be used to acquire other items for collections.

4. Expenditure Types

Repairs are the costs necessary for the upkeep of the property that neither add to the permanent value of the property nor appreciably prolong its intended life but keep it in an efficient operating condition. These costs should not be capitalized.

5. Capital Asset Valuation

Capital assets should be reported at their historical cost. In the absence of historical cost information, the assets estimated historical cost may be used. Assets donated by parties outside the municipality should be reported at their fair value on the date the donation is made. If capital assets are moved from one fund or activity to another, the recipient fund or activity should continue to report those assets at their historical cost as of the date they were originally acquired.

The historical cost of a capital asset should include ancillary charges necessary to place the asset in its intended location (freight charges, for example); ancillary charges necessary to place the asset in its intended condition for use (installation or site preparation charges, for example); and capitalized interest (only for those assets that are utilized in enterprise funds and internal service funds that are reported as a part of business-type activities).

Estimating the historical cost of capital assets for which invoices or similar documentation of historical cost are not available, use either standard costing or normal costing. Standard costing involves using historical sources, such as old vendor catalogs, to establish the average cost of obtaining the same or a similar asset at the time of acquisition. Normal costing involves establishing the current cost of the same or similar asset and deflating that cost using an appropriate price index.

6. Capitalization Thresholds

The minimum Capitalization threshold shall be $5,000.00. In cases where individual assets do not meet the $5,000 threshold, but exceed the threshold in the aggregate, they will be capitalized based on the threshold. For example, a table and chair set purchased for a combined value of $5,000 should be capitalized even though the individual items are less than the threshold. A purchase of bulk computers with a combined value of $5,000 or more should be capitalized even though the individual items are below the threshold.

The threshold will be based on the cost of a single asset. All assets irrespective of the capitalization upon acquisition are recorded as expenditures or expenses in governmental funds. Assets that meet the capitalization threshold will be capitalized on the government-wide financial statements. Other costs incurred for repairs and maintenance are expensed as incurred.

7. <u>Depreciation</u>

Assets that are capitalized will be depreciated over their estimated useful lives. Depreciation will be calculated on the straight-line basis, using estimated useful lives as follows:

Land Improvements	40 years
Buildings	40 years
Building Improvements	20 years
Machinery & Equipment:	
Office Equipment	7 years
Furniture	10 years
Computers	3 years
Vehicles	7 years
Heavy Equipment	10-20 years
Small Equip. & Tools	3-10 years
Other	3-10 years
Infrastructure:	
Drainage Systems	40 years
Bridges (including culverts)	40 years
Roads	40 years
Sewer Systems	40 years
Water Systems	40 years
Parks, Playgrounds	20 years