City of Wyoming, Michigan
Administrative Policy

Department: Finance	
Department Head Approval:	Date: 6/30/15
City Manager Approval:	Date: 6/30/15
Subject: Capital Asset Policy and Procedures	

CITY OF WYOMING
CAPITAL ASSET POLICY/PROCEDURES

Capital Assets and Capitalization Thresholds

A capital asset is real or personal property that has a cost equal to or greater than an established capitalization threshold and has an estimated useful life of two or more years. The City has invested in a broad range of capital assets that are used in the City's operations, which include the following categories:

- Land and Land Improvements
- Buildings and Building Improvements
- Improvements Other Than buildings
- Infrastructure
- Equipment and Vehicles
- Construction in Progress

For citywide financial statement purposes only, a capitalization threshold for each capital asset category is as follows:

Capital Asset Category	**Capitalization Threshold**
Land and Land Improvements	Capitalize All
Buildings and Building Improvements	10,000
Improvements other than Buildings	10,000
Equipment and Vehicles	5,000
Infrastructure	25,000

With respect to asset improvements, costs over the established threshold should be capitalized if:

1. The estimated life of the asset is extended by more than 25%, or
2. The cost results in an increase in the capacity of the asset, or
3. The efficiency of the asset is increased by more than 10%, or
4. Significantly changes the character of the asset.

Otherwise, the cost should be expensed as repair and maintenance.

Reporting Capital Assets

Capital assets should be recorded and reported at their acquisition or historical cost, which include the vendor's invoice cost, plus sales tax and other taxes imposed on the acquisition, initial installation cost, modifications, attachments, accessories or any item necessary to make the asset usable and render it into service. The cost of a capital asset should include ancillary charges such as freight and transportation charges, in-transit insurance charges, handling and storage charges, site preparation costs, and professional fees. Donated capital assets should be reported at their estimated fair value at the time of acquisition plus ancillary charges, if any.

In the event of a trade-in the amount given by the vendor for the trade-in will be added to the purchase price of the new capital asset.

Capital Asset Donations

Donations are voluntary contributions of resources to the City. Donated capital assets are reported at fair market value at the time of acquisition plus ancillary charges, if any.

Capital Leases

Buildings, equipment or other assets leased by the City should be capitalized if the lease agreement meets any one of the following criteria:

1) The lease transfers ownership of the property to the lessee by the end of the lease term.
2) The lease contains a bargain purchase option.
3) The lease term is equal to 75 percent or more of the estimated economic life of the leased property.
4) The present value of the minimum lease payments at the inception of the lease, excluding executory costs, equals at least 90 percent of the fair market value of the leased property.

Departments should notify the Finance Department when potential capital leases are being negotiated to ensure that leases are recorded as required by Generally Accepted Accounting Principles.

Depreciating Capital Assets

Capital assets should be depreciated over their estimated useful service life. Some assets such as land and land improvements, have unlimited useful lives and are considered inexhaustible. Therefore such assets are not depreciated.

For financial statement purposes, the straight-line method will be used to calculate depreciation for each capital assets starting with the 1st of the month following the month an asset was placed in service.

Sale, Disposal, or Retirement of Capital Assets

Departments should provide the Finance Department with an asset disposal form (available on the intranet) with the information to properly record the sale, disposal, trade-in or retirement of an asset (See Figure #1). In general, this information must include the value of any asset or value received from the disposal of the asset.

Capital Asset Definitions and Categories

Land and Land Improvements

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 improvements consist of betterments and site preparation that ready the land for its intended use. The costs associated with land improvements are added to the cost of the land. Land and land improvements have unlimited useful lives and should not be depreciated.

Examples of items to be capitalized as land and land improvements are:

- Purchase price or fair market value at time of donation
- Commissions
- Professional fees (title searches, architect, legal, engineering, appraisal, surveying, environmental assessments, etc.)
- Land excavation, fill, grading, drainage, tree removal, subgrade preparation of land in preparation for street or roadway.
- Demolition of existing buildings and improvements (less salvage)
- Removal, relocation, or reconstruction of property of others (telephone and power lines)
- Other costs incurred in acquiring the land

Building and Building Improvements

A building is a structure that is permanently attached to the land, has a roof, is partially or completely enclosed by walls, and is not intended to be transportable or moveable. A building is generally used to house persons, property, and fixtures attached to and forming a permanent part of such a structure.

Building improvements are capital events that materially extend the useful life of a building, increase the value, add capacity, or increases efficiency of the buildings use beyond two years.

Building improvements should not include maintenance and repairs done in the normal course of business.

Examples of items to be capitalized as buildings and building improvements are:

- 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 (i.e. legal, architect, inspections and title searches, etc.)
- Payment of unpaid or accrued taxes on the building to date of purchase
- Cancellation or buyout of existing leases
- Completed project costs on constructed building
- Cost of building permits
- Permanently attached fixtures or machinery that cannot be removed without impairing use of the building
- Additions to buildings (i.e expansions, extensions, or enlargements)
- Conversion of attics, basements, etc to usable space
- Structures attached to the building such as covered patios, enclosed stairwells, etc.
- Installation or upgrade of heating and cooling systems
- Original installation or upgrade of wall or ceiling covering such as carpeting, tiles, paneling
- Structural changes such as reinforcement of floors or walls,
- Installation or upgrading of windows or doors, built-in closet, and cabinets
- Exterior renovation such as replacement of siding, roofing, or masonry, etc.
- Installation or upgrade of plumbing and electrical wiring
- Installation or upgrade of phone or closed circuit television systems, networks, fiber optic cable, or wiring required in the installation of equipment

Examples of items to be considered maintenance and repairs and ***not*** capitalized as buildings and building improvements are:

- Adding, removing, and/or moving of walls relating to renovation projects that are not 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 building
- Plumbing or electrical repairs
- Cleaning, pest extermination, or other periodic maintenance
- Interior decorations such as draperies, blinds, curtain rods, wallpaper, etc.
- Exterior decoration such as detachable awnings uncovered porches, decorative fences
- Maintenance-type interior renovation such as repainting, touch-up plastering, replacement of carpet, tile, or panel sections, sink and fixture refinishing, etc.
- Maintenance-type exterior renovation such as repainting, replacement of sections of deteriorated siding, roof, or masonry, etc.
- Replacement of a part or component of a building with a new part of the same type and performance capabilities, such as a furnace, water heater, etc.
- Any other maintenance-related expenditure which does not increase the value of the building

Improvements Other Than Buildings

Improvements other than building are capital assets, not specifically identifiable to an individual building, that reflect the cost of permanent improvements and add value to the property.

Examples of expenditures to be capitalized as improvements other than buildings are:

- Fencing and gates, retaining walls
- Bridges
- Landscaping
- Parking lots/driveways/parking barriers
- Outside sprinkler systems, fountains
- Recreation areas and athletic fields, park pavilions
- Paths and trails
- Septic systems
- Swimming pools, tennis courts, basketball courts
- Sewermains, watermains, storm sewers, water towers, tanks, reservoirs
- Hydrants, water and sewer service lines, lift stations, electrical substations
- Street lights
- Slip Lining (coating on inside of sanitary sewer line to create new pipe)

Equipment and Vehicles

Equipment and vehicles include capital or movable tangible assets to be used for operations, the benefits of which extend beyond two years from date of receipt and rendered into service. The charges for freight, handling and storage, in-transit insurance, installation, engineering, testing and preparation should be added to the cost of the asset. Cost of extended warranties, maintenance agreements, support agreements, training and conversions which can be separately identified from the cost of the equipment, should not be capitalized.

Examples of expenditures to be capitalized as equipment and vehicles are:

- Treatment equipment
- Pumping equipment
- Laboratory equipment
- Tools and working equipment
- Power operated equipment
- Office equipment
- Other equipment
- Vehicles
- Software

Street Infrastructure Related to GASB 34

Based on the Michigan Transportation Asset Management Council's Asset Management Guide for Local Agencies in Michigan and the Government Finance Officers Association the following categories have been established for reporting street infrastructure expenditures.

Routine Maintenance

Routine maintenance includes actions performed on a regular or controllable basis or in response to uncontrollable events upon a roadway. Work activities or actions considered to be routine maintenance are those where the benefit or effective service life of the work does not last beyond the next fiscal year; the work would not significantly change the surface rating of the road; or the work would rarely require acquisition of right-of-way or site specific design. Work activities in this category will be expensed in the current period and include, but are not limited to:

- Placing new aggregate on existing gravel or stone surface to replace original material worn off
- Patching and repairing roadway surface of bituminous, concrete, or brick
- Snow and ice removal
- Grading a gravel road
- Cleaning streets and associated drainage
- Unplugging drain facilities
- Mowing roadside
- Control of roadside brush and vegetation
- Reconditioning of bituminous surface of any length section by scarifying when new material is added which increases the existing bituminous surface with less than one inch added
- Dust layers, sprinkling, and flushing gravel roads
- Repairing storm damage
- Emergency management of road closures that result from uncontrollable events

Capital Preventive Maintenance

Capital preventive maintenance means a planned strategy of cost-effective treatments to an existing system and its appurtenances that preserve assets by retarding roadway deterioration and maintaining functional condition without increasing structural capacity. Work activities and actions that are included as a capital preventive maintenance activity are those that extend the life of the asset, but do not change the original design, function, or purpose of the asset. The primary purpose of the work is to repair the incremental effects of weather, age, and use. The useful service life or benefits will extend beyond the next fiscal year; and the work may restore some structural capacity of the road but does not substantially increase the loading allowed. Work activities in this category will be expensed in the current period and include, but are not limited to:

- Micro-surfacing
- Chip sealing
- Concrete joint resealing and crack sealing
- Concrete joint repair and surface spall repair
- Filling shallow pavement cracks
- Patching concrete
- Shoulder resurfacing
- Concrete diamond grind
- Dowel bar retrofit
- Bituminous overlays
- Restoration of drainage
- Overband crack filling
- Surface milling and nonstructural overlays (less than one inch replaced/added)

- Resurfacing – Resurfacing pavements with minor base repair, minor widening, and resurfacing the existing width (less than one inch replaced/added)
- Bituminous shoulder ribbons
- Ultrathin overlay
- Full depth concrete
- Partial depth concrete pavement repairs
- Cape seal, slurry seal, fog seal
- Cold milling
- Hot-in-place bituminous recycling
- Skip patching
- Profile milling
- Concrete pavement restoration
- Underdrain outlet repair and cleaning
- Surfacing of shoulders with materials of higher quality than adjacent roadsides
- Extending old culverts and rebuilding headwalls

Structural Improvement

Structural improvement includes any activity that is undertaken to preserve or improve the structural integrity of an existing roadway. The structural improvements category includes those work activities where the safety or structural elements of the road are improved to satisfy current design requirements. Structural improvement does not include new construction on a new location of a roadway; a project that increases the capacity of a facility to accommodate that part of traffic having neither an origin nor destination within the local area; widening of a lane width or more; or adding turn lanes of more than one-half-mile length. Work activities in this category will be capitalized and include, but are not limited to:

- Reconstruction – Any construction where the road is totally reconstructed by reditching, new subgrade, subbase, and surface at the same location
- Rehabilitation – These fixes include two or three courses of hot mix asphalt overlays, concrete patching and diamond grinding, crush and shape with bituminous overly, rubblize and multiple course HMA overlay, and unbonded concrete overlays (one or more inches replaced/added)
- Gravel Surfacing – Placing three inches or more of new aggregate on an existing gravel road
- Paving gravel road – all cost expended to place a hard surface on an existing gravel road
- Rebuilding short sections of roadway to super-elevate curves, to improve grades, to lengthen horizontal curves, and to improve sight distances
- Adding auxiliary turning lanes or passing lanes of more than one-half mile in length
- Replace culverts
- Whitetopping (changing the surface of a street from asphalt to concrete)

Expand an Existing or New Asset

This category includes the construction of new roadway on a new location, and/or the addition of lanes to increase the capacity for through traffic. It also includes any new road that has been constructed that is not in the current inventory, or a new road constructed on a new alignment that replaces an existing facility. Work activities in this category will be capitalized and include, but are not limited to:

- Installation of new culverts, wash checks, baffles, drains, and catch basins on old or new roads or streets
- Adding a lane to an existing road of more than one-half-mile long
- Reconstruct and add lane(s) over one-half-mile long
- Interchange redesign and upgrading
- Relocate an existing route
- Construct new roadway in a new location
- Construct a new interchange

Jointly funded infrastructure is infrastructure paid for jointly by the City and other governmental entities and should be capitalized by the entity responsible for future maintenance. The City department responsible for the future maintenance or replacement of this asset should consult with the Finance Department in advance to determine the proper accounting procedures.

Retirements of infrastructure capital assets occur upon complete replacement, or significant reconstruction (rebuilding a street from the ground surface up).

Construction in Progress

Construction in progress reflects the economic construction activity status of buildings and other structures, infrastructure, additions, alterations, reconstruction, and installation, which are substantially incomplete.

The cost of construction in progress should not be depreciated. Construction in progress assets should be capitalized to their appropriate capital asset categories upon earlier occurrence of execution of substantial completion, occupancy, or when the assets are placed into service.

Budgetary Control – Capital Outlay

The capital assets defined above should be classified as Capital Outlay items in the budget.

Recording of Capital Assets and Physical Control

A capital asset listing will continue to be maintained by the Finance Department. Physical control of capital assets as well as City property not classified as capital assets remains the responsibility of the various Department Heads.

For purposes of insurance control, items formerly classified as capital assets but which no longer meet the definition will be controlled as determined by the Finance Department in compliance with insurance requirements.

Intangible Assets

Intangible assets are assets that possess the following characteristics:

a) Lacks physical substance
b) Nonfinancial in nature
c) Initial useful life extends beyond a single reporting period

Intangible Asset Category	Capitalization Threshold
Internally Generated Computer Software	$1,000,000
Land Use Rights – Permanent	Capitalize All
Land Use Rights – Term	$25,000
Other Capital Intangibles	$25,000

Intangible Asset Definitions and Categories

Internally Generated Computer Software

Internally generated computer software is software produced by the government or an entity contracted by the government, or acquired from a third party but requires more than minimal incremental effort on the part of the government to begin to achieve their expected level of service capacity.

Land Use Rights

Land use rights such as easements, water rights, timber rights and mineral rights should not be reported as separate intangible assets if the agency already owns the associated property.

Ownership of property comprises a "bundle of rights." Although the rights are separable and intangible in nature, they collectively represent the ownership of a tangible asset – the associated property.

Land use rights would normally be determined to have an indefinite useful life, unless the terms of the agreement state otherwise.

Other Capital Intangibles

Examples of other capital intangible assets, such as patents, trademarks, and copyrights are subject to a legal limited life. As such, they should be amortized over their applicable legal lives unless it is determined they have a shorter estimated useful life due to impairment.

Amortization of Intangible Assets

Intangible assets with less than an indefinite useful life should be amortized on an annual basis.

The useful life of an intangible asset that arises from contractual or other legal rights must not exceed the period to which the service capacity of the asset is limited by contractual or legal provisions.

Intangible assets with indefinite useful lives should not be amortized.

An intangible asset should be considered to have an indefinite life if there are no legal, contractual, regulatory, technological or other factors that limit the useful life of the asset.