



Policy No. 6	Page: 1	Page 1 of 4
Title:	Capital Asset Capitalization	
Authority:	Shorewood Village Board	

The Village Board is adopting Policy No. 6 for the purpose of establishing a consistent method for recording in the financial records of the Village of Shorewood, the capitalization and depreciation of capital assets, consistent with current reporting requirements (GASB 34).

Asset Valuation

Long-term assets shall be recorded at historic cost or, if the cost is not readily determined, at estimated historic cost. Cost shall include applicable ancillary costs. All costs shall be documented, including methods and sources used to establish any estimated costs.

1. **Purchased Assets-** The recording of purchased assets shall be made on the basis of actual costs, including all ancillary costs, based on vendor invoice or other supporting documentation.
2. **Self-Constructed Assets-** All direct costs (including labor) associated with the construction project shall be included in establishing a self-constructed asset valuation. If a department is unable to specifically identify all direct costs an estimate of the direct cost is acceptable, but must be supported by a reasonable methodology.
3. **Donated Assets-** Capital assets acquired by gift, donation, or payment of a nominal sum not reflective of asset's fair market value shall be assigned cost equal to the fair market value at the time of acquisition.
4. **Leased Property-** Capital lease property should be recorded as an asset and depreciated as though it had been purchased.
5. **Dedicated Assets-** Required installation by developer of public improvements, including but not limited to sanitary service mains, manholes, laterals, water mains, hydrants, valves, storm and sanitary sewers, streets, curb and gutter, street lights, street signs, sidewalks will be dedicated to the Village upon completion. Recording of infrastructure assets will be made on the basis of actual costs, including all ancillary costs, based on vendor invoice or other supporting documentation provided by the developer.
6. **Shared Purchases-** The recording of assets shared with other municipalities or entities shall be made based on the Village's share of actual costs, including all ancillary costs, based on vendor invoice or other supporting documentation.

7. Salvage Value- The recording of purchased assets which are expected to be sold at retirement should be recorded with the historical estimated value if in excess of \$1,000. If sale value is less than \$1,000, normal depreciation for the useful life will be used.

Ancillary Costs

Ancillary costs are to be included in the capitalized cost of a fixed asset. However, minor costs, not measurable at the time a fixed asset is recorded in the Village's fixed asset inventory system, may be expensed.

Ancillary Costs Include-

- a) Buildings and improvements- Professional fees of architects, attorneys, appraisers, financial advisors, etc.; damage claims; costs of fixtures permanently attached to a building or structure; insurance premiums, and related costs incurred during construction; and other expenditures necessary to place a building or structure into its intended state of operation.
- b) Equipment- Transportation charges, installation costs, and any other normal and necessary expenditure required to place the asset into its intended state of operation.
- c) Land- Legal and title fees, surveying fees, appraisal and negotiation fees, damage payments, site preparation costs, and costs related to demolition of unwanted structures.

Asset Classification

Capital Assets Include- Items with useful lives greater than 2 years, land, land improvements, buildings, building improvements, construction work in progress, machinery and equipment, vehicles, infrastructure, easements, and works of art and historical treasures. A capital asset is to be reported and, with certain exceptions, depreciated in government-wide statements, assets that are not capitalized are expensed in the year of acquisition.

Infrastructure Assets- Long-lived assets that normally can be preserved for a significantly greater number of years than most capital assets and that are normally stationary in nature. Examples include roads, bridges, tunnels, drainage systems, water systems and dams. Infrastructure assets do not include buildings, drives, parking lots or any other examples given above that are incidental to property or access to the property.

Long-term assets should be categorized into the following-

Furniture and Equipment-	Office furniture, office, data processing and special department equipment
Vehicles, Operating Equipment-	Vehicles, operating and mechanical equipment
Land-	Land, land improvements

Buildings-

Buildings, building improvements

Infrastructure-

Streets, bridges, water and sewer systems, drainage systems, sidewalk, curb and gutter, etc.

Capitalization

All long-term assets meeting the following capitalization thresholds shall be reported in the Village's financial report as an asset. Long-term asset depreciation will be based on the straight line basis.

Category	Threshold
Furniture and Equipment	\$5,000
Vehicles and operating equipment	\$5,000
Land (capitalization only, no depreciation)	\$ 1
Land Improvements	\$10,000
Buildings	\$ 1
Building Improvements	\$10,000
Infrastructure	\$25,000
Construction in Progress	(capitalization only, move to appropriate category when finished and put into service)

To determine whether non-infrastructure items purchased in "bulk" should be capitalized or expensed, a cost per unit should be established at the time of purchase and the threshold rules applied. If it is likely that the units will be replaced in "bulk" at a future date rather than on an as needed basis, then the threshold rules should be applied to total cost for all units. (Expense examples include: Chairs, books, lights, signs) (Capitalized costs examples include: wall-dividers).

Depreciation/Amortization for Long-Term Assets

All long-term assets (except for land, certain land improvements, and construction in progress) identified in the capitalization policy, will be depreciated/amortized. Regardless of the month the asset is placed in service, a full year of depreciation/amortization will be recorded in the first year. Once the asset has been fully depreciated, the asset will be kept on the books until disposed of. When the asset is disposed of prior to the end of its useful life, the remaining "book" value will be written off as depreciation unless it will materially affect the Village's financial statements.

The water utility will follow guidelines for depreciation as established by the Public Service Commission.

Capitalization/Expense Regarding Repairs/Maintenance

Regarding the capitalization or expense of repairs/maintenance, the following should be considered:

<u>Issue</u>	<u>Depreciation Method</u>
Maintenance Costs (a)	Expense
Preservation Costs (b)	Capitalize
Additions	Capitalize
Improvements	Capitalize
Ancillary Costs (freight, etc.)	Capitalize

(a) These costs do not increase the useful lives of the infrastructure assets.

(b) These costs do not extend the lives of the assets.

Retention

For each asset recorded, documentation such as invoices, contracts, deeds, purchase orders, appraisals and/or methods used to estimate actual costs shall be maintained by the Finance Director. The documentation should be kept in a permanent folder and maintained for one year after year-end of the year the asset was disposed in.

Asset Useful Life

To determine the useful life of an asset for depreciation purposes, the Village shall use the guidelines presented in the May 2002 issue of the GAAFR Review. In addition to the above, the Village shall consider an asset present condition and how long it is expected to meet its service demands.

Physical Inventory

A physical inventory of all long-term assets should be taken annually by Department Heads or their assigned staff and reconciled to the records maintained by the Finance Director. Long-term assets \$1,000 or greater should be included in the annual physical inventory conducted.

This policy should be reviewed regularly and revised as necessary.

*Adopted May 17, 2004

*Updated February 5, 2015

*Adopted March 2, 2015