



Greater Salt Lake Municipal Services District Asset Capitalization Policy

Overview. In order to establish accounting control and accountability for entity assets, the Greater Salt Lake Municipal Services District (GSLMSD or the District) establishes the following capitalization policy.

Capital assets and controlled assets that follow specific accounting rules and are subject to annual audit requirements. The accounting and reporting policies of the District conform to generally accepted accounting principles (GAAP) applicable to state and local governments. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

Capital Assets Definition

Capital assets are real or personal property that have a value equal to or greater than the capitalization threshold for the particular classification of the asset and have an estimated life of greater than a single reporting period; generally exceeding two years. They include: land, land improvements, buildings, building improvements, machinery and equipment, vehicles, infrastructure, leasehold improvements, works of art and historical treasures, intangible assets, and construction in progress (excluding projects from outside developers).

A capital asset is to be reported and, with certain exceptions, depreciated in government-wide financial statements. In the government-wide financial statements, assets that are not capitalized are expensed in the year of acquisition.

Infrastructure assets are long-lived capital 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 of infrastructure assets 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.

Inventory Records

Completeness and accuracy of inventory records should be ensured through physical counts, review of purchase records, prior inventory count records, listings maintained by other agencies, and other methods deemed necessary.

An inventory of all capital assets that meet or exceeds the District's threshold limits shall be maintained. The inventory record will need to identify the entity (town, township or MSD (general use, not identified by a specific entity)) that uses the asset. The inventory of assets will be centrally maintained through the Finance Department.

Threshold Levels

Estimated Useful Life - An asset must have an estimated useful life greater than two years to be considered for capitalization. Assets that are consumed, used-up, habitually lost or worn-out in two years or less should not be capitalized.

In determining useful life, the District should consider the asset's present condition, use of the asset, construction type, maintenance policy, and how long it is expected to meet service demands.

Asset Cost - The District does not need to capitalize every asset with a useful life greater than one year. To do so is an unnecessary burden and will not materially affect financial results. The table listed below will be used in determining the dollar thresholds to use for tracking the District's capital assets.

Capitalizable Thresholds	
Land	Reportable-Non-Depreciable
Land Improvements	\$5,000
Building	\$5,000
Building Improvements	\$5,000
Machinery and Equipment	\$5,000
Infrastructure-based on total project cost	\$5,000
Sanitary Sewers	\$5,000
Storm Drain Projects	\$5,000
Construction in Progress	\$5,000

Asset Lives

Unless determined to be otherwise, the general asset life schedule shall be as follows:

Buildings and Improvements	10-50 years
Improvements other than buildings *	20-50 Years
Machinery and equipment	5-20 years
Office furniture and equipment	5-15 Years
* including distribution systems and other infrastructure	

Land, Rights of Way and Easements:

Land

Land is to be capitalized but not depreciated. It is recorded at historical cost and remains at that cost until disposal. If there is a gain or loss on the sale of land, it is reported as a special item in the statement of activities. All land will be capitalized unless the District plans to immediately sell it instead of putting it to use.

The following items should be included as part of the cost of land: purchase price or

fair market value at the time of the purchase or gifting of the asset: commissions; professional fees (title searches, legal, appraisal, etc.), grading, removal, relocation, or reconstruction of property of others (railroad, telephone and power lines); interest on mortgages accrued at date of purchase; accrued and unpaid taxes at date of purchase; other costs incurred in acquiring the land. All land will be capitalized, regardless of cost, unless it is saleable land (land that the District has plans to sell instead of using).

Rights of Way (ROW)

ROW costs will be booked at the time of the project, based upon actual costs. If the actual cost is not available, a cost per square foot will be determined by using an assessor's valuation of bare agricultural land in the vicinity.

Easements

An easement is an interest in land owned by another that entitles its holder to a specific limited use or enjoyment (right to use the land). The District has no ownership interest in the property associated with easements across private property, only a right to access the property for the stated use (i.e. water lines, sewer lines, etc). Therefore, easements are not reported in the financial statements.

Land Improvements

Land improvements consist of betterments, other than buildings, that ready land for its intended use. A few examples include retaining walls, parking lots, sidewalks, outdoor lighting, fencing/gates, and landscaping. Land improvements can be further categorized as non-exhaustible and exhaustible.

Non-Exhaustible - Expenditures for improvements that do not require maintenance or replacement; expenditures to ready land for its intended use such as improvements to prepare for the construction of structures, expenditures for improvements not identified with structures, and expenditures for land improvements that do not deteriorate with use or passage of time are *additions to the cost of land* and are generally not depreciable. The portion of the cost attributable to nondepreciable land improvements should be reported with other assets not being depreciated, such as land and construction in progress in the Comprehensive Annual Financial Report (CAFR).

Exhaustible - Other improvements that are part of a site, such as parking lots, landscaping and fencing, *are depreciable*. Other items include: fencing, gates, landscaping, outside sprinkler systems, athletic fields, golf courses, septic systems, stadiums, swimming pools, tennis courts, fountains, retaining walls, bleachers, soccer fields, recreational lighting, parking lots, sidewalks, bus ramps, etc.

Buildings

Buildings should be recorded at either their acquisition cost or construction cost. Building projects generally consist of major components such as land, land improvements, building construction (including professional fees and permits), furniture, fixtures and equipment.

The components not associated with “the building” should be broken out from the cost of the building. The components of the building itself (heating/air conditioning, carpet, windows etc.) should be included in the initial cost of the building.

Building Improvements

Building improvements that extend the useful life of the building by more than 25% or 2 years, should be capitalized. Examples of building improvements include major roofing projects, major energy conservation projects, remodeling and replacing major building components.

Normal maintenance and repair projects such as re-shingling or re-tarring a roof will be expensed.

Equipment and vehicles

Assets such as furniture, shop equipment, lawn equipment, computers, machinery, and other equipment that meet the threshold levels should be identified and inventoried. Some assets, individually, may fall below the capitalization threshold but may be purchased in large quantities by the governmental entity. Examples include library books, textbooks and computers.

Computer Equipment

Computers will be excluded from capitalization if they individually cost less than the threshold limit. If the dollar amount exceeds the limit, those assets will be capitalized and depreciated.

Vehicles

Vehicles should be identified, inventoried, and depreciated if they exceed the threshold limit. Additional amenities added to vehicles such as the cost of light bars and other amenities affixed to the vehicle will be included as part of the cost of preparing the vehicle for service.

Leased Equipment

Leases shall follow the requirements of GASB 87, leases.

The lessee will recognize a lease liability and a lease asset at the commencement of the lease term, unless the lease is a short-term lease, or it transfers ownership of the underlying asset.

Short term leases. The lessee recognizes short-term lease payments as outflows of resources (expense) based on the payment provisions of the lease contract.

A contract that transfers ownership of the underlying asset to the lessee by the end of the contract period, should be reported as a financed purchase of the underlying asset by the lessee.

An expenditure and other financing source should be reported in the period the lease

is initially recognized.

Intangible Assets

An intangible asset is a non-physical asset that has a useful life of greater than a single reporting period. Some examples are trademarks and software developed for internal use. Depending on the type of intangible asset, recognize the asset at fair value or cost and amortize over its expected useful life

Infrastructure Assets

Infrastructure items will be evaluated based on the total cost of the project. Any project with a total cost that meets the threshold for infrastructure should be capitalized, the date of acceptance of the constructed asset will be the acquisition date.

If a project includes more than one type of infrastructure, each type of infrastructure should be identified as a separate asset. The construction costs, engineering fees and other incidental expenses should be added into the project cost.

If engineering costs cannot be determined for each segment, then the costs should be prorated to each segment based on the segment's percent of the overall project (excluding costs that will be allocated).

If ownership of infrastructure associated with land, such as roads, sewers and other capital assets, is unclear, the government with primary responsibility for managing the asset should report the asset.

Streets, roads and other components

The District will include frontage roads and alleys as part of the street & roads network if they exceed the dollar threshold.

The project will include costs associated with curb and gutter. Roads will be identified, if possible, by the following types: seal coat, gravel, concrete, asphaltic concrete and brick or stone.

Sidewalks constructed on private property will be excluded from the total cost of the project.

Maintenance to roads and streets, such as chip seals, pot hole repair, slurry seal, and other projects identified as "maintenance" will be expensed.

Projects such as road overlays that significantly improve the life of the road will be capitalized.

Bridges

Bridges will be a network of its own and will be identified as vehicular or pedestrian.

The cost of the initial project will include the sidewalk and guardrails associated with

the bridge.

Sidewalks

If a town or township owns sidewalks are on town or township ROW, private residents are responsible for maintaining them; therefore, the District will not be capitalizing sidewalks as an infrastructure asset. Sidewalks located on property owned and maintained by the District, town or township, will be classified as a land improvement and subject to the category threshold limits of that class.

Street Signs

The cost of the signs is not part of construction costs. Based upon the above criteria, the District will not be capitalizing street signs.

Street Lighting

Streetlights owned by the town or township that meets the capitalization threshold will be capitalized.

Traffic lights will be evaluated by intersection and if owned by the town or township, if they meet the infrastructure threshold, will be capitalized.

Storm Sewers

Detention ponds and other collection systems will be listed as separate assets. If a project involving replacing a section of storm sewers or water lines that requires street cutting, the entire project cost will be listed as the sewer or water asset.

Bike Paths

Bike paths should be set up by project with the entire cost included as one asset. This will include benches, receptacles, engineering costs, and other related costs.

Costs associated with the replacement of the benches, receptacles and other amenities will be expensed in the year acquired.

Other infrastructure

The capitalization amount shall be based on historical cost. If determining historical cost is not practical because of inadequate records, estimated historical cost may be used.

Construction in Progress

Construction in progress that is financed by the District should be capitalized and not depreciated.

Unspent debt proceeds from capital assets shall be reported in the net assets section of the statement of net assets as “restricted for capital projects.”

Capital Asset Donations

GASB Statement No. 33, Accounting and Financial Reporting for Non-Exchange

Transactions, defines a donation as a voluntary non-exchange transaction entered willingly by two or more parties. Both parties may be governments, or one party may be a nongovernmental entity, including an individual. Donated capital assets should be capitalized at the fair market or appraised value of the asset at the date it was donated.

Real estate

All gifts of real estate must have Board approval prior to title transferring. Contributed capital assets are valued at their appraised or estimated fair market value on the date donated.

Donations by Developers

Infrastructure assets donated by private developers will have an acquisition of the date the Board accepts the development. The developer must give the District the following contract item amounts to correctly capitalize each component of the development into the appropriate classification.

- Land or rights of way cost, including square footage
- Breakdown of the quantity and cost of the following components of the project:
 - Storm sewer
 - Lift stations
 - Sanitary sewer
 - Water mains
 - Street, curb and gutter
 - Traffic signals
 - Bike paths
 - Street lights
- Engineering costs

The Engineering Department will be responsible for obtaining this information from the developer.

Cost or Acquisition Value

Capital assets should be reported at historical cost and should include the cost of freight, site preparation, architect and engineering fees, etc. If something other than cash is used to pay for the asset, then the fair-market value of the non-cash payment or consideration determines the asset's cost or acquisition value. When the value of the consideration paid can't be determined, the asset's fair- market value determines its cost.

With few exceptions, an asset's cost should also include necessary costs incurred to place the asset in service. Costs include the invoice price plus incidental costs (insurance during transit, freight, capitalized interest as described earlier, duties, title search, registration fees, and installation costs).

Capitalized Interest

Under GASB 89, interest cost incurred before the end of a construction period will be recognized as an expense in the period in which the cost is incurred for financial statements prepared using current financial resources measurement focus (governmental funds.) and should not be included in the historical cost of the asset. Therefore, construction-period interest should not be included in the cost of the capital assets constructed.

Repairs and Maintenance

Asset improvements, costs over \$5,000 should be capitalized if:

1. The estimated life of the asset is extended by more than 25%, and/ or 2 years.
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, or
5. In the case of streets and roads – if the work done impacts the “base” structure. Otherwise the cost should be expensed as repair and maintenance.

As indicated above, maintenance to roads and streets, such as chip seals, pot hole repair, slurry seal, and other projects identified as “maintenance” will be expensed.

Projects such as road overlays that significantly improve the life of the road will be capitalized.

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

Preservation costs generally 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 are *capitalized and depreciated* if it extends the original estimated life by more than the assigned percent listed above or 2 years.

A change in capacity increases the level of service provided by an asset. For example, additional lanes could be added to a road or the weight capacity could be increased. A change in efficiency maintains the same service level, but at a lower cost. For example, an electric generating plant could be reengineered so that it produces the same megawatts per day using less fuel.

The following improvements will be considered maintenance and not capitalized: roof repair or replacement (unless it extends the life of the building, such as going from a flat roof to a pitched roof), window replacement (unless replaced with energy efficient windows), repainting, epoxy repair, re-carpeting, etc.

Depreciation & Convention Methods

The District will use the straight-line, full-month method for depreciation.

Under the straight-line depreciation method, the amount of annual depreciation is determined by dividing an asset's depreciable cost by its estimated life.

Under the full-month convention, property placed in service at any time during a given month is treated as if it had been placed in service on the first day of that month. This allows depreciation to be taken for the entire month in which the asset is placed in service. If the property is disposed of before the end of the estimated useful life, no depreciation is allowed for the month of disposition.

Reporting Depreciation Expense in the Financial Statements

For general capital assets, depreciation is reported only on government-wide financial statements. Depreciation expense is reported on the Statement of Activities.

Depreciation for assets specifically identified with specific functions is to be included in the direct expenses of those functions. Capital assets that serve essentially all functions are reported on a separate line or reported as part of the general administration (or its counterpart) function.

Disposal of Capital Assets

All assets included in this policy must be taken to the Board for approval prior to disposition. The report to the Board will include the method of disposal whether it is for sale, obsolete, junked, traded, or other disposal reason.

Reporting Capital Assets in the Audited Financial Statements

Capital assets and the associated accumulated depreciation are reported in the Statement of Net Assets. Accumulated depreciation will be reported separately

Insurance Records

The District will maintain insurance records in conjunction with the fixed assets. It is the responsibility of each department to notify the Finance Department concerning insurance coverage. Coverage, when applicable, must be added to new equipment prior to use.

Physical Inventories

The Finance Department or external auditors will periodically conduct a physical inventory of selected items. Assets not accounted for in the inventory shall be removed from the fixed asset records after the proper disposal procedures have been completed.

Planning for Capital Assets or Improvements

In order to fund the costs of capital outlays and improvement needs, a three to five-year plan is developed during budget season and is referred to as the Capital Improvement Plan (CIP).

Capital project planning is an ongoing process where annually the Capital Improvement Plan

(CIP) is reviewed and updated. Changing needs and priorities, emergencies, cost changes, mandates and changes in technology all require the CIP to be updated annually. The District, representing town and township interests, recognize that public facilities, streets, parks, water lines, equipment, etc., are constantly in need of repair, replacement or expansion. A growing population will require additional or updated facilities.

The District will complete capital planning on a five-year schedule. Projects included in the CIP are items that meet the fixed asset thresholds identified in this policy and has a useful life of more than one year.

Through a series of work sessions, *the Board focuses on prioritizing the first year's expenditures along with identifying future needs.*

Once approved, the CIP outlines the District's official commitment to funding these expenditures in the budget for the upcoming fiscal year and providing a plan for funding projects or assets. Once the Board has agreed to a plan, a public hearing must be held prior to adopting the plan.