BUFFALO
SEWER AUTHORITY

ATTACHMENT A

Capital Asset Guide

for

Buffalo Sewer Authority

Revised 6/22/2022

TABLE OF CONTENTS

I. Capital Asset Definitions and Guidelines

II. Capital Asset Categories

I. Capital Asset Definitions and Guidelines

Capital Asset Classifications

Capital assets are assets purchased or constructed by the Buffalo Sewer Authority (the "Authority") that have a useable life of two or more years and that have a value equal to or greater than the established capitalization threshold. The following categories are used for Buffalo Sewer Authority.

- Land
- Land Improvements
- Buildings
- Building Improvements
- Machinery and Equipment
    - Office Equipment
    - Furniture
    - Computers
    - Vehicles
    - Heavy Equipment
    - Other
- Infrastructure
    - Roads
    - Sewer System
- Works of Art and Historical Treasures
- Construction in Progress

Capitalization Thresholds and Useful Lives

Class of Asset	Threshold Ending 6/30/2009*	Threshold Effective 7/1/2009*	Threshold Effective 7/1/2015*	Useful Life
Land	$5,000	$10,000	$10,000	Note 1
Land Improvements	$5,000	$10,000	$10,000	20
Buildings	$5,000	$10,000	$10,000	40
Building Improvements:	$5,000	$10,000	$10,000	20
Machinery and Equipment:	$5,000	$10,000	$10,000	
Office Equipment	$5,000	$10,000	$10,000	10
Furniture	$5,000	$10,000	$10,000	10
Computers	$5,000	$10,000	$10,000	3
Vehicles	$5,000	$10,000	$20,000	5
Heavy Equipment	$5,000	$10,000	$50,000	10
Other	$5,000	$10,000	$10,000	5
Infrastructure:	$5,000	$10,000	$10,000	
Roads	$5,000	$10,000	$10,000	20
Sewer System	$5,000	$10,000	$10,000	50
Works of Art and Historical Treasures	$5,000	$10,000	$10,000	Note 2
Construction in Progress	$5,000	$10,000	$10,000	Note 3

* The threshold for capitalization was increased from $5,000 to $10,000 on July 1, 2009.

The threshold for capitalization of Vehicles was increased from $10,000 to $20,000 on July 1, 2015.

The threshold for capitalization of Heavy Equipment was increased from $10,000 to $50,000 on July 1, 2015.

Note 1 – Assets are not depreciated.

Note 2 – Depreciation is not required for Works of Art and Historical Treasures that are inexhaustible. If collection/items are exhaustible, then depreciate over estimated useful life.

Note 3 – Depreciation will not be recorded on Construction in Progress. Upon completion the asset will be recorded in the appropriate asset classification and depreciation will begin.

Capital Asset Acquisition Cost

Capital assets should be recorded at their historical costs. The cost 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 capital assets for government activities do not include capitalized interest.

Capital Asset 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 governmental entity.

> **Note:** Fair value is the amount at which an asset could be exchanged in a current transaction between willing parties.

Modified Accrual Basis - Do not report revenue from the donation of a capital asset when using the modified accrual basis except in the following situation:

If the Authority 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 "Assets 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 Authority 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 resource donated.

Full Accrual Basis - According to 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 will have to meet the standards of GASB Statement 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 have passed or a specific event has occurred. For such cases, the capital asset should be 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 percent or more of the estimated economic life of the leased property.
- 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 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 unless they are inexhaustible.

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

Depreciation will be calculated on an annual basis. The first year of depreciation will be included in the first year following the completion or acquisition of the asset. In the year of disposition, all assets will be depreciated for the entire year regardless of when the asset was disposed. Accumulated depreciation will be summarized and posted to the accounting general ledger

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 sale of assets must be netted against residual value in computing net gain or loss from sale.

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

Sale or Disposal of Capital Assets

Approval of the Board of the Buffalo Sewer Authority (the "Board") is required prior to the sale or disposal of any capital asset. For accounting purposes, the date the Board approves a sale or disposal shall be deemed the event date for removing a capital asset from fixed asset inventory.

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 Sale of Assets

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

Example:	Asset's Historical Cost	$ 10,000
	Less Accumulated Depreciation	7,000
	Net Book Value	$ 3,000
	Subtract Proceeds Received	2,000
	Loss from Sale of Asset	$ 1,000

If the asset has been fully depreciated and has a residual value, then the proceeds must be subtracted from the residual value to compute the gain or loss.

Example:	Asset's Historical Cost (residual value - $1,000)	$ 10,000
	Less Accumulated Depreciation	9,000
	Residual Value	$ 1,000
	Subtract Proceeds Received	2,000
	Gain from Sale of Asset	$ 1,000

II. Capital Asset Categories

Land

Land Definition

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).

Depreciation Methodology

Land is an inexhaustible asset and is not depreciated.

Capitalization Threshold

The Capitalization threshold for land is $10,000.

Examples of Expenditures to be Capitalized as Land

- Purchase price or fair market 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.
- Right-of-way.

Land Improvements

Land Improvement Definition

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, driveways, sidewalks, parking lots, flagpoles, retaining walls, fences, and outdoor lighting. They can be exhaustible or non-exhaustible.

<u>Non-Exhaustible land improvements</u> – 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.

<u>Exhaustible land improvements</u> – Expenditures for improvements that are part of a site, such as parking lots, landscaping and fencing, are usually exhaustible and are depreciated.

Depreciation Methodology

Land improvements that are inexhaustible assets are not depreciated. Exhaustible land improvements are depreciated on a straight-line basis over 20 years. The straight-line depreciation method (historical cost less residual value, divided by useful life) will be used for exhaustible land improvements.

Capitalization Threshold

The Capitalization threshold for land improvements is $10,000.

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.
- Retaining walls.

Buildings

Building Definition

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. Buildings that are an ancillary part of the Authority's system network, such as outlying stations will be reported as infrastructure rather than as buildings.

Depreciation Methodology

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

Capitalization Threshold

The capitalization threshold for buildings is $10,000.

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 searches, 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.
- Cost of excavation or grading or filling of land ***for a specific building.***
- Expenses incurred for the preparation of plans, specifications, blueprints, etc.
- 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 or machinery that cannot be removed without impairing the use of the building.
- Additions to buildings (expansions, extensions, or enlargements).

Building Improvements

Building Improvement Definition

Building improvements are capital events that materially extend the useful life of a building or 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.

Depreciation Methodology

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

Capitalization Threshold

The capitalization threshold for building improvements is $10,000.

Examples of Expenditures to be Capitalized as Improvements to Buildings

> **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/part is of significantly improved quality and higher value compared to the old item/part such as replacement of an old shingle roof with a new fireproof tile roof. Replacement or restoration to original utility level would not. 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, carports, enclosed stairwells, etc.
- Installation or upgrade of heating and cooling systems, including ceiling fans and attic vents.
- Original installation/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.
- Installation or upgrade of window or doorframe, 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).

Other costs associated with the above improvements

Maintenance Expense

The following are examples of expenditures ***not*** to capitalize as improvements to buildings. Instead, these items should be recorded as maintenance expense.

- 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 the building.
- Plumbing or electrical repairs.
- Cleaning, pest extermination, or other periodic maintenance.
- Interior decoration, such as draperies, blinds, curtain rods, wallpaper.
- Exterior decoration, such as detachable awnings, uncovered porches, decorative fences, etc.
- 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 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 old boiler with a new one of the same type and performance capabilities.
- Any other maintenance-related expenditure that does not increase the value of the building.

Machinery and Equipment

Machinery and Equipment Definition

Fixed or movable tangible assets to be used for operations, the benefits of which extend beyond one year from date acquired and rendered into service. Improvements or additions to existing personal property that constitute a capital outlay or increase the value or 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 cost of the equipment, should not be capitalized.

Categories of Machinery and Equipment

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

Capitalization Threshold

The capitalization threshold for machinery and equipment is $10,000, with the exception of vehicles, for which the capitalization threshold is $20,000, and heavy equipment, for which the capitalization threshold is $50,000.

Depreciation Methodology

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 Machinery and 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.
- Computer software and hardware.
- Parts and labor associated with the construction of equipment.
- Road Graders and other heavy construction equipment.
- Dump trucks and passenger cars.
- Lawn maintenance equipment, compressors, and tool kits.

Infrastructure

Infrastructure Definition

Assets that are long-lived capital assets that normally is stationary in nature and can be preserved for a significantly greater number of years than most capital assets. Infrastructure assets are often linear and continuous in nature.

Infrastructure Improvements

Infrastructure improvements are capital events that materially extend the useful life or 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 capital 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.

Capitalization Threshold

The capitalization threshold for infrastructure is $10,000.

Infrastructure Classifications

- Bridges (includes culverts).
- Roads.
- Sewer System.

Examples of Expenditures to be Capitalized as Infrastructure

- 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 (outdoor, street, etc.).
- Signage.
- Sewer systems (sanitary sewer lines, storm drainage lines, receivers, pump stations, retention basins, etc.).
- Water systems.

Works of Art and Historical Treasures

Works of Art and Historical Treasures Definition

Collections or individual items of significance that are owned which are not held for financial gain, but rather for public exhibition, education or research in furtherance of public service. Collections or individual items that are protected and cared for or preserved and subject to an organizational policy that requires the proceeds from sales of collection items to be used to acquire other items for collections.

Exhaustible collections or items - items whose useful lives are diminished by display or educational or research applications.

Inexhaustible collection or items - where the economic benefit or service potential is used up so slowly that the estimated useful lives are extraordinarily long. Because of their cultural, aesthetic, or historical value, the holder of the asset applies efforts to protect and preserve the asset in a manner greater than that for similar assets without such cultural, aesthetic, or historical value.

Depreciation Methodology

The straight-line depreciation method (historical cost less residual value, divided by useful life) will be used for exhaustible collections. Inexhaustible items are not depreciated.

Capitalization Threshold

All works of art and historical treasures acquired or donated will be capitalized.

If a collection is held for financial gain and not capitalized, disclosures must be made in the notes that provide a description of the collection and the reasons these assets are not capitalized. When donated collection items are added to noncapitalized collections, program expense equal to the amount of revenues should be recognized.

Examples of Expenditures to be capitalized as Works of Art and Historical Treasures:

- Collection of rare books, manuscripts.
- Maps, documents and recordings.
- Works of art such as paintings, sculptures, and designs.
- Artifacts, memorabilia, exhibits.
- Unique or significant structures.

Construction in Progress

Construction in Progress Definition

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 incomplete.

The Board shall approve the Certificate of Occupancy, indicating that the project is complete. The date the Certificate of Occupancy is approved by the Board shall be the date that project costs and related soft costs (engineering, legal, and architectural costs, etc.) are moved from construction in progress to fixed asset infrastructure inventory for accounting purposes.

Depreciation Methodology

Depreciation is not applicable while assets are accounted for as Construction in Progress. Upon asset completion and 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.

Capitalization Threshold

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.