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| Title of Policy: | **Capitalization / Fixed Asset Policy** | **Pg 1-3** |
| Section #: | Section 6 |  |
| Approval Date: | **February 9, 2021** |  |
| Revision Date: |  | Policy 6.1 |

**PURPOSE:**

To define guidelines for the capitalization of purchases of land, buildings, land improvements, pipes, infrastructure, equipment and other materials

**POLICY STATEMENT**

Fixed assets consist of all capitalized assets with an estimated useful life of at least one year and cost $2,000 or more.

**Procedure:**

1. **Land** includes all real property owned by, purchased or donated. When land is purchased, various incidental costs are generally incurred in addition to the purchase price. These additional costs may include commissions to real estate brokers, escrow fees, legal fees for examining and insuring the title, delinquent taxes paid by the purchaser, and fees for surveying, draining, clearing, and grading the property. All these expenditures become part of the cost of land.

From time to time land may be purchased as a building site for KWD that contains older buildings or other structures that are not suitable for KWD’s use; in this case, the only useful “asset” being acquired is the land. Therefore, *the entire purchase price is charged to the Land account, along with the costs of tearing down and removing the unusable building.*

Land purchased and held as an investment should not be classified as “Land”, but as “Land Held for Investment”.

1. **Buildings** include all structures and buildings owned by KWD, either constructed, purchased or donated, and any building improvements costing $10,000 or more.
2. **Land Improvements** include all improvements to land owned by KWD costing more than $5,000. Improvements to land such as driveways, fences, parking lots, landscaping, and sprinkler systems have limited life and are therefore subject to depreciation. For this reason, they should be recorded in a separate account entitled “Land Improvements”.
3. **Infrastructure** includes all items of KWD systems improvements owned by KWD costing more than $5,000. Infrastructure items include utilities including, sewer systems and water systems
4. **Equipment** is defined as any movable property i.e., machinery, vehicles, computers, and furniture costing at least $2,000 and is not a replacement part. Component items that form one working equipment system are combined for capitalization purposes. The “system” definition applies to computer configurations, electronic & laboratory equipment and other portable equipment. Additions to equipment that become either component parts or permanently connected to existing equipment items are also defined as equipment and should be capitalized, regardless of cost. The cost of repairs should be capitalized if such repairs “significantly extend the life of the asset”.

Each item of equipment acquired will be assigned a serially numbered tag affixed to the equipment and marked “Kingston Water Department” or “KWD”

**Equipment Inventory**

All equipment having KWD property numbers must be inventoried annually according to the utilities policy. Department heads are responsible for conducting an inventory of all tangible equipment regardless of acquisition method (purchase, transfer, and donation). The individual conducting the physical inventory should identify items that are missing or were sold, traded-in, discarded, or transferred to other departments. The individual conducting the inventory should not be the same individual that is responsible for the assets being inventoried.

**Depreciation**

All fixed assets will be depreciated at cost on a straight-line basis using estimated useful lives as follows:

* Buildings, pipes 40-50 years
* Land Improvements 20-50 years
* Infrastructure 20-50 years
* Equipment 5-10 years
* Vehicles 3-5 years
* Computer/electronic equipment 3-5 years

KWD does not capitalize items that are valued at less than $2,000. However, certain items will be inventoried and accounted for stewardship purposes. This inventory shall include such “sensitive items” such as cellular phones, radios, pagers, laptop computers, and other items that are especially susceptible to theft. Such items should be inventoried on an annual basis.

Assets that are to be surpluses or disposed of will be accounted for in accordance with KWD’s “Surplus Property Disposal Policy”

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