

## Sample Fixed Asset Capitalization Policy

### TOWNSHIP OF \_\_\_\_\_ FIXED ASSET CAPITALIZATION POLICY

Adopted: \_\_\_\_\_ 20\_\_

The Township of \_\_\_\_\_ will regard fixed assets as capitalized when all of the following criteria are met:

- (1) Assets purchased, built or leased have useful lives of one year or more.
- (2) The cost of the asset (including installation) is \$5,000 or more (*insert figure appropriate to township*). Multiple assets whose cost is less than \$5,000 but the aggregate requestor total is \$5,000 or more are capitalized.
- (3) The cost of repairing or renovating the asset is \$5,000 or more and prolongs the life of the asset.

The township will regard the purchase software programs as fixed assets subject to the above capitalization policy, and will amortize over an estimated useful life of 3 years. Costs associated with software maintenance and customer support are considered expenditures and will not be capitalized.

#### **Other Considerations:**

- (1) REPAIR is an expenditure that keeps the property in ordinary efficient operating condition. The cost of the repair does not add to the value or prolong the life of the asset. All repair expenditures are charged to the appropriate department and fund.
- (2) IMPROVEMENTS are expenditures for additions, alterations and renovations that appreciably prolong the life of the asset, materially increase its value or adapt it to a different use. Improvements of the nature are capitalized.

#### **Examples of Repairs vs. Improvements**

##### **Repairs = Expenditures**

All items—life less than one year  
All items under \$5,000  
Property maintenance, wall repair  
Replacement of machine parts to keep machine in normal operating condition  
Property restoration (rebuilding) for normal operations  
Existing building repairs  
Replacement of small sections of wiring, pipes or light fixtures  
Patching walls, minor repair of floors, painting, etc.  
Patching driveways  
Cleaning drapery, carpet, furniture

##### **Improvements = Capitalized Assets**

Life of more than one year  
All items \$5,000 or more  
Property rebuilding  
Replacement of motor and parts that prolong the useful life  
Property restoration for something different or better  
Building regulation conformity  
Major replacement of wiring, lighting, pipes or sewer  
Installation of floor, wall, roof, wall-covering, etc.  
New driveway or major repair  
New drapery, carpets, furniture

**Depreciation Method—Straight Line over the following useful lives:**

Buildings	40-60 years
Building Improvement	15-30 years
Water and Sewer Lines	50-75 years
Roads	10-30 years, see State Recommendations attached
Infrastructure	See State Recommendations attached
Vehicles	3-5 years
Office Equipment	3-5 years
Computer Equipment	3-5 years

*(Sample prepared by David Williamson, CPA, Post, Smythe, Lutz & Ziel, LLP, and MTA Staff. Used with permission.)*