STATE OF WISCONSIN
DEPARTMENT OF HEALTH SERVICES
DIVISION OF ENTERPRISE SERVICES
BUREAU OF FISCAL SERVICES

ACCOUNTING POLICY AND PROCEDURES (APP) MANUAL

TOPIC: Section 8 – Capital Assets 1.2	EFFECTIVE DATE: 10/19/1984
TITLE: Guidelines for Capital Asset Valuation	REVISION DATE: 05/21/2018
AUTHORIZED BY: Deputy Director, Bureau of Fiscal Services	

BACKGROUND

This sub-section details guidelines for capital asset valuation, except that state capital projects for fund 49000/49500 are capitalized as described in Section 8 – Capital Assets 2.1 (Capitalization of Fund 49000/49500 Construction Projects).

Annually, the Department of Administration (DOA) will provide a listing of projects closed and the amounts to be capitalized to the Bureau of Fiscal Services (BFS)/Cost Allocation & Financial Reporting (CAFR) Section. BFS/CAFR will enter this information into the STAR Asset Management System to be included in the Institution's capital asset inventory report.

In addition to state capital construction projects, there are organizational construction projects (Department of Health Services (DHS) funded) and other situations that may require equipment, leasehold improvements, land, land improvements, computer software or other assets (greater than $5,000) to be capitalized in order to comply with generally accepted accounting principles (GAAP). Guidelines are presented in this bulletin for distinguishing ordinary expenditures from capital assets.

POLICY

Organizations should review transactions each month to determine if expenditures should be capitalized. All capital asset purchases should be documented and reported to BFS/CAFR as soon as reasonably possible.

Guidelines for Capital Asset Valuation

The following guidelines are to be used to determine whether a particular cost should be expensed **or** added to the capital asset records during the closeout of routine repair and maintenance accounts, special repair and maintenance projects, leasehold improvements, the purchase of land, equipment, or software with an acquisition cost of $5,000 or more that may not have been purchased from a capital account.

Land Valuations

Purchased land should be carried on the books at cost (purchase price or construction cost) plus any additional costs to place the capital asset in its intended condition for use. Donated land should be reported at fair value (appraised market value) at the time of its donation. Please contact BFS/CAFR concerning questions on valuing land.

Land Improvements

Land Improvements that consist of items such as costs incurred for paving (roadways, walks, parking lots, etc.), lighting systems, water, sewer, electrical, fencing, and similar costs that are sometimes referred to as infrastructure, will be capitalized as land improvements provided that these costs are incurred and result in increasing the existing level of service of the land. Additional examples of land improvements are culverts, yard lighting, landscaping, and other site improvements.

Intangible Rights – ownership of land comprises a “bundle of rights” associated with the land. Included within those “bundle of rights” are the rights to control the use of the property and to benefit from it. Intangible property rights should be reported in the land and land improvements category and include rights such as water, timber, mineral, and easement rights.

Buildings and Improvements – the cost of buildings and improvements should include all expenditures related directly to their acquisition and construction. These costs include:

a. Materials, labor (including design and supervision), overhead, and costs incurred during construction;
b. Legal and architectural fees;
c. Building permits;
d. Insurance premiums during the construction phase;
e. Materials and services furnished by other State Agencies; and
f. Interest costs incurred during the construction of proprietary fund buildings and improvements.

Machinery, Equipment, and Vehicles

Include costs of vehicles, delivery equipment, furniture and fixtures, machinery, office equipment, computer equipment and similar items.

Costs that should be capitalized include:

a. Purchase price
b. Freight and handling charges
c. Insurance while in transit
d. Assembling and installation costs
e. Reconditioning of purchased used equipment

Software in Use – software that meets capitalization criteria and was in use during the fiscal year should be included in this category of capital assets.

Capitalization criteria include purchased software with a cost of $5,000 and over and internally generated software with a cost of $1,000,000 and over.

Construction-In-Progress/Software-In-Progress

Construction-In-Progress (CIP) – Contains amounts expended on uncompleted buildings or other capital construction projects. Software-In-Progress includes amounts expended on uncompleted software projects.

Capitalization of Costs Subsequent to Asset Acquisition – in general, if the expenditure improves the efficiency, or materially extends the useful life of an asset, it should be capitalized. There are five categories of expenditures that may be incurred for an asset subsequent to its acquisition. These expenditures are additions, improvements and replacements, re-installations and rearrangements, repairs, and enhancements.

1. **Additions – extensions, enlargement, or expansions made to an existing asset –** By definition, any addition to a capital asset is capitalized because a new asset has been created. If the addition is an item that could stand alone, i.e., a new building wing, it is a separate asset, and a separate asset and depreciation record should be maintained.

   Examples of additions are as follows (coding of these transactions should be based on the work done):
   - An elevator or dumbwaiter
   - Fire alarm system
   - Security windows
   - Surveillance equipment

- Sprinkler system, Internal
- Acoustical treatment

2. **Improvements and Replacements –** the distinguishing feature between an improvement and a replacement is that an improvement increases future benefits from an existing capital asset beyond its previously assessed level of service. Organizations should determine whether the expenditure increases the future service potential of an existing asset, or merely maintains the same level of service. When the determination is made that the future level has been increased, the new cost should be capitalized. Also, the useful life of the original asset should be adjusted accordingly if the improvement extends the life of the original asset.

   For replacements, the carrying amount of the old asset and associated accumulated depreciation should be removed, and the cost of the new asset should be capitalized.

3. **Reinstallations and Rearrangements –** these are expenditures made to provide greater efficiency or reduce costs. If benefits from the reinstallation or rearrangement extend into future accounting periods, the expenditure should be capitalized. If the expenditure has no measurable future benefit, it should be treated as a current period expenditure.

4. **Repairs** (Ordinary and Major) – Repairs maintain the capital asset in its original condition.

   Ordinary repairs are expenditures that keep the asset in a state of good repair. Preventive maintenance, normal periodic repairs, replacement of parts, structural components, and other activities needed to maintain the asset so that it continues to provide normal service should not be capitalized but rather charged to an expense account. Ordinary repairs should not be capitalized.

   Major repairs are relatively large expenditures that benefit more than one operating cycle or period. If a major repair, e.g., an overhaul, occurs that benefits several periods and/or extends the useful life of the asset then the cost of the repair should be handled as an addition, improvement, or replacement depending upon the type of repair made. Examples of repair activities are as follows:

   - Roof and/or flashing repairs
   - Window repairs and glass replacement
   - Tuck pointing
   - Painting
   - Masonry repairs
   - Floor repairs.

5. **Software Upgrades, Enhancements, and Modifications –** Consistent with the capitalization criteria for tangible capital assets, outlays related to upgrades, enhancements, and modifications that increase the capacity or efficiency of the capitalized software, or materially extend the useful life of the capitalized software, should be capitalized. Software maintenance should **not** be capitalized.

REFERENCES

DHS APP Section 8 – Capital Assets 1.0 (Capital Asset and Inventory Systems)
DHS APP Section 8 – Capital Assets 2.1 (Capitalization of Fund 490/495 Construction Projects)

CONTACTS

Capital Asset Accountant