



FIXED ASSET ACCOUNTING AND MANAGEMENT PROCEDURES MANUAL

SECTION 10

Improvements, Betterments, and Maintenance

1 Purpose

The purpose of this section is to establish procedures for recording and accounting for costs of improvements, betterments, and maintenance expenditures as additions and alterations to existing capitalized assets.

2 Scope

Expenditures attributable to individual assets after the asset has been placed in service will be capitalized if the individual expenditure meets the City's criteria for the capitalization of a fixed asset (including the minimum dollar limit) and the related original asset has a remaining economic life of at least 1 year after the additional expenditure.

The expenditure should extend the useful life of an existing fixed asset by more than 1 year, significantly increase a capitalized asset's normal rate of output, significantly decrease a capitalized asset's operating cost, extend or expand an existing asset by significantly increasing its physical size, or significantly increase the efficiency of an existing fixed asset.

3 Guidelines

3.1 Improvements

Improvements include additions of new components to previously capitalized assets that either increase the assets' value, extend the useful life, increase the normal rate of output, lower the operating cost, or increase the efficiency of the existing assets. Replacements of components of existing capitalized assets with improved or superior units, such that the value or useful life of the assets is increased, are also classified as improvements.

Example

Construction of a new wing on a building

3.2 Betterments

Betterments enhance an existing capitalized individual or group asset to a condition beyond that achieved through normal maintenance repairs. A betterment increases the useful life of the asset by at least 1 year without the introduction of a new unit.

Example

Tuck-pointing of a building

Only alterations that significantly rebuild an asset will be capitalized as betterments. Alterations that change the physical structure of assets (e.g., cutting new entry and exit



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openings or closing old ones; erecting new walls, windows, and partitions or removing old ones), but neither materially add value to the asset nor prolong its expected life, will be considered maintenance and expensed.

3.3 Accounting Treatment of Improvements and Betterments

An improvement or betterment that individually meets the capitalization threshold may be either added to the value of the existing capitalized asset or capitalized as a stand-alone fixed asset separate from the previously existing asset. If the value of the improvement or betterment is added to the value of the existing asset and the useful life has been increased, depreciation charges for future periods should be revised on the basis of the new book value and the new estimated remaining useful life.

Improvements or betterments of noncapitalized assets that do not involve replacements will be capitalized as part of the original asset only if the total cost of the original asset, including the improvement, is **equal to or greater than \$5,000**. Otherwise, the improvement will be expensed as maintenance and repairs.

Improvements or betterments that involve replacement of an existing component will be capitalized only when the value or useful life of the asset is increased. In such cases, the value of the replaced component should be deleted to prevent an overstatement of the asset's value.

3.4 Maintenance and Repair

Maintenance and repairs are not intended to alter or change the asset or to increase the useful life of the asset, but rather to sustain the asset in its present condition.

Maintenance and repair costs incurred to keep a fixed asset in normal operating condition will be expensed. Maintenance costs are not capitalized and are not recorded as part of the associated asset in the fixed asset record.

Departments are responsible for tracking assets sent for repair to vendors and for maintaining appropriate documentation.

Note: *Improvements and betterments that do not either individually meet the capitalization threshold or add to the asset significantly will be treated as maintenance and expensed.*



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4 Background for Understanding

The distinction between improvement and betterment is sometimes subject to interpretation; however, the accounting treatment is substantially the same. The critical decision or distinction to be made is whether an expenditure that is related to an existing fixed asset or controlled item qualifies as a cost to be capitalized (improvement or betterment) or as a charge to maintenance expense.

Note: The accounting that will occur over the life of an item depends on how the asset was classified as a multiple unit asset. See Section 3 (Multiple Unit Assets).

As an asset ages and is used, maintenance and replacement to its systems will usually be required. Proper accounting practice calls for retirement and recapitalization if the replacement substantially increases the value of the asset or extends its life; otherwise, the replacement will be expensed. This must be done consistently. How the multiple unit asset is defined will dictate whether the replacement of a subunit or component is handled as a retirement of the subunit and recapitalized (improvement or betterment) or simply charged to maintenance expense.

4.1 Improvements

An improvement introduces a new component that may, in some cases, replace a previously existing component with a superior unit. A project or activity will qualify as an improvement if it involves any of the following:

- The addition of a new component to a previously capitalized asset that either increases the asset's value, extends its useful life, increases its normal rate of output, lowers its operating cost, or increases its efficiency
- The addition of new and separate units or extensions or expansions to noncapitalized assets that increase the asset's value or estimated useful life, such that the original asset, including the addition, now meets the capitalization threshold
- The replacement of a component of an existing capitalized asset with an improved or superior unit, such that the value or useful life of the asset is increased

Examples

- Installation of an air conditioning system where there previously was none
- Installation of a crane on a truck that did not previously have one



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- Removal of a major part or component of equipment and the substitution of a new part or component that increases either the value or the useful life of the asset
- Addition of a new wing to a building

4.2 Betterment

A betterment materially renovates or enhances a previously capitalized asset without the introduction of a completely new unit. Alterations that change the physical structure of assets (e.g., cutting new entry and exit openings or closing old ones; erecting new walls, windows, and partitions or removing old ones) but neither materially add value to the asset nor prolong its expected life will be charged to maintenance expense.

Examples

- Enhancement of an old shingle roof through the addition of modern, fireproof tiles
- “Major catch-up” repair to or rehabilitation of an existing neglected asset that extends the useful life or increases the value of the asset

4.3 Maintenance and Repair

Maintenance and repairs may be distinguished from improvements and betterments in that maintenance and repairs are not intended to alter or change the asset or to increase the useful life of the asset, but rather to sustain the asset in its present condition.

A project or activity will qualify as maintenance if it

- recurs on an ongoing basis (scheduled maintenance) and keeps the asset in a useable condition;
- simply restores a fixed asset to its former condition, addressing normal wear and tear associated with the use of an asset;
- does not add substantially to the value of the asset;
- facilitates asset utilization for its original estimated useful life; and
- does not significantly extend the useful life of the existing asset.

Examples

- Engine overhaul in a vehicle
- Compressor replacement in an air conditioning unit that is not componentized
- Resurfacing roof gravel or reflashing a roof



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- Painting and similar activities
- Remodeling and rearrangement costs

5 Determining Whether to Capitalize or to Charge an Expense to Maintenance

5.1 Monitoring and Evaluating Expenditures

All purchase orders and goods received related to the repair, maintenance, or enhancement (replacement or partial replacement) of existing fixed assets and controlled items will be monitored and evaluated by each department's operating personnel, purchasing personnel, and/or Department Fixed Asset Coordinator (DFAC) to identify whether the service will be treated as a maintenance or repair expense or a cost to be capitalized in accordance with the criteria set forth in this procedure.

All purchase orders and contracts issued under Capital Improvement Program (CIP) projects, with the exception of those of the Department of Aviation, will be monitored and reviewed by the Public Works & Engineering (PW&E) Resource Management Division to identify whether the service will be treated as a maintenance or repair expense or a cost to be capitalized, in accordance with the criteria in this procedure.

5.2 Expenditures Requiring Capitalization

Expenditures attributable to individual assets involving replacement, partial replacement, or renovation or repair after the asset has been placed in service will be capitalized as either an improvement or a betterment if **all** of the following conditions exist:

- The individual expenditure meets the City's criteria for the capitalization of a fixed asset (including the minimum dollar limit).
- The related original asset has a remaining economic life of at least 1 year after the additional expenditure.
- The expenditure either extends the useful life of an existing fixed asset by more than 1 year, significantly increases a capitalized asset's normal rate of output, significantly lowers a capitalized asset's operating cost, extends or expands an existing asset by significantly increasing its physical size or capacity, or significantly increases the efficiency of an existing fixed asset.



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5.3 Expenditures Charged to Maintenance Expense

Expenditures attributable to individual assets involving replacement, partial replacement, or renovation or repair after the asset has been placed in service will not be capitalized and will instead be charged to maintenance expense under **any** of the following conditions:

- The service is provided in the normal course of maintenance (e.g., scheduled maintenance) of the asset.
- The service is not intended to alter or change the asset or to increase the useful life of the asset, but rather to sustain the asset in its present condition.
- The replacement or partial replacement does not individually meet the capitalization threshold.
- The service is provided for a component or subunit of an asset system that was defined as such with the intent to expense replacements or partial replacements of components or subunits over the life of the asset system.

6 Procedure for Recording Improvements and Betterments in the Fixed Asset Management System (FAMS)

The DFAC will establish improvements and betterments in the FAMS as outlined in the following steps. Improvements and betterments will be treated as separate assets with their own fixed asset identification (FAI)/tag numbers and as new costs to be depreciated independently of the base unit or asset system with which they are associated.

1. A parent/child relationship will be established between the improvement or betterment and the base unit with which it is associated. The parent asset will be the base unit to which the improvement or betterment is being made and the child asset will be the improvement or betterment itself.
2. The improvement or betterment will be assigned an asset classification and useful life that is representative of the improvement or betterment by itself, and not of the base unit or asset system of which it is a part.
3. For expenditures that will be capitalized, an FAI/tag number will be assigned to the improvement or betterment and a Capitalization Form–Data Entry Form Fixed Asset Acquisitions (FA-1) will be initiated in accordance with Section 5 (Numbering and Tagging Fixed Assets).
4. The FA-1, including the assigned FAI/tag number, will be forwarded to and completed by the DFAC to establish the improvement or betterment as a new and separate asset that will be related to its base asset in a parent/child relationship. The general approach will be as



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outlined in Section 7 (Asset Acquisitions) and in accordance with the following requirements:

- The improvement or betterment will be designated a child asset.
 - The FAI/tag number of the base unit to which the improvement or betterment is being made will be entered as the parent asset number.
 - The acquisition date will be the date of receipt or the date of the motion by City Council accepting final work (for constructed assets), as appropriate.
 - The unit or total cost will be the total cost of the improvement or betterment. If the improvement or betterment is a constructed asset, the cost will be determined in accordance with Section 9 (Constructed Assets).
 - The extended description of the asset will be completed indicating that the asset is an improvement or betterment to an existing asset and describing the nature and specifications of the improvement or betterment.
5. The DFAC will determine, in accordance with subsection 7 in this section, whether the improvement or betterment requires that the book value of the replaced component be retired or disposed of to prevent an overstatement of the asset's value. If a partial or full retirement is required in conjunction with the recapitalization, the DFAC will initiate additional forms as necessary.
6. The DFAC will sign the completed FA-1 and forward the document to the data entry section to set up the asset record in the FAMS following the general approach outlined in Section 7 (Asset Acquisitions).
7. The item will be entered in the FAMS as follows:
- The improvement or betterment will be entered as a new asset. The asset will be designated a child asset, and the asset number of the base unit to which the improvement or betterment is being added will be recorded as the parent number asset on the Add screen.
 - If a retirement is required and the asset being replaced is a component asset, a disposal transaction will be completed in the FAMS.
 - If a partial retirement is required involving an asset system, a financial adjustment transaction will be completed in the FAMS.



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7 Retirements Related to Replacements and Renovations

7.1 Replacement

The improvement may involve a replacement of a component asset or subunit of an asset system. See Section 3 (Multiple Unit Assets). In such cases, the book value of the replaced component will normally be retired or disposed of as follows to prevent an overstatement of the asset's value:

- If the subunit or component of the asset being replaced is defined as a component asset in the FAMS, the component asset being replaced will always be retired or disposed of as detailed in Section 13 (Retirement and Disposal).
- If the subunit or component of the asset being replaced is defined as an asset system in the FAMS, a determination will be made of the book value of the portion of the asset system being replaced. If the estimated book value of the subunit or component of the asset being replaced is monetarily significant, or the life of the conglomeration is extended, a partial retirement in the form of a financial adjustment will be made in the FAMS to retire the replaced component. If the estimated book value of the subunit or component of the asset being replaced is insignificant, or the life of the conglomeration is not extended, no adjustment for partial retirement will be made.
- If the improvement involves a replacement that does not increase the value of the existing asset, the DFAC will expense the cost of the improvement, so that neither the asset record nor the balance sheet asset account will be affected. An FA-1 will not be completed in this case.

7.2 Renovation

If the betterment involves a renovation of a component asset or subunit or portion of an asset system, and the cost or value of the betterment is 75% or more of the current replacement cost of the component asset or asset system being renovated, the original component asset will be retired in accordance with Section 13 (Retirement and Disposal).