Subject:	**Financial Fixed Assets Inventory**	**Number:** **1-3**	
		Date Issued:	**July 15, 1999**
		Date Revised:	**October 26, 2010**
Responsible Department:	**Finance**	**Approved:**	

Purpose

To establish a uniform policy for the accounting control and accountability of the City's financial fixed assets. The Finance Department is the central accounting and reporting locale for all audited fixed assets. Assets under this classification must follow specific accounting rules and are subject to annual audit requirements. The accounting and reporting policies utilized by the City for its fixed assets conform to GAAP, GASB and GASB Statement No. 34.

Capital or fixed assets are real or personal property that have a value equal to or greater than the capitalization threshold for the particular classification of the asset and have an estimated useful life of greater than two years. [Land, land improvements, buildings, building improvements, machinery and equipment, vehicles, infrastructure, leasehold improvements and construction-in-progress (excluding projects donated by outside developers).]

Infrastructure assets are long-lived capital assets that normally can be preserved for a significantly greater number of years than most capital assets and that are normally stationary in nature. [Roads, bridges, tunnels, drainage systems, water systems and dams.] Infrastructure assets do not include buildings, drives, parking lots or any other items incidental to property or access to the property.

Definitions of Terms

Capitalize: to treat as an investment in long-term capital assets rather than as an ordinary operating expense to be charged against revenue in the period in which it is incurred (immediately).

Depreciation: the reduction in value of a capital asset due to use, obsolescence, age, etc. The spreading of an assets cost over the estimated usable life of the asset.

Expense: a use of money/an expenditure of money; a cost

Depreciation Schedule: is a report available in PeopleSoft (Asset Detail Report) which will provide the cost, current year depreciation, life-to-date depreciation, and net book value of every capital asset recorded in the PeopleSoft Asset Management database.

Estimated Useful Life/Depreciable Life: the time period over which the original cost or value of an asset is spread to recorded as an expense. The life is determined by Internal Revenue Service guidelines unless evidence to the contrary is available which suggests a time period that is different.

Policy

1. Fixed assets must be capitalized if they have a useful life of two or more years. In determining useful life, the City should consider the asset's present condition, use of the asset, construction type, and maintenance policy and adherence to policy as well as how long it is expected to meet service demands.

2. Not every asset with a useful life greater than two years needs to be capitalized. To do so is an unnecessary burden and will not materially affect financial results. The table below lists what will be used in determining the dollar thresholds to use for tracking the City's financial fixed assets.

Capitalization and Depreciation Thresholds	
Land	$1 or more (capitalized but not depreciated)
Land Improvements	$10,000 and more
Building	$10,000 and more
Building Improvements*	$10,000 and more
Machinery and Equipment	$10,000 and more
Infrastructure – based on total project cost	$50,000 and more
Construction in Progress	Costs accumulated and capitalized upon completion
*excludes painting, carpeting, draperies, window shades or blinds	

3. Capitalization thresholds should be applied to individual assets, not to a group of assets <u>except</u> in specific situations. **(Contact the Finance Department for guidance.)**

4. Tracking and control methods over non-capitalized fixed assets should be maintained:

   a. Assets that are, by nature, susceptible to theft or personal use (i.e., cameras, telecommunications equipment, such as cell phones and PDA's, laptops, tablet PC's, etc.), which have a cost of less than $10,000, but more than $300, should be tracked, and at the discretion of the departments, may be tracked in the PeopleSoft Asset Management system using the classification of "sensitive".

   b. Security of these and all fixed assets is to be maintained at the department level and is the responsibility of the Department Budget Officer or his/her designee, such as the property management custodian/property monitor.

Procedure

1. Each City department and division is responsible for the physical security, the use, maintenance, accounting and disposal of the fixed assets assigned to their units.

2. The Finance Department Accounting/Fixed Asset Management Division is responsible for establishing and maintaining a City-wide "**<u>Financial</u>** Fixed Asset Control File."

3. The Accounting Division will designate a City-wide Property Monitor who is responsible for maintaining the Citywide Financial Fixed Asset Control File, and who is responsible for providing at a minimum, annual asset lists to Departmental Property Monitors.

4. Each department will designate its own Department Property Monitor. This individual must be independent of record keeping and custody of the department's fixed assets. He/she is also responsible for coordinating department physical inventories, and for notifying the City-wide Property Monitor of any changes to the Fixed Asset Control Files.

5. Financial fixed assets will be physically observed and counted, on an annual rotational basis, such that at end of every fourth year, all assets, City-wide have been accounted for. The Finance Department will assist departments in making random selections of assets to be observed at the end of each fiscal year and will provide instructions and appropriate forms to be completed for assets observed. More frequent audits of non-capitalized "sensitive" assets are left to the discretion of each department.

6. All departmental inventory records are subject to audit by the City's internal auditors, external auditors, or at the discretion of the City-wide Property Monitor.

7. **Transfers.** A form F/A 91 must be completed and signed by the department director relinquishing the asset for all asset transfers. If the asset being transferred has a historical cost of $50,000 or more, the F/A 91 form must be signed by the City Manager. Asset transfers that cross funds or orgs must be communicated to the City-wide Property Monitor through submission of the form F/A 91.

8. **Disposals.** For all fixed asset disposals, a form F/A 91 must be completed. If an asset being disposed of has a historical cost of $50,000 or more, the form must be signed by the City Manager. All other fixed asset disposals require the signature by the department director. The form F/A 91 can be used for a single asset disposal or a group of assets, provided a list is attached. The City-wide Property Monitor is to be provided a copy of every form F/A 91 completed by the departments. Any proceeds resulting from the disposed asset(s) must also be disclosed (with supporting documents attached).

Recording of Land, Rights of Way, Easements and Intangibles:

Land: Land is capitalized but not depreciated. It is recorded at historical cost and remains at that cost until disposed of. If there is a gain or loss on the sale of the land, it must be reported on the form F/A 91. All land will be capitalized unless the City plans to immediately sell it instead of putting it to use.

The following items should be included as part of the cost of the land: purchase price or fair market value at the time of the gift or donation, commissions, professional fees (title searches, legal costs, appraisals, etc.) grading removal, relocation, or reconstruction of properties of others (telephone and power lines); interest, accrued and unpaid taxes at the date of purchase; other costs incurred in acquiring the land.

Rights of Way (ROW) and Easements: ROW cost will be recorded at the time of the project. If the Row costs are known at the time of the project they should be based upon actual costs. If actual cost is not available, a cost per square foot should be determined using an assessor's valuation. An **easement** is the right to use the real property of another without possessing it.

Intangibles: Governments possess many different types of assets that may be considered intangible assets, including ROW, easements, water rights, timber rights, patents, trademarks, and computer software. The useful life of an intangible asset arising from contractual or legal rights should be limited by the contractual or legal provisions. Some intangible assets will have indefinite useful lives as no contractual, legal or other factors limit the useful life of the asset. Intangible assets with indefinite useful lives should not be amortized. (See also Intangibles below.)

Land Improvements: Land improvements consist of betterments, other than buildings, that ready land for its intended use. A few examples are retaining walls, parking lots, sidewalks, outdoor lighting, fencing/gates and landscaping. They can be categorized as non-exhaustible or exhaustible.

Non-exhaustible – expenditures for improvements that do not require maintenance or replacement, expenditures that bring land into condition to commence erection of structures, improvements that do not deteriorate with usage or passage of time.

Exhaustible – other improvements that are part of a site, such as parking lots, landscaping and fencing, gates, outside sprinkler systems, fountains, retaining walls, sidewalks, etc.

Buildings: Buildings should be recorded at either their acquisition cost or construction cost. The various components such as land, land improvements, building construction, furniture, fixtures and equipment should be broken out separately. Building components such as design/engineering costs, heating and air conditioning, windows etc., should be included in the initial cost of the building.

Building Improvements: Building Improvements that extend the useful life of the building by more than 25% should be capitalized. Building improvements would include major roofing projects that tear the original roof down to the rafters, major energy conservation projects or remodeling and replacing major building components. Normal maintenance and repair projects like re-shingling or re-tarring a roof would be expensed.

Equipment and Vehicles: Assets such as furniture, shop equipment, lawn equipment, computers, machinery and other equipment that meet the threshold levels should be identified and capitalized. Some assets, individually, may fall below the capitalization threshold but may be purchased in large quantities. When these items have a useful life of more than two years and meet the cost threshold as a group they should be capitalized and depreciated.

Computer equipment – computers will be excluded if they individually cost less than the threshold limit. If the dollar amount exceeds the limit, those assets will be capitalized and depreciated.

Vehicles – vehicles should be identified, capitalized and depreciated if they exceed the threshold limit. When setting up the initial costs of the vehicle, the cost of sirens, light bars, etc. on police cars will be included as part of the cost of getting the car into service. In the case of moving existing sirens, etc., that cost will be included as part of the initial cost associated with the new purchases.

Leased Equipment – equipment should be capitalized if the lease agreement is non-cancelable and meets 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% 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% of the fair value of the leased property.

Infrastructure Assets: Most infrastructure construction is associated with a project, with certain funds set aside based on the project. Infrastructure items will be evaluated based on the total cost of the project. Any project with a total cost that meets the threshold should be capitalized. The date of completion and placement into service determines when infrastructure is capitalized. If a project includes various components of infrastructure, each major component should be capitalized separately. In addition to actual construction costs, engineering fees and other incidental expenses should be added to the project cost. If certain shared costs cannot be determined for each segment, then the costs should be prorated to each segment based on the segment's percent of the overall project costs (excluding costs that will be allocated).

If ownership of the infrastructure associated with land, such as roads, sewers, etc. is unclear; the government with primary responsibility for managing the asset should report the asset.

Streets, roads and other components – The City will capitalize and include frontage roads and alleys as part of the street and road network if they exceed the dollar threshold. This category also includes the associated curbs and gutters. It excludes however, sidewalks constructed on private property.

Bridges – The initial cost of a bridge will include the sidewalks and guardrails associated with the bridges.

Sidewalks – Sidewalks owned and maintained by the City will be classified as a land improvement subject to the category threshold limits of the class.

Street signs – Street signs are installed once a street project is completed. The cost of the sign is not part of the construction cost. Given the nominal amount of the cost of the signs, when compared to project costs and the nominal cost for sign replacement, the City will not capitalize street signs.

Street lighting – Streetlights included in any project that meets the capitalization threshold will be capitalize as a part of that project.

Traffic lights – Traffic lights will be evaluated by intersection and all intersections that meet the infrastructure threshold will be capitalized.

Bike Paths – Assets associated with a bike path project will be capitalized as one project asset. These assets will include benches, receptacles, engineering costs, etc. Costs associated with the replacement of benches, receptacles, etc. will be expensed in the year replaced.

Construction in Progress: Construction in Progress costs are accumulated by the City and not reported as assets or depreciated until such time as the projects are completed and placed in service. These costs relate primarily to long-lived assets that are construction over several years.

Capital Asset Donations: Donated capital assets are to be capitalized at fair market or appraised value of the asset at the date that it was donated.

Real Estate – All gifts of real estate much have council approval prior to title transferring. Contributed capital assets are valued at their appraised or estimated fair market value on the date donated.

Developers – Private developers install infrastructure that is then given to the City. The acquisition date will be the date that council accepts the development. The developer is to provide the cost of construction associated with the infrastructure being donated. Each infrastructure component should be capitalized separately. These components include such items as:

- Storm sewer
- Lift stations
- Sanitary sewer
- Water mains
- Streets, curbs and gutters
- Traffic Signals
- Bike paths
- Street lights
- Land and right of ways

Public Works/Engineering will be responsible for obtaining this information from the developer.

Asset Cost or Acquisition Value: Fixed assets should be reported at historical cost and should include the cost of freight, site preparation, architect and engineering fees, etc. If something other than cash is used to pay for the asset, then the fair-market value of non-cash payment or consideration determines the asset's cost of acquisition value. When the value of the consideration paid cannot be determined, the asset's fair-market value determines the cost.

With few exceptions, an asset's cost should also include necessary costs incurred to place the asset in service. Costs include the invoice price plus incidental costs (insurance during transit, freight, title search, installation costs, etc.).

Repairs and Maintenance: The list below will help to determine if maintenance and repair costs should be capitalized or expensed. With respect to asset improvements, costs over $10,000 ($50,000 for infrastructure) should be capitalized if:

1. The estimated life of the asset is extended by more than 25%, or
2. The cost results in an increase in the capacity of the asset, or
3. The efficiency of the asset is increased by more than 10%, or
4. Significantly changes the character of the asset, or

5. In the case of streets and roads – if the work done impacts the “base” structure.

All other costs should be expensed as repairs and maintenance.

<u>Intangibles</u>: An intangible can be recognized as an asset only if it is identifiable, meaning that 1) it can be sold, transferred, licensed, rented, or exchanged, or 2) it arises from contractual or other legal rights.

Internally generated intangible assets include items created or produced by the government itself, or by a contracting party acting on its behalf. The term also encompasses costs associated with assets acquired from a third party that "require more than minimal incremental effort on the part of the government to begin to achieve their expected level of service capacity" (e.g., "off-the-shelf" software).

Capitalization of internally generated intangible assets, such as software, patents, copyrights and trademarks can only occur after all of the following conditions have been met:

* The specific objective of the project has been determined;
* The nature of the service capacity to be provided has been determined;
* The technical or technological feasibility of successfully completing the project has been demonstrated; and
* The government has demonstrated that it 1) intends, 2) is able, and 3) is making an effort to develop/complete the project.

No outlays incurred prior to meeting all of these criteria may be capitalized.

There are three stages of software development. The preliminary project stage includes conceptual formulation, evaluation of alternatives, determination of existence of needed technology, and final selection of alternatives for development. All outlays incurred during this stage need to be expensed as incurred. This stage must also be completed before outlays of another stage may be capitalized.

The application development stage includes: design of the chosen path (including software configuration and interfaces), coding, installation to hardware, testing (including the parallel processing phase), and data conversion needed to make the software operational (but only to the extent strictly necessary for that purpose). All outlays incurred during this stage should be capitalized, provided that management authorizes and commits to funding (either implicitly or explicitly), at least through the current period.

The post-implementation/operation stage includes: application training, data conversion (beyond what is strictly necessary to make the software operational), and software maintenance. All outlays incurred during this stage should be expensed rather than capitalized.