FIXED ASSETS:
POLICIES & PROCEDURES MANUAL

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Renee Eberly, Purchasing Officer

ADMINISTRATIVE POLICY NO. 17

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I. Objective

The purpose of this manual is: (1) to provide control and accountability over fixed assets, and (2) to gather and maintain information needed for the City's annual audit in conformity with Generally Accepted Accounting Principles and with Governmental Accounting Standards Board Statement 34.

II. Policy

Governmental Accounting Standards Board (GASB) Statement 34 requires that all fixed assets be reported in the government-wide balance sheet net of accumulated depreciation if applicable.

Each department is responsible for assisting in providing accurate, complete, and timely capital asset information to the Purchasing Officer annually. The Purchasing Officer is responsible for entering the fixed asset information in the City's financial software (Incode, Tyler Technologies), and tracking Capital Improvement Projects for review during the City's annual audit.

III. Fixed Asset Definitions and Guidelines

Fixed Assets, also known as "Capital Assets," are tangible and intangible assets acquired for use in operations that will benefit more than a single fiscal period. Typical examples are land, improvements to land, easements, water rights, buildings, building improvements, vehicles, machinery, equipment, infrastructure, and various intangible assets. (Land associated with infrastructure should be reported as land rather than as part of the cost of the related infrastructure asset.)

A fixed asset is an asset that has a value equal or greater than the capitalization threshold established for that asset type. Fixed assets are reported for financial reporting purposes.

IV. Fixed Asset Type

The City has invested in a wide variety of fixed assets used in City operations. These assets are broadly classified as follows:

- Buildings and Improvements
- Emergency Vehicles & Equipment
- Fire Vehicles & Equipment
- Infrastructure
- Land
- Office Equipment
- Other Vehicles & Equipment
- Parks & Recreational Facilities
- Police Vehicles & Equipment

V. Fixed Asset Acquisition Cost

Fixed Assets are recorded and reported at their historical costs. Historical cost includes the vendor's invoice (less the value of any trade-in), initial installation cost (excluding in-house labor), modifications, attachments, accessories or apparatus necessary to make the asset usable and render it into service. Historical costs also include ancillary charges, such as freight and transportation charges, site preparation costs, and professional fees.

The costs of fixed assets for governmental activities do not include capitalized interest. Interest, however, is capitalized on assets that are constructed for an agency's enterprise fund or otherwise produced for an enterprise fund's own use (including assets constructed or produced for the enterprise by others for which deposits or progress payments have been made), and assets intended for sale or lease that are constructed or otherwise produced as discrete projects (for example, ships or real estate developments).

Please note: The book value of assets recorded at historical costs should never be increased to reflect appraised value, insurance value, replacement cost, etc.

Thresholds for capitalizing assets for each major class of assets are as follows:

Asset Type	Threshold
Land	$5,000
Infrastructure	$500,000
Buildings & Improvements	$100,000
Parks & Recreational Facilities	$50,000
Police Vehicles & Equipment	$15,000
Fire Vehicles & Equipment	$15,000
Emergency Vehicles & Equipment	$15,000
Other Vehicles & Equipment	$10,000
Office Equipment	$5,000

VI. Fixed Asset Donations

GASB Statement No. 33, *Accounting and Financial Reporting for Non-Exchange Transactions*, defines a donation as a voluntary non-exchange transaction entered into willingly by two or more parties. Both parties may be governments, such as the Federal Government, another state, a county or municipality, or one party may be a nongovernmental entity, including an individual.

When an asset has been received and the eligibility requirements to receive the asset ***have*** been met, capital assets are debited and revenue is credited in the fund financial statements of an enterprise fund and the government wide financial statements for a governmental fund.

When an asset has been received but the eligibility requirements to receive the asset ***have not*** been met, capital assets are debited and deferred revenue is credited in the fund financial statements of an enterprise fund and the government wide financial statements for a governmental fund.

VII. Appraisal of Assets (Gifts and Donations)

Donated property must be recorded at its estimated fair market value on the date of acquisition, using a reasonable market study.

The method used to appraise the value computed for gifts and donations should be based on a reasonable assessment. This method must be fully documented and maintained on file to support the value.

VIII. Capital Asset Categories

A. Land

Land is defined as the surface or crust of the earth, which may be used to support structures or grow crops, grass, shrubs, and trees. Land is characterized as having an inexhaustible life. All expenditures made to acquire land and to ready it for its intended use should be considered as part of the land cost.

Examples of expenditures to be capitalized as land:

- Purchase price or, if donated, fair market value at time of donation
- Commissions
- Professional fees (title searches, architect, legal, engineering, appraisal, surveying, environmental assessments, etc.)
- Permanent landscaping such as land clearing, excavation, fill, grading, drainage (includes movement of earth in preparation for water impoundment)
- Demolition of existing buildings and improvements (less salvage)
- Removal, relocation, or reconstruction of property of others on the land so that the land may be used differently (railroad, telephone, and power lines)
- Interest on mortgages accrued at date of purchase
- Accrued and unpaid taxes at date of purchase
- Other costs incurred in acquiring the land
- Water wells (includes initial cost for drilling, the pump and its casing)
- Right-of-way

B. Buildings and Improvements

A Building is defined as a structure that is permanently attached to the land, has a roof, is partially or completely enclosed by walls, and is not intended to be mobile.

Building Improvements are defined as capital events that increase the value of a building, materially extend the useful life of a building, or both. A building improvement should be capitalized as a sub-asset of the building and recorded as an addition of value to the existing building if the expenditure for the improvement is at the capitalization threshold and the expenditure increases the life or value of the building by 25% of the original life period or cost.

Land Improvements are defined as attachments to the land that have limited lives and therefore are recorded separately and are depreciable.

Examples of expenditures to be capitalized as buildings:

Purchased Buildings

- Original purchase price
- Expenses for remodeling, reconditioning or altering a purchased building to make it ready to use for the purpose for which it was acquired
- Environmental compliance (i.e., asbestos abatement)
- Professional fees (sales commission, legal, architect, inspection, appraisal, title search, etc.)
- Payment of unpaid or accrued taxes on the building at the date of purchase
- Cancellation or buyout of existing leases on the building
- Other costs required to place or render the asset into operation

Constructed Buildings

- Completed project costs
- Interest accrued during construction for enterprise type activities
- Cost of excavation or grading or filling of land for a specific building
- Expenses incurred for the preparation of plans, specifications, blueprints, etc.
- Cost of buildings permits
- Professional fees (architect, engineer, management fees for design and supervision, legal)

Note: Architect fees are expensed if a decision is made to ***not*** proceed with the construction of the building.

- Costs of temporary buildings used during and for the construction
- Unanticipated costs such as rock blasting, piling, or relocation of the channel of an underground stream

Examples of expenditures to be capitalized as building improvements:

Note: For a replacement to be capitalized, it must be a part of a major repair or rehabilitation project that increases the value and/or useful life of the building (such as renovation of a student center) and meets the capitalization threshold. A replacement may also be capitalized if the new item or part is of significantly improved quality and higher value compared to the old item or part (such as replacement of an old shingle roof with a new fireproof tile roof). Replacement or restoration of an item to its original utility level is not capitalized. Determinations must be made on a case-by-case basis.

- Conversion of attics, basements, etc., to usable office, clinic, research, or classroom space

- Structures attached to the building such as covered patios, sunrooms, garages, carports, enclosed stairwells, etc.
- Original installation/upgrade of heating and cooling systems, including ceiling fans and attic vents
- Original installation/upgrade of wall or floor covering such as carpeting, tiles, paneling, or parquet
- Structural changes such as reinforcement of floors or walls, installation or replacement of beams, rafters, joists, steel grids, or other interior framing
- Installation or upgrade of windows or door frames, upgrading of windows or doors, built-in closets and cabinets
- Interior renovation associated with casings, baseboards, light fixtures, ceiling trim, etc.
- Exterior renovation, such as installation or replacement of siding, roofing, masonry, etc.
- Installation or upgrade of plumbing and electrical wiring
- Installation or upgrade of phone or closed circuit television systems, networks, fiber optic cable, wiring required in the installation of equipment (that will remain in the building)
- Permanently attached fixtures or machinery that cannot be removed without impairing the use of the building
- Additions to buildings (expansions, extensions, or enlargements)
- Other costs associated with the above improvements

Examples of expenditures to be capitalized as land improvements:

- Fencing and gates
- Landscaping of non-temporary nature
- Parking lots/driveways/parking barriers/roadway
- Outside sprinkler systems
- Recreation areas & athletic fields (including bleachers)
- Golf course
- Paths and trails
- Septic systems
- Swimming pools, tennis courts
- Fountains
- Plazas, pavilions
- Retaining walls
- Lighting systems
- Water impoundment structures or attachments (damn, liner, other water control structures)

1. Building Maintenance Expense

Maintenance costs allow an asset to continue to be used during its originally established useful life. Maintenance costs are expensed in the period incurred.

The following are examples of expenditures **not** to be capitalized as building improvements. Instead, these items should be recorded as repair and maintenance expense:

- Adding, removing, and/or moving of walls relating to renovation projects that are not considered major rehabilitation projects and do not increase the value of the building
- Improvement projects of minimal or no added life expectancy and/or value to the building
- Plumbing or electrical repairs
- Cleaning, pest extermination, or other periodic maintenance
- Interior decoration, such as draperies, blinds, curtain rods, wallpaper
- Exterior decoration, such as detachable awnings, uncovered porches, decorative fences, etc.
- Maintenance-type interior renovation, such as repainting, touch-up plastering, replacement of carpet, tile, or panel sections, sink and fixture refinishing, etc.
- Maintenance-type exterior renovation such as repainting, replacement of deteriorated siding, roof, or masonry sections
- Replacement of a part or component of a building with a new part of the same type and performance capabilities, such as replacement of an old boiler with a new one of the same type and performance capabilities
- Any other maintenance-related expenditure which does not increase the value of the building

2. Determining Whether to Capitalize or Expense an Item

In determining whether expenditures are related to a maintenance item or whether it is related to a capital item, the following guidance is offered:

Care is sometimes needed to distinguish actions that lengthen the useful life of an asset from those that merely avoid shortening it.

Assume, for example, that a new building is expected to have a useful life of 80 years, but will need to have its roof replaced in just half that time. Further assume that the cost of the roof is included in the cost of the building (i.e., rather than treated as a separate capital asset in its own right).

It might be tempting to argue that since the building's useful life would be just 40 years if the roof were not replaced, the replacement extends the building's useful life and so qualifies as an improvement. In substance, however, the replacement of the roof does not lengthen the building's originally estimated useful life of 80 years, but simply avoids cutting it in half. That is, the roof replacement ***maintains*** rather than ***extends*** the originally estimated useful life of the building, and therefore should be treated as a repair (i.e., maintenance) rather than as a replacement. (From *"Accounting for Capital Assets: A guide for state and local governments"*)

- Generally, expenditures that ***increase the economic value*** of the asset ***increase the useful life beyond the original useful life***, or ***increase the productive capability of capacity*** (uses, scope of users, etc.) should be capitalized.
- Expenditures made to ***restore or maintain*** an asset at its original condition are expensed and not capitalized.

C. Impairment of Fixed Assets

A Fixed Asset is considered to be impaired when its service utility has permanently declined significantly and unexpectedly. Events or changes in circumstances that may be indicative of impairment include evidence of physical damage, changes in legal or environmental factors, technological changes or evidence of obsolescence, changes in the manner or duration of use of a capital asset, and construction stoppage.

Generally, an asset would be considered impaired if both:

- the decline in service utility of the asset was large in magnitude, and
- the event or change in circumstances was outside the normal life cycle of the asset.

In the event a reportable capital asset is impaired, there are two options for reporting the impairment:

- If the asset will no longer be used, the asset should be written down to the lower of carrying value or fair market value.
- If the asset will continue to be used, the asset should be written down by the estimated impairment loss, as defined in GASB Statement No. 42, "*Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*."

D. Leasehold Improvements

Leasehold Improvements are defined as improvements made to leased property that will revert to the lessor at the expiration of the lease. Leasehold improvements include construction of new buildings or improvements made to existing structures by the lessee, who has the right to use these leasehold improvements over the term of the lease. Moveable equipment or office furniture that is not attached to the leased property is not considered a leasehold improvement. For leasehold improvements, the useful life is the estimated service life of the leasehold improvements, or the remaining term of the lease, whichever is shorter.

E. Easements

An Easement is defined as an interest in land owned by another that entitles its holder to a specific limited use or enjoyment (right to use the land). Easements are characterized as having an inexhaustible life.

F. Equipment

Equipment is defined as fixed or movable tangible assets to be used for operations. Improvements or additions to existing equipment that constitute a capital outlay or increase the value or life of the asset by 25% of the original cost or life should be capitalized and recorded as a sub-asset of the existing asset.

Examples of expenditures to be capitalized as equipment include:

- Original contract or invoice price
- Freight charges
- Import duties
- Handling and storage charges
- In-transit insurance charges
- Sales, use, and other taxes imposed on the acquisition
- Installation charges
- Charges for testing and preparation for use
- Costs of reconditioning used items when purchased
- Parts and labor associated with the construction of equipment

Note: If incidental items, such as extended warranties or maintenance agreements, are included with the capital asset upon receipt and are not listed as a line item on the purchase order or on the invoice, then the incidental charges are considered a part of the capital asset.

G. Equipment vs. Vehicle

A Vehicle is a fixed asset that can move itself under its own power. Cars and trucks should be classified as vehicles. Travel trailers, horse trailers, etc. should be classified as equipment. Careful consideration should be given as to whether an asset is a vehicle or equipment.

H. Infrastructure

Infrastructure is defined as a long-lived fixed asset that normally is (1) stationary in nature, and (2) can be preserved for a significantly greater number of years than most capital assets.

Examples of expenditures to be capitalized as infrastructure include:

- Roads, streets, curbs, gutters, sidewalks, fire hydrants
- Canals, waterways, wharfs, docks, sea walls, bulkheads, boardwalks
- Dam, drainage facility
- Radio or television transmitting tower
- Electric, water, and gas (main lines and distribution lines, tunnels, etc.)
- Fiber optic and telephone distribution systems (between buildings)
- Light system (traffic, outdoor, street, etc.)
- Signage
- Airport runway, strip, taxiway or apron

I. Construction-in-Progress

Construction-in-Progress (CIP) consists of construction projects subject to capitalization, either tangible or intangible in nature. When a capital asset project is completed within one fiscal year, the related asset is added directly to fixed assets before fiscal year end. If a project is not completed within one fiscal year, that portion of accumulated costs which is capitalizable should be reported and recorded as CIP at fiscal year end. Because an asset under construction is not complete, or being used, depreciation will not be recorded. The agency will be responsible for supplying information on projects as requested by the external auditors during the annual financial audit.

1. Procedures for Transferring an Asset from CIP to Fixed Assets

The asset under construction should be capitalized to its appropriate capital asset category (Land, Infrastructure, Buildings and Improvements, Parks and Recreational Facilities, etc.) upon the earlier occurrence of substantial completion, occupancy, or when the asset is placed into service. Questions regarding CIPs should be referred to the auditors prior to the completion of the annual financial audit.

2. Purchase of Existing Building

As soon as you have closed on the building, contact the Purchasing Officer to add the building to insurance and to have the building added as a Fixed Asset.

J. Capital Leases

Capital Leases transfer virtually all rewards and risks that accompany ownership of property to the lessee. A capital lease is a means of financing property acquisitions and has the same economic impact as a purchase made on an installment plan. Thus, the lessee in a capital lease must record the leased property as an asset and the lease obligation as a liability.

A lease agreement entered into by a municipal agency is a capital lease and should be capitalized only if the lease agreement 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 administrative costs, equals at least 90% of the fair value of the leased property.

Leases that do not meet any of the proceeding criteria should be recorded as an operating lease and reported in the notes of the financial statements.

K. Intangible Assets

The Governmental Accounting Standards Board (GASB) issued Statement No. 51, "*Accounting and Financial Reporting for Intangible Asset*." Governments possess many different types of assets that may be considered intangible assets, including easements, water rights, timber rights, patents, trademarks, and computer software (including licenses).

Statement No. 51 identifies an intangible asset as having the following three required characteristics:

- It lacks physical substance – in other words, you cannot touch it, except in cases where the intangible is carried on a tangible item (for example, software on a DVD).
- It is nonfinancial in nature – that is, it has value, but is not in a monetary form like cash or securities, nor is it a claim or right to assets in a monetary form like receivables, nor a prepayment for goods or services.
- Its initial useful life extends beyond a single reporting period.

Note: Software maintenance agreements are to be expensed in the period incurred.

L. Works of Art and Historical Treasures

See Administrative Policy No. 16

IX. Capital Fixed Asset Tags

All City Departments are reminded to obtain their capital fixed asset tags from the Purchasing Officer.

X. Depreciation and Useful Life

All assets, other than land, must be depreciated. These assets should be depreciated in a straight-line method over their expected useful life. Assets that are consumed, used-up, habitually lost or worn-out in one year or less should not be recorded as a fixed asset. Useful life is the estimated number of years and/or months that an asset will be able to be used for the purpose for which it was purchased or constructed. The useful life of an existing similar fixed asset is the best reference when determining useful life of a new asset. Useful life is entered as months.

Asset Type	Suggested Useful Life
Vehicles & Equipment	60 Months
Software	84 Months
Office Furniture	60 Months
New Buildings	480 Months
Building Improvements:	
Roofs	240 Months
Plumbing	240 Months
Elevators	240 Months
Renovations	240 Months
HVAC	240 Months
Outdoor Facilities	84 Months

XI. Disposal or Transfer of Fixed Assets

Fixed asset custodians are responsible for safeguarding all equipment and other fixed assets assigned to their department, including items no longer needed, until the items have been submitted and physically delivered to the Purchasing Tech as surplus property. Custodians should complete the Declaration of Surplus Property or Transfer Form when submitting items as surplus.

Please note: Fixed assets obtained through Federal or State grants may have restrictions on disposal or transfer. Fixed asset custodians are responsible for abiding by any guidelines associated to fixed assets assigned to their department.