Fixed Assets

City of Bell
POLICY FOR FIXED ASSET CAPITALIZATION

Purpose

The purposed of this policy is: 1) to provide control and accountability over capital assets, and 2) to assist in gathering and maintaining information needed for the preparation of financial statements, including the Comprehensive Annual Financial Report (CAFR). The Finance Department maintains the centralized capital asset information and reports it in accordance with generally accepted accounting principles. A department may also maintain its own capital asset system and schedule in greater detail to supplement the Finance Department's fixed asset system. The Finance Director will update this policy and processes to maintain an efficient and materially accurate fixed asset accounting system.

Definition

Capital assets are defined as having a useful life of three (3) years or more and a purchased or installed cost of $5,000 or more. Donated assets must meet the useful life criteria and possess fair market value of $5,000 or greater.

Department Responsibilities

Each department is responsible for safeguarding and maintaining its own capital assets.

Valuation of Capital Assets

Capital assets are valued at cost, including all ancillary charges necessary to place the asset in its intended location and condition for use, as follows for Purchased and Self-Constructed assets:

Purchased Assets

Purchased assets are valued at the purchase price including taxes, delivery charges, installation costs, and all other appropriate ancillary costs less any discounts or rebates. If the purchase price is not practicably determinable due to rare or unusual circumstances, then an estimated cost should be used.

The capitalized value of land includes the purchase price plus other related costs such as legal, escrow, title, appraisal, and any excavation costs incurred to put the land in condition for its intended use.

Building costs include both acquisition and capital improvement costs, including, in enterprise and trust funds, capitalized interest. Capital improvements include structures (e.g., office buildings, storage quarters, and other facilities) and all other property permanently attached to, or an integral part of, the structure (e.g., loading docks, heating and air-conditioning equipment, and refrigeration equipment).

Furniture, fixtures, or other removable equipment are not an integral part of a building and are not considered capital improvements. The cost for this asset type reflects the actual or estimated cost of the asset. This includes the cost of an extended maintenance/warranty contract for all such equipment and licensing costs for computer software in the asset's valuation if the contract is purchased at the same time (or soon thereafter) as the capital asset.

Self-Constructed Assets

Self-Constructed Assets are capitalized with all direct costs associated with construction and management of the construction project. Department project management costs may be capitalized in one of two ways:

1. Actual project management costs are used when they are practicably discernible and directly associated with the project; or

2. A percentage of total budgeted project costs may also be used. The application rate may or may not be designed to recover total department project management costs. Indirect costs are excluded unless they are directly related to the construction.

Enterprise and trust funds' net interest costs incurred during the period of construction, if material, are included in the capitalized cost of the asset. Interest costs are not capitalized in governmental funds.

Ancillary Costs

Normally, ancillary costs should be included in the cost of a capital asset. However, minor ancillary costs, not measurable at the time a capital asset is recorded, are not required to be capitalized.

Ancillary costs for Land and infrastructure include, but are not limited to:

- Legal and title fees;
- Professional fees of engineers, attorneys, appraisers, financial advisors, etc.;
- Surveying fees;
- Appraisal and negotiation fees;
- Damage payments;
- Site preparation costs; and
- Costs related to demolition of unwanted structures.

Ancillary costs for Infrastructure include, but are not limited to:

- Professional fees of engineers, attorneys, appraisers, financial advisors, etc;
- Survey fees;
- Appraisal and negotiation fees;
- Damage payments;
- Site preparation costs; and
- Costs related to demolition of unwanted structures.

Ancillary costs for Buildings and Building Improvements include, but are not limited to:

- Professional fees of architects, engineers, attorneys, appraisers, etc.;
- Damage payments;
- Costs of fixtures permanently attached to a building or structure;
- Insurance premiums, interest, and related costs incurred during construction; and
- Any other costs necessary to place a building or structure into service.

Ancillary costs for Furniture, Fixtures, Equipment, or Other Capital Assets include, but are not limited to:

- Transportation/shipping and handling charges;
- Sales tax;
- Installation costs; and
- Extended maintenance/warranty contracts or any other normal or necessary costs required to place the asset in its intended location and condition for use, including licensing costs for computer software.

Donated Assets

Donated assets are recorded at the fair market value at the time of acquisition plus all appropriate ancillary costs. If the fair market value is not determinable due to lack of sufficient records, the estimated cost is used. If land is acquired by gift, the capitalized value is to reflect its appraised or fair market value at the time of acquisition.

Additions, Improvements and Replacements

Additions, improvements and replacements of existing capital assets are generally capitalized. If an asset is replaced in full or part, remove the capitalized value and related accumulated depreciation of the replaced item from the accounting records, if such amounts are determinable.

<u>Items not Capitalized</u>

- Replacement roof coverings are not capitalized unless the replacement extends the useful life of the building.
- Replacement floor coverings and window coverings.
- Costs to remodel (convert) a building or space to a different use, where the remodeling does not extend the useful life of the structure itself.
- Replacement that does not meet the capitalization thresholds outlined above.
- Routine repairs and maintenance to existing capital assets.

Extraordinary Repairs, Betterments, or Improvements

Capitalize outlays that increase future benefits from an existing capital asset beyond its previously assessed standard of performance.

Increased future benefits typically include:

- An increase in the estimated remaining useful life of the asset.

- An increase in the capacity or efficiency of an existing capital asset.

Bulk Purchases / A Group of Assets

The capitalization of an asset, whether purchased or fabricated, is based on unit cost. Only assets with a unit cost of $5,000 and having a useful life of three years are capitalized. A group of assets that in total cost $5,000 or more (e.g., 10 chairs costing $500 each) is not capitalized, except when such purchases are deemed material on a case-by-case basis.

Accounting for Infrastructure

In accordance with the Governmental Accounting Standards Board Statement Number 34, acquisitions of capital assets defined as infrastructure that meet the City's capitalization policy (cost of $5,000 or greater) are to be capitalized. All capitalized infrastructure assets will be depreciated.

Depreciation

Based the estimated useful lives, depreciation is calculated and recorded for all capital assets except for land, water rights, and other similar assets. Construction-in-progress is not depreciated until after its completion.

Depreciation normally begins when an asset is purchased or a project completed. However, if it is not placed into service immediately, depreciation should begin when the asset begins to lose value.

Depreciation will be calculated using the straight-line method. In straight-line depreciation, the cost of the asset is prorated over the estimated useful life of the asset. In most cases, the salvage value is considered to be insignificant and is not used for the calculation.

Assets may be depreciated individually or in groups. The cost of assets similar in nature (tables, chairs, etc.) or assets dissimilar but related by mode of operation (water treatment) may be grouped together then depreciated as one group.

Estimated Useful Lives of Capital Assets

The City's estimated useful lives (depreciation schedule) of capital assets are as follows:

Asset Type	Estimated Useful Life
Buildings	50 years
Improvements	15-50 years
Vehicles	5-15 years
Computers	3-5 years
Equipment	3-20 years
Furniture	7-15 years
Fixtures	7-20 years
Streets	40-60 years
Parks and Greenbelts	40-60 years

Bike and Pedestrian Pathways	40-60 years
Sewer Systems	40-60 years
Water Systems	40-60 years

Assets to be Maintained in the Fixed Asset System

The following assets are to be maintained in the Fixed Asset System:

- All capital assets meetings applicable thresholds under this Policy.
- Assets with a cost of $5,000 or more acquired with federal funds.

Tagging and Adding Capital Assets to the Fixed Asset System

Upon acquisition of capital assets or completion of projects, the responsible department should complete and submit the Fixed Asset Form to the Finance Department as soon as it is administratively feasible to ensure all such assets are fully accounted for and properly described in the City's Fixed Asset System (maintained by the Finance Department).

Removing/Disposing Capital Assets

Each department is responsible for the periodic review of its equipment, furniture, material, and inventory to identify any surplus property. Surplus personal property can be sold, traded in, donated or disposed of as junk in accordance with the City's Municipal Code.

If the disposed or obsolete assets are in the Fixed Asset System, then the Fixed Asset Forms should be completed by each responsible department to timely remove such assets from the Fixed Asset System. The completed and signed Fixed Asset Forms should be submitted to the Finance Department as soon as capital assets are disposed of or determined obsolete.

FIXED ASSET TRANSFER/DISPOSAL FORM

Date: ______________

Please mark one: Transfer ☐ Disposal ☐

Asset Description: ________________________

Asset Tag Number: _______________________

TRANSFER ONLY:

From (Current Department): ________________

To (New Department): _____________________

New Physical Location (i.e. Finance Director's Office): ___________________

DISPOSAL ONLY:

Department: _____________________________

Reason for Disposal (i.e. Sold, Broken): ______________________

Selling Price (If Applicable): _________________

Date Sold (If Applicable): ___________________

If item was sold, please provide authorization to sell (i.e. BMC 3.12):

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