Financial Policies:
Preserving Capital Investments - Fixed Assets
Capitalization and Inventory Control Policy

The City invests in capital assets such as property, plant, equipment, facilities and infrastructure. Preservation of such investments through regular maintenance and a long-term renovation plan is necessary to preserve the value of such capital investments. The City must also plan for the replacement of capital investments (particularly vehicles and equipment). The following policy requirements are intended to ensure the proper accounting and preservation of capital investments; and to provide a sound economic base for their replacement.

1. The budget should provide sufficient funding for adequate maintenance, renovation and the orderly replacement of capital assets such as equipment, fleet, facilities, streets and parks.

2. All capital assets should be maintained at a level that protects capital investment and minimizes future maintenance and replacement costs.

3. A five-year schedule of equipment replacement and maintenance needs, as well as facilities, streets and parks renovation and maintenance needs should be prepared on an annual basis. Expenditures consistent with such plans shall be included in annual budget appropriations.

A. Capital Assets Definition, Classes, and Capitalization Thresholds

The City defines capital assets as any assets used in operations with an estimated useful life in excess of three years that have a value equal to or greater than the capitalization threshold for their respective asset class.

The Asset Classes and Capitalization Thresholds have been established as follows:

Asset Class	Threshold
Land	$50,000
Buildings/Building Improvements	$50,000/$10,000
Improvements Other Than Buildings	$10,000
Vehicles, Machinery, Specialty and Office Equipment	$10,000
Intangibles	$100,000
Infrastructure	$200,000
Construction in progress	$50,000
Lease purchase assets	Use threshold for the appropriate asset class

The threshold will generally not be applied to components of fixed assets.

1. Cost of Capital Assets

Capital Assets are recorded at historical cost or estimated historical cost if purchased or constructed. The cost should include ancillary charges necessary to place the asset into its intended location and condition for use. Items to include in the cost of capital asset are as follows:

- Original contract or invoice price
- Freight and transportation charges
- 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
- Site preparation costs
- Professional fees
- Capitalized interest should be included in the cost of a proprietary fund asset when it meets the criteria of Financial Accounting Standards Board No. 34.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Donated capital assets are valued at their fair value on the date of donation.

2. Depreciating Capital Assets

Property, plant and equipment, depreciable infrastructure and intangible assets of the City shall be depreciated using the straight-line method and applying the half-year convention method over the following useful lives.

Asset Class	Years
Buildings/Building Improvements	10-40
Improvements Other Than Buildings	3-10
Vehicles, Machinery, Specialty and Office Equipment	3-20
Intangibles (subject to depreciation/amortization)	As limited by contractual or legal provisions.
Infrastructure	10-40

It is the City's policy that capital assets have no residual value at the end of their lives. Land, Construction-in-Progress and certain intangible assets are not depreciated. If the asset is disposed of before the end of its useful life, a half-year of depreciation is allowable for the year of disposition.

3. Capital Assets Classes

Land

The surface of the earth, which can be used to support structures and roadways. Land is characterized as having an unlimited life (inexhaustible). Includes the cost of land itself and the cost of preparing land for its intended uses. Examples of items that might be capitalized as part of the cost of land include basic site improvements (e.g., excavation, fill, and grading), as well as the cost of removing, relocating, or reconstructing the property of others (e.g., power lines).

Buildings and Building Improvements

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 transportable or moveable.

Improvements to existing buildings that materially extend the useful life of a building, increase the value of a building, or both should be capitalized. The improvement must meet one of the following criteria:

- The improvement adds square footage to the existing building.
- The improvement is a major renovation that prepares an existing building for a new use.
- The improvement expenditure increases the life or value of the building by 25 percent of the original life or cost.

The cost of an improvement (or betterment) normally is added to the cost of the related structure, rather than treated as a separate asset.

Examples of expenditures to be capitalized as building improvements are as follows:

- Replacement of an old shingle roof with a new fireproof tile roof
- Upgrade of heating and cooling systems
- Structures attached to the building such as covered patios, sunrooms, garages, carports, enclosed stairwells, etc.
- Structural changes such as reinforcement of floors or walls, installation or replacement of beams, joists, steel grids, or other interior framing.

The following are examples of expenditures not to capitalize as improvements to buildings. Instead, these items should be recorded as 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 or life of the building

- Plumbing or electrical repairs
- Cleaning, pest extermination, or other periodic maintenance
- Interior decoration, such as draperies, blinds, curtain rods, wallpaper
- 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

Improvements Other Than Buildings

This major asset class is used for permanent (i.e., non-moveable) improvements, other than buildings, that add value to land, but do not have an indefinite useful life. Examples include fences, retaining walls, parking lots, and most landscaping. Moveable items (e.g., picnic table in a park) should be classified as furnishings and equipment.

Vehicles, Machinery, Specialty and Office Equipment

Fixed or movable tangible assets to be used for operations, the benefits of which extend beyond one year from date of acquisition and rendered into service.

Examples of expenditures to be capitalized in this class include but are not limited to:

Vehicles
Computers and servers
Machinery
Furniture and fixtures

Intangible Assets

Intangible assets are characterized as lacking physical form (e.g., computer software, water rights, easements, and patents). Certain intangibles provide benefits indefinitely. In that case, no amortization expense would be recognized. Intangibles with the length of their life limited by contractual or legal provisions should be amortized over the period stated in the provisions.

Easements are interest in land owned by another that entitles its holder to a specific limited use. The estimated value of easements is immaterial and therefore will not be capitalized.

A right-of-way is a type of easement in which title remains with the property owner and therefore is not capitalized.

Infrastructure

Long-lived capital assets that normally are stationary in nature and are of value only to the City. Include, but are not limited to: roads and streets, curbs, gutters, bridges, streetlights, sidewalks, streetscape, bike paths, storm-water drainage improvements, roadway resurfacing, basin and stream environment zone construction, ramps, airfields and runways in Airport Enterprise fund. For the purpose of reporting this major class is separated into subclasses, such as Streets, Bike Paths, Streetscape, Basin and SEZ Construction, and Runways.

Construction in Progress

This major class is used for costs incurred to construct or develop a tangible or intangible capital asset before it is substantially ready to be placed into service. The costs should remain in this category until all retention money has been paid (at which time the asset would be reclassified into the appropriate major class).

B. Capital Assets Accountability and Control

When capital assets are acquired or deeded to the City, copies of related documents shall be routed to the Finance Department in a timely manner to ensure these assets are recorded in the City's financial records.

Department heads are ultimately responsible for safeguarding its fixed assets from theft or loss. However, the Finance Department does recognize and acknowledge its responsibility to establish and maintain systems and procedures that enable department heads and program managers to properly safeguard their assets.

In ***general***, inventory control is applied only to movable fixed assets (generally these falling into the "Vehicles, Machinery and Equipment" category), and not to land, buildings, or other immovable fixed assets. Fixed assets subject to inventory control will be accounted for and controlled through the same systems and procedures used to account and control fixed assets subject to capitalization.

Fixed assets will be subject to inventory control if they meet at least one (1) of the following criteria:

a. The original cost of the fixed asset is equal to or greater than $10,000 if classified as equipment, $50,000 if classified as buildings or land, or $200,000 if classified as infrastructure.
b. Any asset less than the capitalization threshold, as recommended by the Finance Director. This may include certain machinery and equipment that, due to portability, value outside of the office, or character, are susceptible to theft and/or loss. It may include computer equipment and electronic devices such as laptops and iPhones, guns, weapons, and other movable items. Also included may be any asset requested by a department to be controlled in order to satisfy an internal (operational) or external requirement. For example, the Finance Department (may wish to) tracks all

computer hardware in order to establish replacement and upgrade requirements for both hardware and system software.

c. Any asset required to be controlled and separately reported pursuant to grant conditions or any other externally imposed reporting requirement.

Procedure: The goal is to tag all fixed assets that fall within the above categories without affecting the functionality or value of the product. Tags should be placed on the back of the equipment, somewhere where they can be found, but not necessarily stand out. The fixed asset addition form (**Exhibit I**) should be filled out as much as possible. A complete description of the asset should be obtained showing manufacturer, model, serial #, color and any other identifying criteria. The date purchased and cost should be entered when known. If not known, please estimate and mark (est.) after the data. It is understood that logistically some items cannot be tagged. These items still need to be inventoried and the information maintained in a department file.

C. Capital Assets Purchased with Federal Funds

Equipment (Capital Assets) purchased with Federal funds must follow Code of Federal Regulations CFR §200.313 and §200.439.
These guidelines can be found at the following link: https://www.ecfr.gov/cgi-bin/text-idx?tpl=/ecfrbrowse/Title02/2cfr200_main_02.tpl.

1. Capital expenditures for special purpose equipment are allowable as direct costs, provided items with a unit cost of **$5,000** or more have the prior written approval of the Federal awarding agency or pass-through entity.
2. Equipment must be used in the program or project for which it was acquired as long as needed, whether or not the project or program continues to be supported by the Federal award.
3. Procedures for managing equipment (including replacement equipment), whether acquired in whole or in part under a Federal award, until disposition takes place will, at a minimum, meet the following requirements:
   - Property records must be maintained that include a description of the property, a serial number or other identification number, **the source of funding for the property** (including the FAIN), who holds title, the acquisition date, and cost of the property, percentage of Federal participation in the project costs for the Federal award under which the property was acquired, the location, use and condition of the property, and any ultimate disposition data including the date of disposal and sale price of the property.
   - A physical inventory of the property must be taken, and the results reconciled with the property records at least once every two years.

- Control system must be developed to ensure adequate safeguards to prevent loss, damage, or theft of the property. Any loss, damage, or theft must be investigated.
- Adequate maintenance procedures must be developed to keep the property in good condition.
- If the City is authorized or required to sell the property, proper sales procedures must be established to ensure the highest possible return. See *CFR §200.313 (e) Disposition*, for guidelines.

Surplus property shall be identified by the department, officially declared to the City Council, and after approval, eliminated from the fixed asset accountability list and sold at auction or to any organization or non-employee willing to pay fair market price, Alternatively, the city council may elect to donate or destroy the same in accordance with whatever provision and/or terms and conditions the city council may, in its discretion, elect.

In the event any single item of property is less than $10,000, the finance director shall have the authority to sell, or dispose of such surplus supplies or equipment by donation to local schools or nonprofit organizations, or if surplus has no value, by disposal at a refuse company, Proceeds from sale of surplus property will be allocated to the City's General fund or Vehicle Replacement fund unless the property was originally purchased under contractual obligations with monies from a specific fund, in which case, the proceeds will be returned to that fund.

Disposal of any real property shall be conducted in accordance with all applicable requirements of the Government Code, including but not limited to Government Code sections 50569, 65402, and 54220, et seq. Before disposing of any surplus property, the applicable department head shall ascertain the source of funds used to purchase the property and ensure that disposal will not violate any grant conditions or other applicable restrictions.

Accounting for Leases: Leases that do not transfer substantially all the benefits and risks of ownership are operating leases.

Capitalize a lease that transfers substantially all of the benefits and risks of property ownership, provided the lease is non-cancelable (only non-cancelable leases may be capitalized). One or more of four criteria must be met:

1. Transfers ownership to the lessee.
2. Contains a bargain purchase option.
3. Lease term is equal to or greater than 75 percent of the estimated economic life of the leased property.
4. The present value of the minimum lease payments (excluding executor costs) equals or exceeds 90 percent of the fair value of the lease property.

Account Coding: The account coding to be used for the purchase of capital outlay will be as follows:

For items costing $10,000 or more (these are considered Fixed Assets) use:

Object code # 46010 – Land
Object code # 46020 – Buildings and Building Improvements
Object code # 46030 – Improvements Other Than Buildings
Object code # 46110 – Machinery & Equipment ($7,000)
Object code # 46122 – Software
Object code # 46130 – Vehicles
Object code # 46140 – Furniture and Fixtures

For items costing less than $10,000 per unit (these are NOT considered Fixed Assets) use:

Object code # 46120 – Tools, Parts and Leases less than $10,000.

Attachments:

Exhibit I – Sample of Fixed Asset Addition Form

EXHIBIT I - SAMPLE OF FIXED ASSET ADDITION FORM

FIXED ASSET ADDITION FORM

TAG#

ITEM DESCRIPTION

MANUFACTURER/MODEL

SERIAL #

P.O. #

ITEM COST

VENDOR

DEPARTMENT

LOCATION

DATE RECEIVED

CLASS CODE

PROPERTY CONTACT

FINANCE CONTACT

DATE TAGGED

DATE RECEIVED BY FINANCE DEPARTMENT

Additional Comments:

--- FILL IN ALL MISSING BLANKS, MAKE COPY FOR YOUR RECORDS AND RETURN TO FINANCE/ACCOUNTING---

ATTACH THIS STICKER TO NEW ASSET ITEM: