CITY OF MARYSVILLE

FIXED ASSET CAPITALIZATION PROCEDURE

Purpose

The purpose of the Fixed Asset Capitalization Procedure is to:

- account for assets owned by the City in accordance with generally accepted accounting principles.
- establish guidelines for the way in which physical inventories of fixed assets are conducted.
- provide accurate information for the preparation of financial reports
- allow for adequate insurance coverage
- safeguard assets properly, and
- comply with state regulatory requirements

Scope

All City of Marysville employees

Definitions

1. Capital assets are defined as long-lived (in excess of one year) tangible assets having significant value, which the City has set at $5,000. This threshold is applied to individual fixed assets rather than to groups or collections of fixed assets.

   For capital assets acquired by and used in the operations of governmental fund type accounts, record the value of the assets in the General Fixed Asset Account Group.

2. Attractive (theft sensitive assets costing less than $5,000) assets, such as electronic equipment and motorized tools, are also tagged and tracked by the City due to ease of conversion to private use.

Policy

1. **Addition of Fixed Assets**: It is the responsibility of each department to ensure that all fixed assets acquired by purchase, construction, donation or leases are reported to the Finance Department for proper recording in the fixed asset system. The Finance Department is responsible for the maintenance of an accurate fixed asset system based on the correctness of the information provided.

   a. Extraordinary modifications or repairs to capital assets that increase the value, extend the useful life beyond the original estimate, or increase the capability or efficiency of an existing capital asset are capitalized.

b. Donated items such as land or other assets shall be reported and recorded at a reasonable market value.

c. Capital leases will be identified and capitalized according to criteria required by generally accepted accounting principles.

d. Infrastructure, such as streets, bridges, sidewalks, water lines, sewers, drainage systems and the like are capitalized. Refer to the infrastructure capitalization policy.

2. **<u>How to value capital assets:</u>** Capital assets should be valued at cost – including all ancillary charges necessary to place the asset in its intended location and condition for use. Determine the value in the following manner:

<u>Purchased Assets</u> – Use original (historical) cost of equipment including, sales tax, and all appropriate ancillary costs less any discounts or rebates. If the original/historical cost is not practicably determinable, use estimated cost.

The capitalized value of land includes the purchase price plus all appropriate ancillary costs such as legal fees, fill and any excavation costs incurred to put the land in condition for its intended use.

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

Furniture, fixtures, or other equipment should be classified as equipment. Since they are not an integral part of a building they are not considered capital improvements. The cost for this asset type reflects the actual or estimated cost of the asset. Include the cost of an extended maintenance/warranty contract in the asset's valuation if the contract is purchased at the same time (or soon thereafter) as the capital asset.

<u>Self-Constructed Assets</u> – Capitalize all direct costs associated with construction and management costs associated with a construction project. Department project management costs may be capitalized in one of two ways:

1. Use actual project management costs when they are practicably discernible and directly associated with the project; or
2. Apply a percentage of total budgeted project costs. The application rate may or may not be designed to recover total department project management costs. Exclude indirect costs unless they are increased by the construction.

<u>Ancillary Costs</u>

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 include:

- 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:

- 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 Building and Building Improvements include:

- 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 its intended location and condition for use.

Ancillary costs for Furnishings, Equipment, or other capital assets;

- Transportation charges
- Sales Tax
- Installation costs and
- Any other normal or necessary costs required to place the asset in its intended location and condition for use.

Donated Assets: Use 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, use the estimated cost. If land is acquired by gift, the capitalized value is to reflect its appraised or fair market value at the time of acquisition.

3. **Disposition/Transfer of Fixed Assets:** It is the responsibility of each department to report all fixed asset disposition and transfers to the Finance Department to ensure that proper record keeping is maintained.

    a. Disposition of Fixed Assets means ownership changes and includes selling, trading-in, salvaging, junking, donating or otherwise removing the Fixed Asset.

    b. Transfer of assets between funds is allowed by mutual agreement of the funds. The original fund shall prepare an Asset Disposition/Transfer form and submit it to the Finance Department. Transfers between proprietary funds and general governmental funds are recorded at historical cost.

4. **Tagging/Numbering of Assets:** All assets shall be tagged or identified with a number. In the case of buildings, fleet vehicles, land and certain improvements, a "ghost tag" number will be assigned to the item; it will not be physically tagged. The vehicle number assigned in the Fleet system will become the tag number in the fixed asset system.

    The department purchasing the equipment is responsible for filling out the Fixed Asset Inventory form and submitting it to the Finance Department. The Finance Department assigns the tag number and returns a copy of the form along with the tag to the department. The department is responsible for affixing the tag to the equipment.

Inventory

Once a year, an inventory of all City property shall be conducted. Due to the stationary nature of certain assets, such as land, infrastructure, buildings, and improvements other than buildings, performing a physical inventory every year is not required. The purpose of this inventory is to assure that all City property is actually in the possession of the City and properly recorded. The directors and department heads in each and every department of the City shall verify the inventory of all property belonging to the City in and under their control annually by certifying a document prepared by Finance that states:

1. They have the item
2. Missing items are properly explained and noted as "missing", "sold", etc.,
3. Incomplete information is corrected,
4. Items not included in the inventory sheet, but physically located are added.
5. Information not reflected in the inventory sheet, which includes, but not limited to the information required by grantors are added.

The certification shall be signed by the department head and shall state that the report of fixed assets has been examined and certifies that to the best of their knowledge it is true and correct.

Inventory Records

Finance will prepare lists for annual inventory by inventory department. These lists will contain sufficient information to allow easy identification of assets. Finance will request each department to verify existence of the asset, make corrections and additions and identify the person whose initials denote responsibility for the accuracy and completeness of the inventory count.

Lost or Stolen Equipment

Lost or stolen equipment must be reported as soon as discovered missing to the Chief of Police and Finance Department. If after 90 days the equipment has not been recovered, it shall be removed from the inventory records by Finance. It is the responsibility of the Department Head to notify Finance when it is determined that an item has been lost or stolen and again after 90 days if it has not been recovered.

Destroyed Equipment

Equipment which has been destroyed or damaged beyond repair must be reported to the Finance Department. The status of the equipment will be noted on the inventory records and removed at the next updating of the inventory file.

Depreciation

Calculate and record depreciation for all capital assets unless specifically exempted.

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

Depreciation will be calculated by month with a full month's depreciation taken for assets acquired or disposed of prior to the end of the month. If an asset is acquired or disposed on the last day of the month, depreciation will not begin until the following month.

Depreciation will be calculated using the straight-line method. In straight-line depreciation, the cost of the asset (less any salvage value) is pro-rated over the estimated useful life of the asset.

Non-depreciable capital assets include:

- Land

- General Government Assets
- Construction Work in Process