Meeting Date: September 22, 2016

Agenda Item: 11-A

Report to Town Council

Topic: **Resolution 2016-13, establishing / updating the Town's policy for capital asset reporting.**

Recommended Motion: Approval of Resolution 2016-13.

Summary: Please see attached staff report.

Requested by: Kim McColl, Finance Manager

Approved by: Ms. Witt, Town Manager

MEMORANDUM
TOWN OF PONCE INLET – FINANCE DIVISION

THE TOWN OF PONCE INLET STAFF SHALL BE PROFESSIONAL, CARING, AND FAIR IN DELIVERING COMMUNITY EXCELLENCE WHILE ENSURING PONCE INLET CITIZENS OBTAIN THE GREATEST VALUE FOR THEIR TAX DOLLAR.

TO: Jeaneen Witt, Town Manager

FROM: Kim McColl, Finance Manager KM

DATE: September 12, 2016

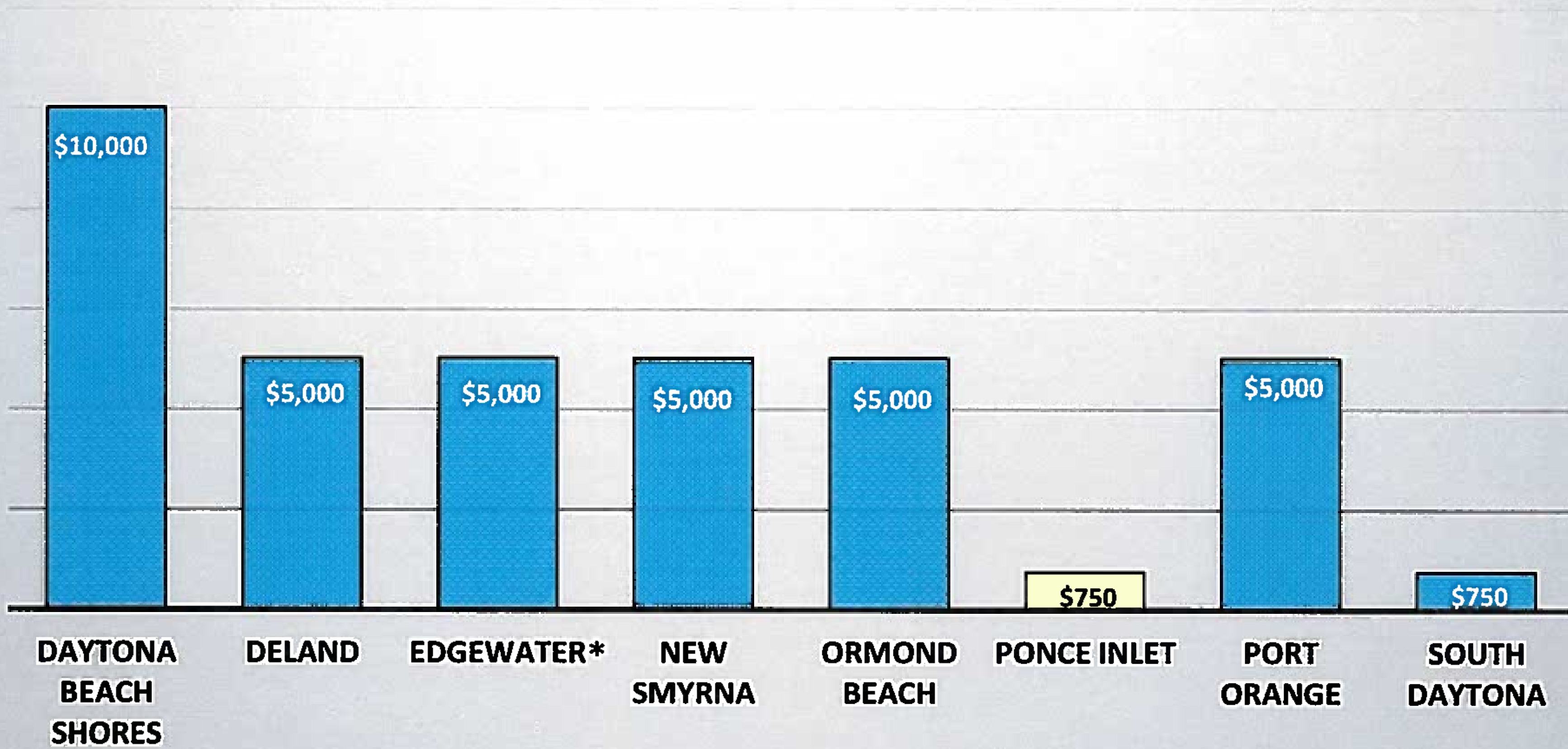
SUBJECT: Financial Policy for Capital Asset Reporting

In studying the requirements of GASB-34, and comparing the Town's current policy for capital asset reporting to those of other municipalities, it appears that our policy warrants an update to bring it more in-line with the recommended practices of the Government Finance Officers Association. A chart comparing several neighboring municipalities to Ponce Inlet and three articles on best practices are attached for your information.

Capitalizing on this opportunity to work with Margo Mello with SEC Consulting these past several months, we have developed a comprehensive policy which we believe to be in the best interest of the Town. This policy is proposed to be adopted by Council via Resolution 2016-13 and would then become a part of the Financial Policies and Procedures that I am in the process of developing for this division.

Thank you for your consideration.

CAPITAL ASSET MINIMUM THRESHOLD COMPARISON



* Edgewater's threshold for building & building imp., infrastructure & infrastructure imp. is $25,000

Reprinted with permission of the Government Finance Officers Association, publisher of *Government Finance Review*, 203 N. LaSalle St., Suite 2700, Chicago, IL 60601 (312/977-9700; fax: 312/977-4806; e-mail: GFR@gfoa.org; Web: www.gfoa.org). Annual subscriptions: $35.

To Capitalize, or Not to Capitalize — That is the Question

By Leonard J. Flood

In establishing a capitalization threshold, governments should ask themselves: What needs to be accounted for in our financial statements, and how can we capture the maximum value while accounting for the minimum number of assets?

In the world of capital assets, there is a vast difference between controlling and accounting for them. When determining what is more important in your jurisdiction, you must first look at the realities of budget and staff size, but you also need to consider the question from a practical perspective. What do we need to control and why? Will micromanaging our capital assets lead to more control or just more work? What needs to be accounted for in our financial statements, and how can we capture the maximum value while accounting for the minimum number of assets?

GFOA's recommended practice, "Establishing Appropriate Capitalization Thresholds for Tangible Capital Assets," helps answer some of these questions. "... a government's principal concern in establishing specific capitalization thresholds ought to be the anticipated information needs of the users of the government's external financial statements," it reads. GFOA recommends that tangible assets only be capitalized if they have an estimated useful life of at least two years, that infrastructure assets be treated separately from other capital assets for the purpose of establishing capitalization thresholds, that thresholds never fall below $5,000, and that governments establish procedures at the departmental level for controlling non-capitalized items.

COUNTING STAPLERS

A lot has changed both in terms of the control of and accounting for capital assets at the Village of Lombard, Illinois, since I joined the Finance Department in 1991. Lombard is a suburban community of more than 42,000 located just 20 miles west of downtown Chicago and the shore of Lake Michigan. In the early 1990s, the purchasing function was centralized in the Finance Department, where it was supervised by a purchasing clerk. Although the Village did not have a formal capital asset policy, control of capital assets was of primary importance. Almost any tangible item purchased was considered a "fixed asset." Even today, I can find evidence of this level of control in the form of staplers, in-boxes, and pencil sharpeners bearing a Village of Lombard inventory tag and number. While no one actually kept track of these items, our purchasing clerk was tireless in her efforts to see that everything was properly tagged—as if this practice would ensure that no items were misappropriated.

After settling into my position, I came to two conclusions. First, to go through the ritual of tagging without tracking was a waste of time, money, and valuable staff resources. Second, in our desire to know where all the Village's "stuff" was located, we really didn't have any idea what was important or why.

Knowing that changes come slowly to organizations, I took small steps to gain control of the process. Understanding that a small staff with ever-increasing demands in accounting and other areas of departmental operations could not continue to focus on capital assets to the extent that we had been, we introduced two changes in 1993. First, we eliminated the position of purchasing clerk and reallocated those resources elsewhere. While Finance still oversees purchasing, the process has been decentralized and entirely automated through our financial system.

Next, we developed a formal capital asset policy clearly identifying what constituted a capital asset and raising the capitalization threshold to $2,500. This was quite a move for an organization that counted staplers just a few years before. The policy also decentralized control of capital assets, shifting responsibility to the departments. After all, who better to keep track of assets than the departments that actually use them? The director of finance retained the authority to require departments to inventory assets under the capitalization threshold that, in the aggregate, comprise a substantial asset group (for example, guns in the Police Department). Departments track these assets using inventory spreadsheets that are subject to internal audit at any time. We stopped tagging assets, and no one has missed it since.

In 1998, we took another look at our capitalization threshold and decided to raise it to $5,000. At that time, we were in a better position to quantify exactly what such a change would mean. Implementing this increase would eliminate the accounting for more than 25 percent of the Village's capital assets, but would still allow us to capture for financial reporting purposes more than 95 percent of the value. Given the savings in staff time, we felt this was a good trade-off.

THE GASB 34 EFFECT

When GASB 34 came along in 2000, we were forced to take yet another look at the issue of capital assets. With the assistance of our auditors, we revised the capital asset policy to comply with GASB 34. The revised policy addressed four areas: infrastructure accounting, property control, capitalization threshold, and depreciation methods. The changes were sweeping.

We expanded the definition of infrastructure to capture roads, bridges, traffic lights, streetlights, and sidewalks. We limited capitalization of roads to cases in which they were torn down to the base and rebuilt, eliminating the need to worry about street repaving—a relatively minor expense compared to street reconstruction. Grind and overlay and street patching were considered a maintenance item.

The policy also clarified the capitalization process for the water and sewer system. Capitalization would occur "when the project constructs additional infrastructure or replaces infrastructure *and* meets the capitalization threshold." Repairs that did not materially extend the life of the asset and did not meet the capitalization threshold would not be capitalized. We recommended capitalizing all expenses relating to projects, including engineering and legal expenses.

Obviously, the capitalization threshold would be essential to determining the amount of work that would go into implementing this GASB 34 reporting requirement. We went back to the same thought process we used when we increased the threshold from $2,500 to $5,000. Our intent was to capture the maximum asset value from as few assets as possible, thereby streamlining the accounting for capital assets by reducing the number of assets we had to track.

We estimated that more than 90 percent of the Village's capital assets were in buildings and infrastructure. However, the greatest number of assets fell within the $5,000 to $50,000 range, most notably vehicles and equipment. Since the Village already maintains a comprehensive vehicle and equipment replacement schedule and the threat of someone walking off with one of our squad cars was minimal, we recommended the following capitalization thresholds:

- $50,000 on a per unit basis for machinery, equipment, and vehicles
- $100,000 for buildings and improvements
- $200,000 for land and infrastructure

Similar to the vehicle and equipment replacement schedules, the Village maintains an inventory and replacement schedule for computer equipment and other major pieces of equipment such as copiers. While the number of these items exceeds 1,000, few of them exceed the old $5,000 threshold. As such, moving the capitalization threshold to $50,000 seemed appropriate and practical.

Six months after the preliminary review of the revised capital asset policy with the Finance Committee—a six-member citizen committee that reviews all financial policies and recommends them to the Village Board for adoption—staff presented the final version of the policy to the members for review and approval. The Finance Committee unanimously approved the revised policy in May 2002, and the Village Board officially adopted it a month later. Since then, the number of assets capitalized has been reduced by 80 percent, while the total dollar amount of assets capitalized fell just 7.5 percent.

ISSUES TO CONSIDER

Lombard's experience may hold some lessons for other jurisdictions grappling with the question of where to set their capitalization thresholds or contemplating a new or revised capital asset policy. The following are just a few important issues to consider:

- Know what you want to control versus what you are required to account for under GASB 34.

- Determine whether your capital asset accounting system is the best way to control your assets.
- Consider your resources both in terms of staff time and costs of computer software and outside consulting. Limits on both these may guide you to an easier solution to the problem.
- In developing a capital asset policy, solicit the input and address the concerns of staff, auditors, committee members, and senior management. Make them aware of proposed changes and explain why the changes are necessary.
- Finally, ask yourself a question. What is easier: taking your time to implement a comprehensive, well-reasoned policy or tagging your staplers in 2004 and beyond? ■

LEONARD J. FLOOD is director of finance and treasurer for the Village of Lombard, Illinois.

Government Finance Officers Association

BEST PRACTICE

Establishing Capitalization Thresholds for Capital Assets

BACKGROUND:

The term *capital assets* is used to describe assets that are used in operations and that have initial lives extending beyond a single reporting period. Capital assets may be either intangible (e.g., easements, water (rights) or tangible (e.g., land, buildings, building improvements, vehicles, machinery, equipment and infrastructure). It is incumbent upon public-sector managers to maintain adequate control over all of a governments resources, including capital assets, to minimize the risk of loss or misuse.

As a practical application of the materiality principle, not all tangible capital-type items with useful lives extending beyond a single reporting period are required to be reported in a governments statement of position. Items with extremely short useful lives (e.g., less than 2 years) or of small monetary value are properly reported as an "expense" or "expenditure" in the period in which they are acquired.

When outlays for capital-type items are, in fact, reported on the statement of position, they are said to be *capitalized*. The monetary criterion used to determine whether a given capital asset should be reported on the balance sheet is known as the *capitalization threshold*. A government may establish a single capitalization threshold for all of its capital assets, or it may establish different capitalization thresholds for different classes of capital assets.

Capitalization is, of its nature, primarily a financial reporting issue. That is, a governments principal concern in establishing specific capitalization thresholds ought to be the anticipated information needs of the users of the governments external financial reports. While it is essential to maintain control over all potentially capitalizable items, there exist much more efficient means than capitalization for accomplishing this objective in the case of a governments smaller tangible capital-type items.[1] Furthermore, practice has demonstrated that capital asset management systems that attempt to incorporate data on numerous smaller items are often costly and difficult to maintain and operate.

RECOMMENDATION:

GFOA recommends that state and local governments consider the following guidelines in establishing capitalization thresholds:

- Potentially capitalizable items should only be capitalized only if they have an estimated useful life of at least two years following the date of acquisition;
- Capitalization thresholds are best applied to individual items rather than to groups of similar items (e.g., desks and tables), unless the effect of doing so would be to eliminate a

significant portion of total capital assets (e.g., books of a library district);

- In no case should a government establish a capitalization threshold of less than $5,000 for any individual item;
- In establishing capitalization thresholds, governments that are recipients of federal awards should be aware of federal requirements that prevent the use of capitalization thresholds in excess of certain specified maximum amounts (i.e., currently $5,000) for purposes of federal reimbursement; and
- Governments should exercise control over potentially capitalizable items that fall under the operative capitalization threshold.[2]

References:

[1] See GFOAs best practice on Maintaining Control over Items that Are Not Capitalized (2006).

[2] See GFOAs best practice on Maintaining Control over Items that Are Not Capitalized (2006).

203 N. LaSalle Street - Suite 2700 | Chicago, IL 60601-1210 | Phone: (312) 977-9700 - Fax: (312) 977-4806

McColl, Kim

From: Jeannie Garner [jgarner@flcities.com]
Sent: Monday, July 25, 2016 5:36 PM
To: McColl, Kim
Subject: FGFOA E-News Summer 2016 - Technical Resource Article

Follow Up Flag: Follow up
Flag Status: Flagged

View in a browser

To capitalize or not to capitalize, that is the question...

Jennifer Howland, Comptroller, City of Satellite Beach

Until recently, many cities were barely able to maintain their existing capital assets. Many of their assets have reached a point where they have to be replaced or else lose the ability to offer services to the community. As the economy slowly picks up, many governments are finally able to start funding their capital improvement plans. As a refresher on budgeting for capital assets, let's take a look at the definition of a capital asset, capitalization criteria, and the budget presentation of capital assets and capital improvements.

What is a capital asset? A capital asset is an asset that is used in operations and has an initial life extending beyond a single reporting period (GFOA, 2006). This being known, there has been some discussion about whether or not to capitalize the asset. To capitalize an asset means to report it on the government's statement of net position.

What criteria should be used to determine whether an asset is able to be capitalized and presented as such in the City's financial statements? In general, capitalization criteria include thresholds for individual assets or improvements and the determination of whether the existing capital asset was improved or repaired.

The first step in determining whether or not to capitalize an asset is to establish capitalization thresholds. Thresholds are made up of a minimum cost of an individual asset and the duration of the estimated useful life (of at least one year). A basic threshold for new assets is set up as follows: A capital asset is any individual item costing $XX or more and that can be used for XX years or more. GFOA recommends that the individual asset has a value of at least $5,000 and should be useful for two or more years (from date of acquisition) (GFOA, 2006). The cost and duration thresholds apply to new assets or improvements to existing assets.

Not all capital assets have to follow the same capitalization thresholds. One set of thresholds can be set for all assets, or multiple thresholds can be set depending on the category of the asset. The main asset categories are machinery and equipment, buildings, infrastructure, improvements other than buildings, and land. Since most machinery and equipment have shorter useful lives than infrastructure and buildings, they could be assigned lower capitalization thresholds.

The second step in determining whether or not to capitalize an asset is to determine whether an improvement was made to the asset or a repair was made to an asset. Improvements are capitalized and repairs are not.

The book, *Government Accounting Auditing, and Financial Reporting (GAAFR)*, explains the difference between improvements and repairs. A repair preserves the asset's utility or usefulness and does no more than return the capital asset to its original condition. An improvement accomplishes at least one of the following criteria: increases utility of the asset or extends its useful life. Improvements add new value and should be capitalized (Gauthier, 2012).

How should capital assets and capital improvements be presented in a capital assets fund budget?

This section may not apply to all governments and relates to capital improvement plans. Some capital improvement plans include: 1) maintenance and repairs to existing capital assets; and 2) new capital assets and improvements to capital assets. The level of budgetary control determines how the capital assets are budgeted. For my city, the department level is the legal level of budgetary control. Capital outlay is considered one department and general government is considered another department. This means that capital asset and capital improvements are budgeted as capital outlay and capital asset maintenance and repairs are budgeted as general government. Additionally, the City's capital improvement plan allows for the inclusion of purchases that substitute or outsource a capital asset. Since these are not true capital assets, they are budgeted as general government.

As cities are increasingly able to fund capital assets, it is important to keep in mind how to identify a capital asset and how to determine whether assets should be capitalized. The topic of capital assets and capitalization of assets is more complex than is set out in this article, but hopefully this information will provide a foundation to encourage finance personnel to look further into how best to approach the identification of capital assets and placement of capital assets in the budget.

References

Gauthier, S. (2012). *GAAFR Govemmental Accounting, Auditing, and Financial Reporting*. Chicago, IL 60601-1210: Government Finance Officers Association of the United States and Canada.

GFOA best practice, "Establishing Thresholds for Capital Assts," 2006.

Florida Government Finance Officers Association

P.O. Box 10270

Tallahassee, FL 32302

Email us | (850) 222-9684 | Visit our website

RESOLUTION 2016-13

A RESOLUTION OF THE TOWN OF PONCE INLET, VOLUSIA COUNTY, FLORIDA ESTABLISHING A POLICY FOR CAPITAL ASSET REPORTING; PROVIDING FOR CONFLICTING RESOLUTIONS; PROVIDING FOR SEVERABILITY; AND PROVIDING FOR AN EFFECTIVE DATE.

WHEREAS, the Governmental Accounting Standards Board (GASB) has long required capital asset financial reporting; and

WHEREAS, GASB 34 requirements have led to a more detailed review of the policies that governmental units have established for their agencies; and

WHEREAS, the Government Finance Officers Association (GFOA) recommend the practice of establishing a minimum of five thousand dollars ($5,000) for capital asset reporting; and

WHEREAS, the Town has for many years operated under a policy that capital assets are anything with a purchase price of seven hundred fifty dollars ($750) or more; and

WHEREAS, this resolution proposes a comprehensive update to the Town's policy for the GFOA recommendation of five thousand dollars ($5,000) for capital asset reporting beginning with the FY 15/16 audit.

NOW, THEREFORE, BE IT RESOLVED BY THE TOWN COUNCIL OF THE TOWN OF PONCE INLET, FLORIDA:

<u>SECTION 1.</u> ADOPTION OF CAPITAL ASSET REPORTING POLICY

The Town Council of the Town of Ponce Inlet, Florida hereby adopts the attached capital asset reporting policy.

<u>SECTION 2.</u> CONFLICTING RESOLUTIONS

All resolutions in conflict herewith are hereby repealed to the extent of such conflict.

<u>SECTION 3</u>. SEVERABILITY

If any section, sentence, clause or phrase of this Resolution is held to be invalid or unconstitutional by any court of competent jurisdiction, that holding in no way affect the remaining portion(s) of this Resolution.

<u>SECTION 4</u>. EFFECTIVE DATE

This Resolution shall retroactively take effect to October 1, 2015.

It was moved by _______________ and seconded by _______________ that said Resolution be adopted. A roll call vote of the Town Council on said motion resulted as follows:

Mayor Smith, Seat #1	______
Councilmember Milano, Seat #2	______
Vice-Mayor Hoss, Seat #3	______
Councilmember Perrone, Seat #4	______
Councilmember Paritsky, Seat #5	______

Passed this 22nd day of September, 2016.

Town of Ponce Inlet, Florida

____

Gary L. Smith, Mayor

ATTEST:

____

Jeaneen Witt, CMC
Town Manager/Town Clerk

Policy:

The Town Manager is responsible for establishing standard operating procedures for recording and depreciating all Town owned assets that meet certain criteria.

Objectives:

- Provide guidance on authorization, recording and custody over fixed assets.
- Assign responsibility for the custody and use of specific land, buildings, and equipment.
- Accumulate data necessary for the preparation of essential management and financial reports.
- Provide data necessary for the proper management of these assets.
- Provide data necessary for the computation of depreciation, when necessary.

Introduction:

The Town has established procedures to insure the safeguarding and accountability for all of the Town capital assets. A fixed asset master file is utilized to record acquisition and depreciation of assets owned by the Town.

The Town of Ponce Inlet is required to comply with GASB 34 of the Governmental Accounting Standards Board (GASB), *Basic Financial Statements - and Management's Discussion and Analysis – for City and Local Governments. GASB* 34 establishes financial reporting requirements for city and local governments throughout the United States. It has created new information and has restructured much of the information that governments have presented in their annual reports in the past. The intent of these new requirements is to make annual reports more comprehensive and easier to understand and use.

In response to the requirements established by GASB 34, the Town Manager has established this policy to provide guidance to Town departments on implementing the new reporting requirements in regards to capital assets for Townwide financial statement purposes only. Established from a Townwide perspective, the purpose of this policy is to achieve consistency regarding the accounting of town-owned capital assets and related depreciation for the preparation of the Townwide financial statements as required by GASB 34.

Capital asset reporting thresholds as established in this policy may be higher than the existing thresholds for property control due to different objectives. The primary objectives of financial reporting generally pertain to valuation, allocation, presentation, and disclosure, whereas the primary objectives of property control generally pertain to efficiency, effectiveness, and safeguarding of assets. For example, controls designed to prevent or promptly detect a loss of a small value asset, while important operationally, and are not necessarily relevant for financial reporting purposes. Because of objective differences, this policy should not be used for property control purposes nor should the Tyler Incode Fixed Asset Management module be used for this purpose.

Physical Custody:

Overall control and accountability of the Town's fixed assets is the responsibility of all department custodians of each department that have actual or constructive possession of the assets.

Effective Date

Procedures:

This policy will be retroactively effective beginning October 1, 2015.

Capital Assets and Capitalization Thresholds

Capital assets are defined by the Town as real or personal property that are used in operations, have an initial cost equal to or greater than $5,000, and have an estimated useful life of two or more years. This includes both tangible assets and intangible assets such as easements, software, and water rights. The Town reports capital assets under the following categories:

- Land and Land Improvements
- Buildings and Building Improvements
- Improvements other than Buildings
- Infrastructure and Infrastructure Improvements
- Construction Work in Progress
- Machinery and Equipment
  - Furniture
  - Vehicles
  - Technology (Computers, Software, etc.)

For Townwide financial statement purposes only, a capitalization threshold is established for each capital asset category as follows:

- Assets with an initial individual cost of $5,000 or more
- Estimated useful life of two (2) or more years

Reporting Capital Assets

Capital assets should be reported at acquisition cost. The cost of a capital asset should include incidental charges necessary to place the asset into its intended location and condition for use. Incidental charges include costs that are directly attributable to asset acquisition – such as freight and transportation charges, site preparation costs, installation charges, title search fees, and other professional fees. Donated capital assets should be reported at their estimated fair value at the time of acquisition plus incidental charges, if any.

When the acquisition cost of a capital asset is not practicably determinable, the estimated historical cost of the asset should be determined by appropriate methods and recorded. Estimated historical costs should be so identified in the record and the basis of determination established in the responsible department's public records. The basis of valuation for capital assets constructed by department personnel should be the costs of material, direct labor, and overhead costs identifiable to the project.

The Department Custodian that is responsible for correctly reporting these assets at the date of acquisition through Finance. Any improvements made to a capital asset that extends the useful life of the asset two (2) or more years should be capitalized.

Depreciating Capital Assets

Capital assets should be depreciated over their estimated useful lives unless they are:

- Inexhaustible (i.e., land and land improvements, certain works of art and historical treasures),
- Construction work in progress

Capital assets of the primary government are depreciated using the straight line method (i.e., depreciated in equal amounts over the following estimated service life of the asset). It is the Finance Departments responsibility to estimate the useful life of each capital asset utilizing the schedule below:

- Buildings and Building Improvements — 10 to 40 years
- Improvements other than Buildings — 10 years
- Infrastructure and Infrastructure Improvements — 20 to 50 years
- Machinery and Equipment — 3 to 10 years
    - Furniture
    - Vehicles
    - Technology (Computers, Software, etc.)

Land, streets, roads, and right-of-way improvements are not depreciated. Depreciation computed for enterprise or internal service departments must be recorded on the books of respective department.

Pursuant to GASB 34, the Town is exempt from being required to record and depreciate infrastructure assets acquired before the implementation date became effective. As a result, the governmental activities column in the government-wide financial statements does not reflect those infrastructure assets completed prior to October 1, 2001.

Surplus of Capital Assets

All capital assets that are obsolete, excess, or no longer needed by Departments are to be reported to the Finance Department for disposition. All items must be listed on the disposition form (copy attached) to declare surplus or request to transfer and submit signed document to the Finance Department. The Town Manager and Town Council are responsible for approving the disposition of capital assets. If the item is a transfer between Departments, the disposition form needs to be completed and signed by both Department Custodians' signatures. The Town Manager will verify ownership, description, and identification number of the equipment on the form and approve the transfer or surplus of the item. Upon approval, a copy of the signed form will be provided to Finance to update the computerized inventory.

Disposition of Property

Non-capital items such as broken chairs, tables, calculators, desk accessories, books, tools, which are considered as "junk", may be disposed of via the landfill or trash by the individual departments(s).

Capital Assets that have identification numbers can be disposed of as follows:

1) By transferring to another department or division.
2) By retirement due to the following disposal method:
    a. Advertising for sealed bid sale.
    b. Selling as junked/scrapped.
    c. Sale at auction.
3) Donation
4) Lost
5) Stolen

Each department custodian shall report its surplus or obsolete stock, equipment or materials on the disposal form (see Exhibit D). The Town Manager and Town Council are responsible for approving all dispositions of capital asset requests submitted by Department Custodians.

Donated Capital Assets

When the Town receives a donated asset, the Department Custodians are responsible for providing documentation of the donor and value of the asset to the Finance Department.

Capital Asset Definitions and Categories

Land and Land Improvements

When Land is purchased, all costs associated with the purchase are included in the recorded purchase price. Land improvements consist of betterments, site preparation, and site improvements that ready land for its intended use. The cost associated with land improvements is added to the cost of land and should be recorded. Land and land improvements should **not** be depreciated.

Examples of items to be capitalized as land and land improvements are:

- Purchase price or fair market value at time of gift
- Commissions
- Professional fees (i.e. titles searches, architect, legal, engineering, appraisal, surveying, and environmental assessments, etc.)
- Land excavation, fill, grading, and drainage
- Demolition of existing buildings and improvements (less salvage)
- Removal, relocation, or reconstruction of property of others (i.e. railroad, telephone, and power lines, etc.)

Items such as roads, bridges, fencing, landscaping, pools, and paved parking lots, etc. are not considered land improvements. These items are considered infrastructure (see section on Infrastructure and Infrastructure Improvements of this policy).

Buildings and Building Improvements

A building is 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. A building is generally used to house persons, property, and fixtures attached to and forming a permanent part of such a structure.

Building improvements are capital events that materially extend the useful life of a building or increase the value of a building, or both two (2) or more years. Building improvements should not include maintenance and repairs done in the normal course of business.

The cost of buildings **over** the Townwide financial statement capitalization threshold should be recorded in the general ledger and depreciated over the estimated useful lives of the buildings. The accumulated depreciation for buildings should also be recorded.

Examples of items to be capitalized as buildings and building improvements are:

- 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 (i.e. legal, architect, inspections, and title searches, etc.)
- Payment of unpaid or accrued taxes on the building to date of purchase
- Cancellation or buyout of existing leases
- Completed project costs of constructed buildings
- Cost of building permits
- Permanently attached fixtures or machinery that cannot be removed without impairing the use of the building
- Additions to buildings (i.e. expansions, extensions, or enlargements)
- Conversion of attics, basements, etc. to usable office, clinic, research or classroom space
- Structures attached to the building such as covered patios, run rooms, garages, enclosed stairwells, etc.
- Installation or upgrade of heating and cooling systems, including ceiling fans and attic vents
- Original installation or upgrade of wall or ceiling 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 window or doorframe, upgrading of windows or doors, built-in closet, and cabinets
- Interior renovation associated with casings, baseboards, light fixtures, ceiling trim, etc.
- Exterior renovation such as installation or replacement of siding, roofing, or masonry, etc.
- Installation or upgrade of plumbing and electrical wiring, installation or upgrade of phone or closed circuit television systems, networks, fiber optic cable, or wiring required in the installation of equipment (that will remain in the building)

Examples of items to be considered maintenance and repairs and not capitalized as buildings are:

- 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, etc.
- 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 sections of deteriorated siding, roof, or masonry, etc.

This list of examples provided above is not intended to be all-inclusive. Finance and Departments will handle questionable transactions on a case-by-case basis when a final determination is required.

Improvements other than Buildings

This includes permanent (non-movable) improvements to Land with a limited useful life. Improvements other than buildings costs are depreciated. Examples of items to be capitalized as improvements other than Buildings are:

- Fences
- Retaining walls
- Parking lots
- Landscaping

Infrastructure and Infrastructure Improvements

Infrastructure assets are long-lived capital assets that normally are stationary in nature and normally can be preserved for a significantly greater number of years than most capital assets. Examples of infrastructure assets include roads, bridges, tunnels, drainage systems, water and sewer systems, dams, and street lighting systems. Infrastructure assets should be capitalized and depreciated.

Improvements made to infrastructure assets that extend the useful lives or increase the value of the assets, or both, two (2) or more years should also be capitalized.

Construction Work in Progress

Construction work in progress reflects the economic construction activity status of buildings and other structures, infrastructure, additions, alterations, reconstruction, and installation, which are substantially incomplete.

The cost of construction work in progress should be capitalized; however, it should not be depreciated. Construction work in progress assets should be capitalized to their appropriate capital asset categories upon the earlier occurrence of execution of substantial completion contract documents, occupancy, or when the assets are placed into service. It is the department's responsibility to track all costs related to construction work in progress so that the final value of the constructed asset is accurately captured. Departments should not use multiyear appropriations for a project to circumvent the capitalization threshold for the project.

Machinery, Furniture and Equipment

Machinery and equipment include fixed or movable tangible assets to be used for operations, the benefits of which extend two (2) or more years from date the product/good is paid. Example of machinery and equipment are machinery, furniture, computers, printers, radios, and vehicles, etc.

Also included in machinery and equipment are books and other reference materials that are not circulated to the general public.

The cost of machinery and equipment over the Townwide financial statement capitalization threshold should be recorded and depreciated over the estimated useful lives of the assets. The accumulated depreciation should also be recorded.

Responsibilities:

Responsibilities include the following:

Town Council/Town Manager:

- Approving the capital budget.
- Approval of any acquisition, transfer, disposal, retirements or surplus of fixed assets. Authority for the disposal or transfer of property shall be recorded in the official minutes of the Town.
- Establishing guidelines to follow in dealing with vendors (i.e., obtaining competitive bids and documentation reasons for purchasing at other than the lowest price).
- Authorizing cost overruns on the construction and acquisition of fixed assets.
- It shall be the duty of the Town Manager through the Finance Department to ensure that all departments comply with the adopted accountability requirements.
- The Town Manager shall establish the procedures deemed necessary for the proper implementation and maintenance of the system.

Finance Department:

- Responsible for maintaining a current list of fixed assets by department.
- Reconciling the list of assets to the general ledger to ensure the list reflects all purchases made to date.
- Calculate depreciation/amortization.
- Provide documentation forms (acquisition, transfer, disposal) and identification tags for Townwide departmental processing.

Department Custodians:

- Each Department Head is the custodian of the fixed assets in their department.
- Physical security and control of assets is the responsibility of the department custodian.
- Performing and maintaining physical inventories of the assets assigned to their department.
- Annually, each custodian will receive a computer generated listing of capital assets in their custody from Finance. The custodian will be responsible for performing a physical inventory of the capital assets, identifying the additions, deletions, changes in location and other pertinent activity changes which need to be made. For additions and deletions, cite the applicable reason and attach the relevant forms (See Exhibit B, C and D).
- Notification of activity affecting an existing , recorded fixed asset is submitted to the Finance Department. Notifications are generated utilizing the attached required forms, ('Acquisition'/Exhibit 'B', 'Transfer'/Exhibit 'C', and 'Disposal'/Exhibit 'D').
    - Acquisition of new capital assets. Department custodians are responsible for the items below:
        - Submitting completed signed form (Exhibit B) and copy of invoice to Finance.
        - Assigning a pre-numbered tag (see Exhibit A) to tangible property. The acquisition date assigned to the asset is the date the product/good is paid.
        - All capitalized equipment must be assigned individual identification tags.
        - Tags should be uniformly located on similar types of property.
        - Motor vehicles (automobiles, trucks, grader, etc.) may have a separate unique identification numbering system stenciled with paint or decal applied.
        - Property tags are not assigned to sidewalks, streets, and like assets that are not separately identifiable.

    - Items charged to expense (i.e. cost below capitalization threshold) shall be tagged (etched) as property of the Town when the items are mobile and/or subject to easy disappearance. They need to be tracked by department custodians who are accountable for their safekeeping. Examples include items such as computer monitors or cameras.
  - All transfers of fixed assets between funds, acquisitions, and disposals require Town Manager and Town Council approval.
  - Instances of loss or disappearance.
  - Sale or destruction of obsolete fixed assets. For any items of potential value at the time of disposal, an auction of surplus items may be held. In such instances, the Public Works department is notified and moves the asset to a secured area. These assets are then presented to the Town Council in the form of a list and once approved and sold at auction.
  - Other changes affecting the final disposition of fixed assets.
  - All forms submitted to Finance Department
- Determining quality specifications.
- Selection of vendors—purchases from related parties prohibited.

EXHIBIT A - FIXED ASSET TAG

EXHIBIT B - NEW FIXED ASSET ACQUISITION OF PROPERTY FORM

TO: FINANCE DEPARTMENT **ACQ. DATE:** ____________________

Class: ☐ Land ☐ Buildings ☐ Improvements ☐ Infrastructure ☐ CIP ☐ Machinery & Equipment

Sub-Class: ____________________

IDENTIFICATION DATA

ASSET#	TYPE OF ITEM		LOCATION
MAKE	MODEL	YEAR	SERIAL NUMBER
COST/VALUE	OTHER DESCRIPTION		

ASSET#	TYPE OF ITEM		LOCATION
MAKE	MODEL	YEAR	SERIAL NUMBER
COST/VALUE	OTHER DESCRIPTION		

ASSET#	TYPE OF ITEM		LOCATION
MAKE	MODEL	YEAR	SERIAL NUMBER
COST/VALUE	OTHER DESCRIPTION		

The following request for status change of property in my custody is presented for Council approval.

FROM: ____________________ ____________________

Department (Type or Print) Department Custodian Signature

____

Authorized Signature (Town Manager)

FORWARD COPY OF INVOICE, APPROVED FORM AND EXECUTED PURCHASE ORDER TO FINANCE DEPARTMENT

EXHIBIT C - FIXED ASSET TRANSFER FORM (DISPOSITION)

TO: FINANCE DEPARTMENT **TRANSFER DATE:** ______________________

The following item was: TRANSFERRED

From the: ____ Department

To the: ____ Department

ASSET INFORMATION:

Description: ________________________________

Acquisition Date: ________________________________

New Location: ________________________________

Cost New: ________________________________

Town Asset#: ________________________________

Town Vehicle#: ________________________________

VIN#: ________________________________

Serial#: ________________________________

Model#: ________________________________

Manufacturer: ________________________________

PLEASE AUTHORIZE TRANSFER/DISPOSAL IN ACCORDANCE WITH CURRENT COUNCIL POLICY

Signature of Transferring Department Custodian ______________________

Signature of Receiving Department Custodian ______________________

Signature of Town Manager ______________________

Additional Comments:

FORWARD COPY OF EXECUTED FORM AND ANY SUPPORTING BACKUP DOCUMENTATION TO FINANCE DEPARTMENT

EXHIBIT D - FIXED ASSET DISPOSAL FORM

TO: FINANCE DEPARTMENT **DISPOSAL DATE:** ____________________

The following item was: DELETED

From the: ____ Department

ASSET INFORMATION:

Description: ________________________________

Acquisition Date: ________________________________

Cost New: ________________________________

Town Asset#: ________________________________

Town Vehicle#: ________________________________

VIN#: ________________________________

Serial#: ________________________________

Model#: ________________________________

Manufacturer: ________________________________

PLEASE AUTHORIZE TRANSFER/DISPOSAL IN ACCORDANCE WITH CURRENT COUNCIL POLICY

Signature of Department Custodian Verifying Deletion ____________________

Signature of Town Manager ____________________

Disposal Method:

☐ Sale/Auction

☐ Donation Recipient ____________________

☐ Junked/Scrapped ☐ Obsolete ☐ Broken

☐ Stolen Police Report Filed ☐ Yes ☐ No

☐ Lost

☐ Other ____________________

FORWARD COPY OF EXECUTED FORM AND ANY SUPPORTING BACKUP DOCUMENTATION TO FINANCE DEPARTMENT