



Capital Assets Policy and Procedures

Adopted 05/03/2005

Proposed Revision 07/15/2025

SECTION 1. PURPOSE

The purpose of the Capital Assets Policy is to define the procedures to account for the classification of the City's capital assets and to account for their depreciation in accordance with the Generally Accepted Accounting Principles (GAAP) and the Governmental Accounting Standards Board (GASB).

SECTION 2. POLICY

CAPITAL ASSETS

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 and water rights) or tangible (e.g. land, buildings, building improvements, vehicles, machinery, equipment, and infrastructure).

A capital asset is determined to be that with a cost of at least ~~\$5,000~~ \$25,000 per asset and a life expectancy greater than two years. Assets with a cost of less than \$500 or a useful life of two years or less will be classified as a *supply expenditure or expense* in the period in which they are acquired. Assets with a cost between \$500 and ~~\$5,000~~ \$25,000 and a useful life greater than one year will be classified as a *small tool expenditure or expense* in the period in which they are acquired. Small tools will be tracked for internal purposes by establishing and maintaining adequate control procedures at the departmental level.

The classes of capital assets will be: land; buildings and structures; infrastructure; improvements (other than buildings); machinery, equipment, and furniture; and vehicles. Construction in Progress will be recognized as an asset but is not eligible to be depreciated until the project is completed and/or asset is transferred to the City.

Donations of capital assets from an individual or entity are recorded at estimated fair market value at the date of acquisition for purposes of capitalizing the asset.

THRESHOLDS

Thresholds applied to capitalized assets will be at least ~~\$5,000~~ \$25,000 per unit and a useful life of two or more years. ~~with the following exception: Art collections and historical treasures will be considered exempt from capitalization if they are held for public exhibition or education, is protected and preserved, and is subject to a policy that proceeds from the sale of collectible items are used to acquire other collectibles. Capitalization thresholds will be applied to individual items rather than to groups of~~

similar items (e.g. desks and tables). Assets in the aggregate over \$50,000 will be recognized as a capital asset even if the per unit value is under \$25,000. Listed below are the only exceptions to this policy.

Permanent Easements

Permanent easements with a value of \$100,000 or more and a useful life greater than two years will be recognized as a capital asset. They will be considered intangible assets. The City's intangible assets are included in the Land category and are not amortized. If there are easement costs associated with a construction project and the easement costs are less than \$100,000, the easement costs will be included in the construction asset as a whole. Easements obtained during the construction project will be included with and amortized as part of the asset as a whole.

Software

Software which meets the City's \$25,000 threshold on a per unit basis will be capitalized unless the software is a short-term subscription-based technology arrangement. Only the Application Development Stage of any software development or implementation will be capitalized.

DEPRECIATION

Depreciation is the allocation of the cost of a *depreciable* capitalized asset over its estimated useful life. Depreciation is a financial reporting concept. Straight line depreciation will be the method used to allocate the cost on an annual basis. Land, easements and construction in progress are not considered depreciable assets.

REPAIRS AND MAINTENANCE VS. IMPROVEMENTS (BETTERMENTS)

Repairs and Maintenance

"Governments often expend resources on existing capital assets. Most often, these expenditures simply preserve the asset's utility. **Any outlay that does no more than return a capital asset to its original condition, regardless of amount, should be classified as maintenance and repairs [...]** and recognized as expense when incurred." ¹

Improvements (Betterments)

If the costs incurred provide additional value "either by 1) lengthening a capital asset's useful life or 2) increasing a capital asset's ability to provide service (i.e., greater effectiveness or efficiency), [...] the improvements should be capitalized and recognized as expense (i.e., depreciation or amortization) over the estimated useful life of the improvement." ²

To help determine whether an item is Repair & Maintenance (to be expensed) or a Betterment (to be capitalized), the City uses the following Capital Assets Decision Tree. Using the decision tree below, projects such as roof replacement or trail crack sealing would be expensed. Items such as a trail extension or the expansion of an athletic field would be capitalized.

Capital Fixed Asset Decision Tree

1. Does the asset exceed the \$25,000 capitalization threshold?
Yes – go to question #2
No – expense
2. Is the asset brand new or an extension/addition of an existing asset?
Yes – capitalize
No – go to question #3
3. Does the cost incurred allow the asset to perform a new function it did not perform previously?
Yes – capitalize
No – go to question #4
4. Does the cost incurred increase the asset's effectiveness or capacity?
Yes – capitalize
No – go to question #5
5. Does the cost incurred extend the asset's useful life by at least 2 years (rather than maintain the asset's current original useful life).
Yes – capitalize (Note: question #5 does not apply to infrastructure)
No – expense it

¹ GOVERNMENTAL ACCOUNTING, AUDITING, AND FINANCIAL REPORTING, "Improvements v. repairs," p. 450

² ACCOUNTING FOR CAPITAL ASSETS *A Guide for State and Local Governments*, "Improvements (betterments)," p. 36-37

VALUATION

When establishing the value of a capital asset, one of the following valuations must be used:

Actual Cost: The purchase price plus any additional charges incurred to place the asset in a position or location ready to serve the City. Additional charges consist of freight charges, site preparation costs, insurance on equipment while in transit, installation costs, legal fees and professional fees.

Estimated Cost: If actual costs are not available, the City should use estimated costs in valuing the capital asset. This should only pertain to an asset purchased in prior years that was not given a value for the capital asset system.

Acquisition Value (Used for Donated Assets): The price that would be paid to acquire an asset or the amount for which a liability could be liquidated at the acquisition date.

USEFUL LIFE

The determination of *useful life* was made utilizing the following tables:

City of Baxter Capital Assets Depreciation Schedule		
Useful Life		
Years	Months	Real Property - Class Code Description
Infrastructure		
12	144	Paths/Trails
20	240	Parking Lots
25	300	Streets (including curb/gutter)
40	480	Waterlines
40	480	Sanitary Sewerlines
40	480	Storm Sewerlines
10	120	Signage
20	240	Improvements
Vehicles		
10	120	Street Department Vehicles (Dump Trucks, Snow Plows, Street Sweepers, etc)
20	240	Fire Trucks
3	36	Police Squad Cars
5	60	All Other Department Vehicles
Machinery, Equipment, and Furniture		
5	60	Park Playground Equipment
7	84	Mower, Snow Blower, & Other Park Maintenance Equipment
10	120	Major Office Furniture
5	60	Other Major Equipment
3	36	Major Computer Equipment
Buildings and Structures		
40	480	City Buildings (City Hall, Fire Stations, Public Works Facilities, Community Centers, etc)
20	240	Park Gazebos, Shelters, Restrooms, and Concession Stands
25	300	Water Towers
20	240	Lift Stations
Improvements		
15	180	Lighting Systems
10	120	Landscaping
10	120	Outdoor Hockey Rinks, Bleachers, Ballfields & Ballcourts
10	120	Fencing and Gates



Lease and SBITA Accounting Policy and Procedures

Proposed Adoption 07/15/2025

SECTION 1. PURPOSE

This policy outlines the accounting process for leases and subscription-based technology arrangements (SBITAs) entered by the City of Baxter pursuant to GASB 87 effective January 1, 2022 and GASB 96 effective January 1, 2023.

SECTION 2. POLICY

STATEMENT

Finance will review and evaluate all leases and SBITAs to ensure compliance with GASB 87 and 96. A materiality threshold of \$25,000 has been established for implementation. Any lease or SBITA under the materiality threshold will be excluded from this policy. In addition, short-term leases, leases that transfer ownership of the asset, leases of assets held as investments, and short-term SBITAs are excluded.

LESSOR

The City will recognize a lease receivable and deferred inflow of resources measured at the present value of payments expected to be received during the lease term discounted at the prior year average prime lending rate. Any payments received at or before commencement relating to future periods will be added to the lease receivable to calculate the deferred inflow of resources. The City will also recognize interest revenue and an inflow of resources amortized using the straight-line method over the lease term.

LESSEE

The City will recognize a right to use lease asset and lease liability measured at the present value of payments expected to be made during the lease term discounted at the prior year average prime lending rate. Lease payments made to the lessor at or before the beginning of the lease term and any direct costs to place the asset into service will be added to calculate the right to use lease asset. Lease incentives received from the lessor will be deducted from the right to use lease asset. The right to use lease asset will be amortized over the shorter of the useful life or lease term using the straight-line method.

The City will recognize a right to use SBITA asset measured at the present value of subscription payments expected to be made during the subscription term plus payments made to the vendor before commencement of the subscription term and any capitalizable implementation costs less any incentives received from the vendor. A subscription liability will be measured at the present value of payments expected to be received during the term.

The right to use SBITA asset will be amortized over the shorter of the useful life or SBITA term using the straight-line method.

SBITA activities may be grouped into three categories.

1. **Preliminary Project Stage** - conceptual framework, evaluation of vendors, and final selection. Payments are expensed.
2. **Initial Implementation Stage** – design, configuration, coding, testing, data conversion if the asset can't be used without data conversion, charges necessary to place the asset into service. Payments are capitalized and included in the SBITA asset.
3. **Operation and Additional Implementation Stage** – maintenance, troubleshooting, adding modules, data conversion not necessary for placing the asset into service. Payments will be expensed unless additional modifications result in increased functionality, the ability to perform additional tasks, or increased efficiency. These payments would be capitalized and added to the asset value.

Training costs associated with SBITAs will be expensed, regardless of the stage incurred.

LEASE MODIFICATION

The City will reassess the lease or SBITA term and calculations annually using professional judgment. Remeasurement will occur if

- The lessee or lessor exercises an option previously determined to not exercise
- The lessee or lessor does not exercise an option previously determined to exercise
- An event in the lease requiring an extension or termination takes place

DEFINITIONS

- Lease – A contract that conveys control of the right to use another entity's nonfinancial asset (property, plant, or equipment) for a period of time in an exchange or exchange-like transaction
- SBITA – A contract that conveys control of the right to use another party's IT software, alone or in combination with tangible capital assets, for a period of time in an exchange or exchange-like transaction
- Control – The right to obtain the present service capacity from use of the asset and the right to determine the nature and manner of use of the asset
- Short-term lease/SBITA – A maximum possible term of 12 months or less, including any options to extend. Payments should be recognized as outflows of resources or inflows of resources based on provisions of the contract
- Prime lending rate – Interest rate used by banks to lend to customers with good credit
- Lease/SBITA term – The period during which a lessee has a noncancelable right to use an asset plus
 - Periods covered by a lessee's option to extend the lease or SBITA if it is reasonably certain the lessee will exercise the option

- Periods covered by a lessee's option to terminate the lease or SBITA if it is reasonably certain the lessee will not exercise the option
- Periods covered by a lessor's option to extend the lease if it is reasonably certain the lessor will exercise the option
- Periods covered by a lessor's option to terminate the lease if it is reasonably certain the lessor will not exercise the option
- Cancelable periods for which both lessee and lessor have an option to terminate without permission or if both parties must agree to extend are excluded

RELATED INFORMATION

GASB Statement 87

GASB Statement 96