

# CITY OF COLUSA FIXED ASSET POLICY

DATE ADOPTED:2004

DATE AMENDED:

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## GENERAL

The purpose of this policy is to establish guidance in identifying, capitalizing, depreciating, and accounting for city of Colusa fixed assets.

## DEFINITION OF FIXED ASSETS

A fixed asset (a.k.a. capital asset) is defined under this policy as an asset owned by the city of Colusa that – 1) is acquired for use in city of Colusa operations, 2) possesses physical substance, and 3) are long-term in nature (i.e., useful life exceeds two years), and 4) are subject to depreciation.

## FIXED ASSET CATEGORIES

Fixed assets shall be segregated into the following categories:

- A. Land
- B. Land improvements with a limited life, such as driveways, walks, fences landscaping, and parking lots.
- C. Buildings
- D. Building improvements, such as HVAC equipment, remodeling costs  
And landscaping
- E. Water system infrastructure, such as pipelines, valves, hydrants, wells, pumping and treatment facilities
- F. Donated water system Infrastructure
- G. Water meters
- H. Machinery and Equipment, such as generators, compressors, jackhammers, tools, trimmers, etc.
- I. Fleet equipment, such as cars, trucks, trailers and backhoes
- J. Office equipment such as furniture and fixtures
- K. Computer systems, purchased software and telephones

## CAPITALIZATION THRESHOLDS

Fixed assets otherwise eligible for capitalization, must also meet the following criteria in order to be classified as a fixed asset. Such criterion shall be applied to individual assets and not to groups of similar assets.

- A. Fixed assets may only be capitalized if they have an estimated useful life of at least two years following the date of acquisition, and
- B. Water system infrastructure assets (purchased, donated, or self-constructed) must have a dollar value greater than \$3,000.00
- C. Buildings, land, building improvements, fleet equipment, and machinery and equipment must have a dollar value greater than \$1,000.00
- D. Office equipment, computers, purchased software, and telephones must have a dollar value greater than \$500.00

## VALUATION OF FIXED ASSETS

The value assigned to fixed assets shall be determined as follows:

### PURCHASED FIXED ASSETS

The capitalized value of purchased fixed assets shall be determined using the historical cost of the asset. Specific costs eligible for capitalization are identified under section Capitalizable Costs below. If the historical cost of the asset is not available or cannot be reasonably determined, an estimated cost may be determined using the best available information.

### SELF-CONSTRUCTED FIXED ASSETS

Only self-constructed water system infrastructure assets intended to be used in the operations of the city are eligible for capitalization. The capitalized value of such self-constructed assets shall be determined using only direct costs associated with the construction up until the time the construction is complete and the infrastructure is ready for its intended use.

### DONATED FIXED ASSETS

The capitalized value of donated assets shall be determined using the fair market value at the time of donation. If the fair market value of the asset is not available or cannot be reasonably determined, and estimated cost may be determined using the best available information. The value of donated intangible assets shall be accounted for separate from donated tangible fixed assets.

### CAPITALIZABLE COSTS

Costs eligible for capitalization under this policy are:

For Land:

- Purchase price or appraised value, whichever is more readily determinable;
- Closing costs, such as title fees, attorney fees, taxes and recording fees;
- Costs necessary to get the land ready for its intended use, such as grading, clearing, filling, draining, surveying, and demolition of existing structures;
- Assumptions of liens, encumbrances or mortgages;

For purchased assets other than land:

- Purchase price
- Sales tax
- Freight and handling charges
- Insurance costs while in transit
- Assembling and installation charges
- Discounts or rebates shall be accounted for as a reduction to the purchase price;
- Costs necessary to accommodate the equipment in its new location

For self-constructed assets:

- Direct labor costs (to include wages and benefits);
- Direct materials cost;
- Professional fees of engineers, inspectors, attorneys, consultants, etc.;
- Insurance premiums and related costs incurred during construction;
- Costs necessary to get the site ready for its intended use, such as grading, clearing, filling, draining, surveying and demolition of existing structures;

For donated fixed assets:

- Fair market or appraised value at date of donation;
- Installation costs;
- Professional fees of engineers, inspectors, attorneys, consultants, etc.;
- Other normal or necessary costs required to place the asset in its intended location and condition for use.

## CAPITALIZATION OF COSTS SUBSEQUENT TO ACQUISITION

Additional costs incurred after a fixed asset is placed in use shall be accounted for as follows:

### ADDITIONS

An “Addition” is defined as an expenditure that either significantly extends the useful life or productivity of the existing fixed asset or creates a new fixed asset. All “Additions” to existing fixed assets should be capitalized as long as the asset meets the criteria of section Capitalization Thresholds above.

### IMPROVEMENTS AND REPLACEMENTS

“Improvements and Replacements” are defined as expenditures that involve substituting a similar fixed asset, or portion thereof, for an existing one. All “Improvements and Replacements” to existing fixed assets should be capitalized as long as the asset meets the criteria of section Capitalization Threshold above. If the existing asset’s book value is determinable, then the existing asset should be removed from the books at the time the betterment or replacement is

recorded. If the existing asset is not separately identifiable, then the betterment or replacement should be capitalized as the existing asset's book value is assumed to be negligible.

#### REARRANGEMENT OR REINSTALLATION

"Rearrangement or Reinstallation" costs are defined as expenditures that involve moving and existing asset to a new location or reinstalling a similar asset in place of an existing asset. All Rearrangement or Reinstallation" costs should be expensed in the period incurred.

#### REPAIRS AND MAINTENANCE

"Repairs and Maintenance" costs are defined as expenditures that involve maintaining the asset in good or ordinary repair. All "Repairs and Maintenance" costs should be expensed in the period incurred.

#### DEPRECIATION OF FIXED ASSETS

Fixed assets shall be depreciated on a straight line basis in accordance with the following schedule:

| <b>Category</b>   | <b>Depreciation Per Year</b> |
|---|------------------------------|
| Land  | None                         |
| Land Improvements   | 15 Years                     |
| Buildings   | 40 Years                     |
| Building Improvements   | 15 Years                     |
| Water System Infrastructure (pipelines and related Structures, wells, treatment facilities and equipment) | 50 Years                     |
| Water Meters  | 10 Years                     |
| Machinery and Equipment (generators, compressors, Jackhammers, tools and equipment)                       | 5 Years                      |
| Fleet Equipment (cars, trucks, backhoes, other mobile Motorized equipment)                                | 5 Years                      |
| Office Furniture and Fixtures   | 7 Years                      |
| Computer Equipment, Purchased Software and Telephones   | 4 Years                      |

### PHYSICAL INVENTORY OF FIXED ASSETS

A physical inventory of the following categories of fixed assets shall be performed annually:

- Machinery and Equipment
- Fleet Equipment
- Office Furniture, Fixtures and Telephone Equipment
- Computer Equipment, Purchased Software and Telephones

The results of the physical inventory shall be reconciled with the city of Colusa's asset inventory system. Differences will be reconciled with explanations provided to the City Council.

### DISPOSAL OF FIXED ASSETS

Fixed assets that have become obsolete shall be disposed in accordance with city of Colusa's policy on disposing of surplus property.