



City of Joshua, Texas  
Capitalization Policy  
September 21, 2023

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<b>Section</b>	<b>Page</b>
I. Purpose.....	3
II. Responsibility.....	3
III. Asset Classification.....	3-5
Land	
Buildings	
Improvements	
Infrastructure	
Construction in progress	
Right-to-use leased equipment	
Equipment	
IV. Capitalization Threshold.....	5
V. Maintenance.....	5
VI. Depreciation.....	5-6
VII. Disposal.....	6

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Purpose

The purpose of this policy is to ensure adequate control and appropriate use of City of Joshua (City) capital assets. The procedures are intended to define capital assets and to establish guidelines for budgeting, financial reporting, depreciating, and disposing of capital assets. These assets must be accounted for at historical cost or estimated historical cost and fairly represented in the City's Annual Comprehensive Financial Report (ACFR) in accordance with current standards as established by the Governmental Accounting Standards Board (GASB).

Responsibility

It is the policy of the City that capital assets be used for appropriate City purposes and be properly accounted for. It is the responsibility of the Finance Department to ensure capital assets will be inventoried on a periodic basis and accounted for by asset category. It is the responsibility of the Department Heads to ensure that proper budgeting and purchasing guidelines are followed and that capital assets are adequately secured.

Capital Asset Classification

Capital assets are major assets that are used in governmental operations and that benefit more than a single fiscal period. These assets are not intentionally acquired for resale, nor are they readily converted to cash. The identifying characteristics of a capital asset are "significant value" and "useful life". Capital assets are categorized into several major classes. These classes provide the structure for the capital asset accounts and define processing requirements for the different types of assets. Major asset classes include:

- Land
- Buildings

- Improvements
- Infrastructure
- Construction in progress
- Right-to-use leased equipment
- Equipment

Land acquired and intended for public use by the City will be capitalized. The amount to be capitalized is the actual cost at the time of acquisition. Actual cost includes purchase price and any fees for related services such as commissions, surveying fees, appraisal and negotiation fees, professional fees of engineers, attorneys, appraisers and financial advisors, damage payments, title preparation costs, site preparation costs, cost to demolish unwanted structures (less salvage) and property removal (relocation or reconstruction) of others. For donated land, the fair market value of the land as of the date of acquisition will be capitalized.

A building is a structure that is permanently attached to the land, has a roof, and is partially or completely enclosed by walls. Capitalized original cost on a constructed building will include the cost of constructing the asset, architects' fees, engineers' fees, permits, insurance, and administrative costs during construction.

Improvements are considered assets built, installed, or established to enhance the quality or facilitate the use of land for a specific purpose. Improvements include fencing, landscaping, parking lots, recreation areas, and pavilions.

Infrastructure is usually considered stationary and can be preserved for a significantly greater number of years than most capital assets. It is often linear and continuous in nature. Examples of infrastructure are streets, curbs, gutters, sidewalks, fire hydrants, bridges, tunnels, drainage facilities, radio towers, light systems, and signage.

Construction in progress is used to account for amounts expended on an incomplete asset. Once the asset is complete, related costs are transferred from the construction in progress class to the applicable asset class.

Right-to-use leased equipment is equipment that the City has the right to use over the life of a lease. The value is determined by the lease liability plus any lease payments made to the lessor at or before lease commencement, less any lease incentives received, plus any initial direct costs incurred by the City.

Equipment is fixed or movable tangible assets to be used for operations that the life of at least two years. Examples of equipment are vehicles, off-road equipment, office equipment, computer equipment, furniture, and fixtures. Equipment assets are valued at actual cost including ancillary charges. Ancillary costs considered in determining the value of these assets include transportation charges, installation costs and extended warranty contracts or any other normal or necessary costs required to place the asset in its intended location and condition for use.

### Capitalization Threshold

The City has determined that an asset of significant value shall be defined as an item with an acquisition cost of \$5,000 or greater. If an asset meets the threshold test of significant value and has a useful life of at least 2 years, it shall be classified as a capital asset. Capital assets are recorded at actual or estimated historical cost or, in the case of donated assets, at fair market value on the date of acquisition. The cost of an asset should include ancillary charges that are directly attributable to asset acquisition and necessary to place the asset into its intended location and condition for use.

### Maintenance

Maintenance expenses are incurred to keep assets in normal operating condition and to help maintain the original use of the asset. Maintenance expenses do not extend the life of the asset beyond the expected useful life at acquisition or increase the future service potential of the asset. Maintenance costs are incurred to keep the asset operational throughout its useful life. Therefore, the replacement of roofs, plumbing/electrical systems and carpet are typically classified as maintenance costs. It does not extend the life of the asset longer than originally intended, so the costs are expensed. Regardless of the dollar amount, maintenance costs are expensed and not capitalized. The costs are recorded to repairs and maintenance expense.

### Depreciation

Depreciation shall be computed using the straight-line method over the estimated useful life of the capital asset. Land is not depreciated since it is considered not to have a limited useful life and its salvage value is unlikely to be less than its acquisition cost. Construction in progress is also not depreciated. The following table identifies classes of capital assets and their expected useful lives in years.

<b>Asset Class</b>	<b>Useful Life in Years</b>
Land	N/A
Buildings	20-50
Improvements	10-50
Infrastructure	15-50
Construction in progress	N/A
Right-to-use leased equipment	2-20
Equipment	2-20

### Disposal

All capital assets are City property and may not be donated, discarded, or transferred to another owner without direct authorization from the City Manager. Departments must notify the Finance Department of all surplus capital assets and any other surplus items that are ready for disposition. Once notice has occurred, the Finance Department will coordinate with departments to verify that all necessary information has been received from the department. After all necessary information has been received, the Finance Department will schedule the auction. The disposition of the capital assets the City purchased with federal, state, or other grant funds must follow federal guidelines. The guidelines of the specific grant, or general federal guidelines, will dictate the duration of time that the asset must remain City property. The guidelines also will indicate the disposition of the proceeds from the sale of the asset.