



Fiscal Policies Capital Assets

Capital assets represent one of the largest asset classifications of the City. The City utilizes Intellitrak (Fixed Asset System) and Incode to provide inventory control of and accountability for capital assets, and to gather information for the preparation of the Annual Comprehensive Financial Report (ACFR).

This policy discusses certain accounting standards that may allow for more than one accounting treatment under Generally Accepted Accounting Principles (GAAP). Actual FAS procedures and basic accounting are not discussed in this policy.

DEFINITIONS

Ancillary Costs: Costs in addition to purchase or construction costs, related to placing a capital asset into its intended location and condition for use. Ancillary costs are included in the cost of the capital asset; however, minor ancillary costs may be expensed. Ancillary costs include the following:

- For Buildings and Improvements Other Than Buildings - Professional fees of architects, attorneys, appraisers, financial advisors, and similar fees; damage claims; insurance premiums, interest expense (for enterprise fund assets), and related costs incurred during construction; and other expenditures/ expenses.
- For Land - Legal and title fees, surveying fees, appraisal and negotiation fees, damage payments, site preparation costs, costs related to demolition of unwanted structures, and other expenditures/expenses.
- For Machinery, Equipment, & Other - Transportation charges, installation costs, and any other normal and necessary expenditures/expenses.
- For Infrastructure - Landscaping, curbs, gutters, sidewalks, noise abatement walls, and any other necessary expenditures/expenses.

Book Value: The cost of any asset less its related accumulated depreciation or amortization.

Building: Walled and roofed structure plus improvements that are permanently attached. This capital asset is recorded at cost including ancillary costs. Land costs are excluded. A mobile home on a permanent foundation is a building. Building improvements include items such as loading docks, heating and air-conditioning equipment, and all other property permanently attached to the structure. Items not included are furniture or other equipment that are not an integral part of the structure.

Capital Asset: Land, inventoriable personal property (valued at \$5,000 or more). Capital assets include buildings, improvements other than buildings, construction in progress, land, infrastructure, machinery and equipment, capital leases, water rights, and computer software. Capital assets that have a value

equal to or greater than \$5,000 and a useful life greater than three years are included in the financial statements.

Capital Lease: Lease with contractual terms transferring to the City substantially all benefits and risks inherent in ownership of the property. Capital leases are capital assets meeting one or more of the four following criteria:

- Ownership of the leased property is transferred to the City by the end of the lease.
- The lease contains a bargain purchase option.
- The lease term is equal to 75 percent or more of the estimated useful life of the leased property.
- The present value of the minimum lease payments (at inception of the lease), excluding executory costs (e.g., insurance, maintenance, and taxes, including any profit thereon), is 90 percent or more of the fair value of the leased property.

Capital Outlay: A budgetary term. While capital assets may be purchased from the capital outlay budget, not all purchases from the capital outlay budget are capitalized.

Capitalized Asset: All capital assets with a cost of at least \$5,000 per asset and a life expectancy of greater than three years.

Construction in Progress: Capital asset reflecting the cost of construction work undertaken, but not yet completed, that will result in a capitalized asset when finished. Enterprise funds include interest expense in construction in progress; governmental activities, including internal service funds, do not include interest in the cost of capital assets.

Depreciation: Systematic allocation of the cost of a depreciable capitalized asset (less salvage value if any) over its estimated useful life.

Depreciable Capitalized Asset: Capitalized asset that is gradually used up and loses function over time due to normal and ordinary wear and tear, obsolescence, and other factors. These assets are exhaustible by their very nature. Most capitalized assets are depreciable. Land and easements are considered inexhaustible and are not depreciated. Construction in progress is not depreciated.

Donation: An asset received from an individual or a non-City entity, recorded at estimated fair market value at the date of acceptance.

Easement: An asset that reflects the purchased right to use land without ownership. This right is considered permanent and inexhaustible. Easements are perpetual in nature and transfer with the land if the land is sold. Permanent easements are recorded as land. Temporary easements purchased as ancillary to placing a capitalized asset into its intended state of operation are capitalized.

Improvements Other Than Buildings: Costs associated with permanent improvements such as parking lots, fencing, sidewalks, landscaping and lighting systems. The costs are not specifically identifiable to a particular City-owned building.

Infrastructure: Capital assets that are roads, bridges, drainage systems, water and sewer systems, and lighting systems owned or managed by the City of Mission.

Inventoriable Capital Asset: Capital assets of the City with a unit cost of at least \$5,000.

Land: Capital assets that are real property, excluding buildings and depletable resources, with the title owned by the City. Land costs include ancillary costs.

Machinery, Equipment, & Other: Durable capital assets that are complete in and of themselves and are not permanently attached to a building or land. This asset category includes such items as lawnmowers, tractors, graders, vehicles, computers, copy machines, office furniture, and similar assets. Mobile homes not on a permanent foundation should be included in this category.

Transferred Capital Asset: An asset transferred from one fund to another fund.

POLICY

Asset Identification

All inventoriable capital assets of the City will be tagged, when practical, with a numbered City of Mission Property Tag affixed in a readily identifiable location. Land and other assets that cannot be reasonably tagged are excluded from the tagging requirement; however, they are assigned a property number for tracking in the fixed asset system.

Capital Assets

Finance has the responsibility to record at a minimum all inventoriable capital assets. These assets should be systematically and accurately recorded and properly classified in Intellitrak and Incode.

Finance department annually requests each department director to conduct their annual inventory of all personal property. Personal property includes furniture, equipment, etc., that cost \$5,000 or more per item.

Any asset below the threshold of \$5,000 is considered a non-capitalized item and therefore, not inventoried.

Capitalized Assets

Only capitalized assets are reported in the financial statements. Assets below the \$5,000 capitalization threshold are expensed. Assets \$5,000 and above are generally capitalized by the city with the following exceptions:

- Construction in Progress (CIP): City will not record a CIP project as their own capital asset until Finance has received verbal confirmation from the department. Even though an agency may already be occupying the constructed building, the CIP project is carried as an asset until the confirmation is received from Finance.
- Capital Leases: If the lease involves acquisition of more than one asset, each asset is to be capitalized if the present value of minimum lease payments, or fair market value, whichever is less, is \$5,000 or more. Leases not meeting these criteria are treated as operating leases.
- Routine repairs and maintenance that help an asset maintain the original useful life are expensed regardless of cost. Asbestos removal should be expensed.

Depreciation and Amortization

For depreciable capital assets, depreciation or amortization expense is recorded as a direct expense of the fund and function (budget unit). Depreciation for all depreciable capitalized assets is calculated and recorded using the straight-line method:

$$\text{Depreciation} = \frac{\text{Cost} - \text{Salvage Value}}{\text{Useful Life}}$$

The following ranges are available for asset useful life:

Buildings: 10-30 years

Improvements: 5 - 50 years

Machinery, Equipment, & Other: 3 - 20 years

Infrastructure: 10 - 50 years

As part of the annual agency inventory physical count, it is recommended to review the useful life of assets and make appropriate changes.

Setting Useful Life for an Improvement

When recording useful life for an improvement, the general rule is to record the improvement at its anticipated useful life.

Dispositions

The procedures and guidelines set forth by the City are to be followed when an inventoriable capital asset is surplus from inventory. (Reference Exhibit A).

When a capital asset is replaced or disposed of, the original cost and accumulated depreciation are to be removed from the books. Any associated gain or loss upon disposal must be recorded at end of year, and removed from Intellitrack.

If in the event of a change to the capital asset threshold amount, all assets that fall under the new threshold may be removed from inventory once fully depreciated without being surplus.

Administrative Procedures

Intellitrak record systems shall contain at least the following data elements:

1. Department Name - The city department name.
2. Purchase Date/In-Service Date – The date the expense was posted to Incode accounting system.
3. Asset Class - General category that specific class codes will roll up to, such as Land, Buildings, Improvements, etc.
4. Asset Category - A code used to categorize the type of capital asset.

5. Unit Cost - The total cost (value) assigned to the capital asset.
6. Total Depreciation - The total depreciation expense incurred to date for the capital asset.
7. Current Depreciation - The total depreciation expense incurred fiscal-year-to-date for the capital asset.
8. Depreciable Value – The book value of the asset.
9. Account - The number of the fund and funding source or sources associated with the acquisition of the asset.
10. Asset Number - The City of Mission property tag affixed to the capital asset. This is not required for land, buildings, or other capital assets that cannot reasonably be tagged. However, an identifying number is needed with a leading letter.
11. Location - An identification code to indicate where the capital asset is located.
12. Owner – The title of the fund utilizing/purchasing the capital asset.
13. Useful Life - The estimated number of years of use to be received from the capital asset.
14. Status - Describes the condition of the property at the date of acquisition, or lists the property as sold, surplus or donated.
15. Depreciation Thru - Date the depreciation or amortization will be processed thru based on class selected.

We recommend that an agency capital asset record system include the following data elements for personal property:

- Serial Number - The sequential identification number assigned by the manufacturer (not the model number).
- Description - An explanation of what the capital asset is.
- Manufacturer - Either the name of the manufacturer or the commonly accepted trade name.
- Model year - For automobiles.
- Order Number - The purchase order number used for acquisition of the capital asset.

We recommend that an agency capital asset record system include the following data elements for real property:

- Block Number - A legal description of a specific real property.
- Parcel - A legal description of a specific real property.
- Tract - A legal description of a specific real property.
- Lot Number - A legal description of specific real property.

EXHIBIT A

CITY OF MISSION PROCEDURES FOR DISPOSING ITEMS

Departments should submit Asset Surplus\Transfer Form for any asset that they determine is no longer of use, which will provide the following information to Finance:

- ♦ 1 Description of the asset.
- ♦ 2 Inventory asset number (if applicable).
- ♦ 3 Serial number (if applicable).
- ♦ 4 Present location of asset.

Finance will prepare proper disposition form to declare items surplus/salvage by city council.

Once items have been surplused at city council meeting, Finance will get with department to coordinate disposal/auction procedures.

- Disposal – Consist of getting with Sanitation to pick up asset.
- Auction – Coordinate with department to take pictures of asset in order to post on auction website and coordinate with Finance after sale in order to schedule pick up of asset.