Capital Asset Policy

Purpose and Objectives
The purpose of the Capital Asset Policy is to establish guidelines to ensure that accurate records of assets owned, purchased, replaced, sold and/or traded-in are maintained. The objectives are:

- To manage and maintain the capital asset portfolio of the City which includes land, buildings, building improvements, machinery, furniture, equipment, vehicles, works of art and historical treasures, infrastructure, and construction in progress.
- To determine the appropriate depreciation method to use in accordance with Generally Accepted Accounting Principles (GAAP).
- To provide the City with accurate record keeping for inventory and financial reporting purposes.

Responsibility and Authority
The Director of Finance shall be responsible for ensuring the principles and policies set in the Capitalization Policies and Guidelines are consistently applied and carried out in the conformity with Generally Accepted Accounting Principles (GAAP) for Governments. As such the Director of Finance shall assure that this policy is carried out in conformity with the financial policies, goals and strategies set forth by the City Manager, the Mayor, and the City Council.

Overview
Costs to obtain tangible assets with lives with greater than one year are called capital expenditures, and such expenditures are commonly said to be capitalized. Expenditures treated as expense of the current period are called operating expenses. There are several factors involved in determining whether expenditure is to be classified as a capital expenditure or as an operating expense. Following is a synopsis of guidelines used to determine whether or not an item is to be capitalized.

Criteria for Capitalization
For the purpose of this policy, a “capital asset” must be capitalized if they meet the following criteria:

- The expected useful life is longer than one year.
- The asset has at least a unit cost of $5,000.00 or more.
- Expenditures that materially add to the value or prolong the life of existing equipment will be considered capital assets and will be appropriately capitalized.

- The item belongs to one of the general classes of assets as defined by general accounting terms.
- Land (all land capitalized regardless of cost)
- Buildings and Building Improvements
- Equipment
- Improvements other than Buildings
- Infrastructure assets

Infrastructure assets are long-lived capital assets that normally are stationary in nature and 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 lighting systems.

A capitalization threshold is the cost established by the Director of Finance that must be met or exceeded if an asset is to be recorded and depreciated as a capital asset. The capitalization threshold is based on the cost of a single asset. Assets that do not meet the capitalization threshold will be recorded as expenditures or expenses. **For the purposes of property control (insurance, security, etc.), the Director of Finance and/or department heads may develop and maintain the appropriate record keeping system(s) to account for assets which do not meet the capitalization threshold.** Some circumstances, assets with a unit cost less than $5,000 may be capitalized if they are part of a large project or renovation or if the improvement added to the value or prolonged the life of the asset. This determination will be made by the Finance and Accounting Department at the time of the initial request for purchase of the asset.

### Useful Lives and Thresholds of Capital Assets

<table>
<thead>
<tr>
<th>Class</th>
<th>Asset</th>
<th>Capitalization Life (Years)</th>
<th>Threshold ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Land</td>
<td>Land and Site Improvements</td>
<td>Inexhaustible</td>
<td>Any Value</td>
</tr>
<tr>
<td>Buildings</td>
<td>Buildings</td>
<td>50</td>
<td>50,000</td>
</tr>
<tr>
<td>Buildings</td>
<td>Building Improvements</td>
<td>10-50</td>
<td>10,000</td>
</tr>
<tr>
<td>Equipment</td>
<td>Accounting Systems</td>
<td>5-10</td>
<td>5,000</td>
</tr>
<tr>
<td>Equipment</td>
<td>Construction Machinery</td>
<td>10</td>
<td>5,000</td>
</tr>
</tbody>
</table>
Equipment

<table>
<thead>
<tr>
<th>Equipment</th>
<th>Misc. Equipment</th>
<th>5-10</th>
<th>5,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equipment Fire Fighter Apparatus</td>
<td>10</td>
<td></td>
<td>5,000</td>
</tr>
<tr>
<td>Equipment Computer Hardware and Software</td>
<td>5</td>
<td></td>
<td>5,000</td>
</tr>
<tr>
<td>Improvements Fences, Trails, etc.</td>
<td>20</td>
<td></td>
<td>20,000</td>
</tr>
<tr>
<td>Improvements Docks</td>
<td>10</td>
<td></td>
<td>20,000</td>
</tr>
<tr>
<td>Improvements Dredging</td>
<td>10</td>
<td></td>
<td>50,000</td>
</tr>
<tr>
<td>Improvements Parks and Playgrounds</td>
<td>20</td>
<td></td>
<td>50,000</td>
</tr>
<tr>
<td>Improvements Swimming Pools</td>
<td>20</td>
<td></td>
<td>50,000</td>
</tr>
<tr>
<td>Infrastructure Bridges &amp; Tunnels</td>
<td>50</td>
<td></td>
<td>100,000</td>
</tr>
<tr>
<td>Infrastructure Curbs &amp; Sidewalks</td>
<td>50</td>
<td></td>
<td>50,000</td>
</tr>
<tr>
<td>Infrastructure Drainage</td>
<td>50</td>
<td></td>
<td>100,000</td>
</tr>
<tr>
<td>Infrastructure Parking Lots</td>
<td>25</td>
<td></td>
<td>20,000</td>
</tr>
<tr>
<td>Infrastructure Lift Stations</td>
<td>15</td>
<td></td>
<td>20,000</td>
</tr>
<tr>
<td>Infrastructure Sewer</td>
<td>50</td>
<td></td>
<td>100,000</td>
</tr>
<tr>
<td>Infrastructure Streets (Primary)</td>
<td>50</td>
<td></td>
<td>100,000</td>
</tr>
<tr>
<td>Infrastructure Streets (Secondary)</td>
<td>40</td>
<td></td>
<td>100,000</td>
</tr>
<tr>
<td>Infrastructure Traffic Signals and Signs</td>
<td>25</td>
<td></td>
<td>50,000</td>
</tr>
</tbody>
</table>

**Accounting for Capital Assets**

City owned land, buildings, and infrastructure will be segregated from furniture and equipment in separate accounts. The City will follow the new GASB 34 guidelines as it maintains Capital Asset Records of the City. Proper insurance coverage must be maintained by the City for all premises, furniture, and equipment. Coverage amounts will be reviewed yearly by a designated officer of the City and presented to the City Council for approval.

It is the responsibility of the Finance and Accounting Department to record the costs of capitalized assets acquired and to maintain accurate inventory and depreciation records. Capital assets that meet the minimum capitalization threshold will be recorded at historical cost and depreciated on a straight-line method for financial statement purposes. Entries to record depreciation on new purchases will be calculated and posted at fiscal year-end. Donated capital assets will be recorded at their estimated fair value at the time of acquisition, including any ancillary charges. Property will be recorded at historical cost unless there has been a permanent loss of value that should be reflected in the capital asset accounts. The value will usually include costs related to acquisition including freight, delivery, training, and installation.
Construction in Progress (CIP)
Should time required to complete a project extend past the close of any accounting period, it will be placed in (CIP) and not capitalized until project is complete.

Capital Leases
All policies and procedures mentioned above also apply to capitalized leases. All lease purchases and/or agreements must be in compliance with all applicable laws and regulations. Any operating leases which will not be capitalized will be approved by the Mayor. All copies of lease agreements should be maintained by the City Secretary and Director of Finance. Capital leases will be recorded on the books and will be accounted for in accordance with Generally Accepted Accounting Principles as it applies to municipalities.

Fixed Asset Components
An addition is a new and separate asset or an extension of an existing asset. All assets will be added according to the thresholds established at the time of acquisition. Improvements are added based on the thresholds established as long as it seems reasonable that the improvement adds value to the existing asset. Infrastructure improvements will be added after consultation from our City Engineer to obtain the value that was added taking into consideration of any disposals that may have occurred during the construction.