CITY OF EXAMPLE, OKLAHOMA

CAPITAL ASSET POLICIES

PURPOSE OF THE MANUAL

The Capital Asset Policy Manual is a publication of the Accounting Department of the City of Example. It is intended that the Manual be used as a working guide by City personnel concerned with property accounting activities.

The primary objectives of the Manual are to:

Provide for consistent and uniform accounting of capital asset transactions throughout the City;

Provide guidelines for physical control, accountability and management of capital assets; and

Provide a training tool to the individuals responsible for capital asset management.

WHAT IS A CAPITAL ASSET?

A capital asset as a specific piece of property or equipment that has the following characteristics:

1. Mostly tangible in nature;
2. Useful life longer than one year; and
3. Significant value.

The City has defined "significant value", for capitalization policy purposes, as having an initial cost in excess of $1,000. Certain exceptions to the $1,000 value exist, and the City has chosen to include those assets on a department-by-department basis.

CLASSIFICATION OF CAPITAL ASSETS

Capital assets of the City will be grouped and reported in the financial statements in one of the following major types:

1. Land;
2. Buildings;
3. Other improvements
4. Machinery, furniture and equipment;
5. Utility infrastructure (water and sewer lines, treatment plants, lift stations, etc.)
6. General infrastructure (streets, bridges, drainage systems, etc.)

The above six classifications of capital assets are defined as follows:

1. **Land**: Real property, which generally includes both the surface and the contents of the land. Right to land may include full ownerships, accompanied by deed and abstract of title. There may also be land interests or rights of passage such as easements, and air rights all of which require outlay and/or common law procedures.

   Land cost includes the initial land or rights cost, plus legal and title fees, surveying, appraisal and negotiation fees, damage payments, clearing, filling, leveling and demolition of unwanted improvements.

2. **Buildings**: A facility used to house and safeguard public property and personnel. Buildings are realty and designed with a foundation, roof, and may or may not have full enclosure. Building cost includes construction or purchase costs and the cost of all fixtures permanently attached and made a part of a building.

3. **Other improvements**:

Improvements are also realty and those not attached or mounted on or in a building are normally considered improvements not chargeable to land or buildings. Improvements other than buildings cost includes purchase or contract price, job order cost, professional fees of architects, attorneys, appraisers, financial advisors, damage claims, cost of fixture attached and insurance during construction.

4. **Machinery, furniture and equipment**:

This category usually refers to furniture, rolling stock (cars, trucks, etc.) and machinery. The intended use of the equipment by the City determines this classification. Furniture, machinery, and fixtures which are attached to land, buildings or other improvements in such a way that removal alters the intended use of the facility are a part of the land, building or improvement to which attached.

5. **Utility infrastructure:**

This category includes all utility infrastructure such as water and sewer lines, water towers, and other utility infrastructure, and are primarily accounted for in the City's utility enterprise fund.

6. **General infrastructure:**

These assets included roads, bridges, curbs and gutters, streets and sidewalks, drainage systems, lighting systems, fire hydrants and similar assets that are immovable and of value only to the City. The Governmental Accounting Standards Board (GASB) states that the generally accepted accounting principles (GAAP) reporting of such assets are required with the implementation of GASB Statement 34. The City, classified as a Phase III government by the GASB, is not required to account retroactively for all general infrastructure in place when it implemented GASB Statement 34. However, it is the City's policy to maintain detail capital asset records for major infrastructure assets acquired, constructed or significantly improved in fiscal years subsequent to GASB Statement 34 implementation.

HOW ARE CAPITAL ASSETS ACQUIRED?

A capital asset may be acquired in a number of different ways. These include:

- Direct purchase;
- Lease-purchase;
- Construction (by City personnel or outside contractors); or
- Contributed/Donated.

Direct Purchase

A direct purchase of a capital asset, as it is being considered here, is a purchase of property for cash. In this instance, the cost of the capital asset is the cash expended. The cash expended includes any amounts paid for freight, unloading, assembly, inspection and any other costs incurred to prepare the asset for operating use.

The accumulation of all associated costs is sometimes an extension task, and the use of the project accounting ledger system is recommended. The acquisition of a building is an example of a direct purchase for which project accounting is utilized. Project accounting facilitates the collection of all associated charges such as legal fees, initial clearing and relocation, grading, etc. and eases the effort of specifically identifying the item to which these charges apply.

Lease Purchase

All leases in effect should be examined to determine if they are capitalizable leases. If any one of the following criteria is met, the lease should be treated as a capital asset transaction.

1) The present value of the minimum lease payments at the beginning of the term is 90% of the fair value of the property/capital asset at the inception date of the lease.

2) The lease term of a non-cancellable lease is 75% or more of the property/capital asset's estimated economic life.

3) The lease contains a bargain purchase option.

4) Ownership is transferred to the city by the end of the lease term.

The acquisition cost of capital assets acquired under a capitalizable lease is the calculated present value of the lease payments.

All lease transactions not qualifying as capitalizable leases are to be handled as expenses.

Leases between funds of the City do not qualify as capitalizable leases.

Construction

The accounting principle of recording all costs related to putting a capital asset into operating condition is equally as applicable to constructed capital assets as it is to purchased capital assets. The primary difference between the two methods of acquisition is the increased administration required to capture a wide variety of cost and, frequently, a large number of individual transactions. For these reasons project accounting is to be used to account for constructed capital assets.

Contribution

The City acquires property by contribution primarily in two ways (1) the City receives property, or (2) cash is received to provide funding or reimbursement for property purchases or constructed by the City.

Where property is contributed, the capital asset must be recorded at its fair market value, which may not always be easy to determine. For property contributions which are recurring in nature, such as developer's contributions of roads, water mains, etc., the Department receiving the property should develop a methodology for determining the fair market value of the property. Non-recurring property contributions must be coordinated with Accounting as they occur.

RESPONSIBILITIES OF DEPARTMENTAL CAPITAL ASSET LIAISON

Each department should appoint a Capital Asset Liaison. While the department head is ultimately responsible for managing and accounting for the department's capital assets, this liaison individual will have the primary responsibility for maintaining the accuracy and completeness of the capital assets records for the department. Such individual will have the following responsibilities:

1. CONTROL OVER ALL DEPARTMENTAL CAPITAL ASSETS IN TERMS OF LOCATION KNOWLEDGE, DISPOSITION, AND TRANSFER APPROVAL.

2. PARTICIPATION IN MAINTAINING ACCURATE PHYSICAL INVENTORY FOR THE DEPARTMENT BY PERIODICALLY PERFORMING ASSET VERSUS REPORT VERIFICATION.

3. RESPONSIBILITY FOR TAGGING NEW CAPITAL ASSETS UPON ACQUISITION.

There are certain exceptions to the above noted definition of a capital asset which have been identified to accommodate accounting, reporting or operating information requirements.

- Property and equipment that is to be omitted completely from the Capital Asset Management System (usually all things under $1,000 in original cost):

Supplies:	Stationery, forms, envelops, paper clips
Automotive Needs:	Tire, batteries, fuel lubricating needs, and spare parts.
Maintenance Items:	Paint, bulbs, pipe and fittings, wire, lumber, screws, nails, brooms, mops and pails
Data Processing Supplies:	Reels and blank tapes
Recreation Equipment:	Balls, bats, nets and stands
Kitchen Utensils:	Dishes and flatware
Bedding:	Linens and pillows
Health Aid Equipment:	First aid kits, emergency oxygen units, resuscitators, stretchers and similar items
Minor Office and Desk Items:	Letter trays, wastebaskets, desk sets, calendars, hand

	staplers, hand type dispensers, pencil holders, pencil sharpeners, rubber stamps, stamp pads, folding tables, plastic covered chairs and 4-drawer file cabinets
Uniforms:	And related items including shoes, boots, hats and coats, badges and belts
Hand Tools:	Hammers, wrenches, saws, etc….

The following are exceptions to the $1,000.00 criteria to be considered for inclusion in the capital asset management system:

Utility customer meters	All meters used to measure utility consumption which are owned by the City are classified as capital assets as a block asset regardless of cost. (60 meters - $2,000 cost - recorded as 1 asset)
Library books	Total cost of all library books classified as a block asset. New book acquisitions blocked by year prospectively.
Computer equipment	Because of the risk of loss, all computer equipment (laptops, printers, etc.) with a cost of more than $200 will be included.

4. RESPONSIBILITY FOR REPORTING ASSET DISPOSITIONS, RETIREMENTS OR TRANSFERS TO THE CITY'S ACCOUNTING DEPARTMENT.

5. PARTICIPATION IN AND COORDINATION OF THE INVENTORY OF EXISTING ASSETS AND ANY SUPPORTING RECORDS, IF NOT YET DONE.