City of Sweet Home

Asset

Policies and Procedures

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General Information

The City of Sweet Home's policies for the acquisition, valuation, and disposition of capital and fixed assets are contained within this document. These policies are designed to aid City departments, offices, and institutions under the control of the City Manager by clarifying the City's definition of capital and fixed assets. Relevant State Government Codes and Accounting Standards are incorporated within the policies. Proper asset accounting provides the City with the data necessary to:

- Prepare financial reports.
- Safeguard sizable investments.
- Identify custodial responsibility.
- Assist with risk management/insurance activities.
- Formulate future acquisition and retirement policies.
- Recover costs from Federal and State programs or fee reimbursement programs.
- Define types of Assets

An item is not considered to be an asset to be capitalized unless it has a useful life of at least one year. Additionally, fixed assets are generally thought to be items that are new or replacement in nature, rather than for the repair of an item. For the purpose of this document the terms Capital and Fixed Asset shall be used interchangeably.

Department of Finance Responsibility

The Finance Director is responsible for establishing the City of Sweet Home's Capital Asset Policy, under the direction and approval of the City Manager. The Finance Director will revise the Policy as required by law, generally accepted accounting principles, or practical necessity, to be approved by the City Manager. Final determination for definitions, valuations, and proper accounting entries required to record capital asset transactions rests with the Finance Department.

Finance shall maintain a capital asset system to be used for a significant portion of the City's capital assets. The Finance Department may verify the integrity of capital asset records by conducting periodic physical inventories of capital assets and make any necessary adjustments to the capital asset system and financial records.

The Finance Department shall work with other City departments to ensure assets are recorded correctly.

Departmental Responsibility

Purchases of capital assets are the responsibility of the department making the purchase in coordination with the Finance Department. Departments shall ensure these assets follow any and all guidelines as set forth in the restrictive documentation established by grant criteria or fund source.

Departments are responsible for ensuring that their capital assets are recorded properly in the current Financial Enterprise System.

Purchase of Capital Assets shall be documented through the Requisition/PO process. When doing so the department shall also report the following information directly to the Finance Department. If item has been previously procured or a is not required to follow the procurement process, the information shall be submitted directly to the Finance Department as applicable:

- Address and APN
- Make
- Model
- Year
- Description
- Manufacturer's serial number
- Acquisition date
- Acquisition amount
- Funding source (Federal, State, Local, Donated, Seized, Other, and percentage) of each capital asset shall be reported

Process for Recording an Asset:

- The department making the purchase is responsible for providing all information to the Finance Department within 5 days of acquisition of a recordable Asset
- The Finance Department will enter the items into the System of Record
- The department is responsible of notifying any changes regarding Capital Assets.

Summary of Capitalization Thresholds

Although the service life of certain buildings, improvements, and equipment, may extend beyond one year, the City has established minimum capitalization thresholds for administrative purposes. The City Manager has the authority to increase capitalization thresholds. All purchases below the applicable class threshold are to be expensed in the current period.

Class	Capitalization Threshold
Land	$ 0
Land Improvements	$ 25,000
Buildings	$ 25,000
Building Improvements	$ 25,000
Infrastructure: Pavement Bridges All Other	$ 25,000 $ 25,000 $ 25,000
Equipment, Furniture, & Vehicles	$25,000
Intangible Assets	$ 25,000
Capital Leases	$25,000
Leasehold Improvements	$ 25,000
Works of Art / Historical Treasures	$ 0
Construction in Progress for Year End Reporting	Projects expected to exceed $ 25,000 at completion

Useful Life Ranges

Useful lives are determined by suggested useful life tables and professional judgment, since similar capital assets may have different useful lives depending on how and where they are used. Questions about the useful life of a specific asset should be decided upon jointly by department personnel and the Finance's Office. Items that have useful lives of less than one (1) year are not to be capitalized.

Acquisition of Capital Assets:

Capital assets are broadly defined as financial resources that are tangible or intangible in nature and have a useful life greater than one year. Examples of capital asset categories are Land, Land Improvements, Buildings, Building Improvements, Infrastructure, and Equipment. The City's Capital Asset Policy defines capital assets under each classification, addresses useful life ranges, sets minimum capitalization thresholds, and gives examples of costs to include in the value of the capital asset.

If the funding source of an asset is a grant, or the asset is acquired by gift or donation, the source or donor should be identified. If multiple funding sources apply, all sources should be identified. For historical assets, if the funding source cannot be determined, the asset shall be recorded under the general fund.

Land and Land Improvements

Definitions: Land includes all investments in real property other than structures and land improvements.

Land Improvements are non-building assets that enhance the quality or facilitate the use of land. Examples of depreciable land improvements include parking lots, driveways, sidewalks, retaining walls, fencing, outdoor lighting, landscaping, irrigation systems, recreation areas, athletic fields and courts, and fountains. Land improvements such as fill, grading, and excavation that provide permanent benefits and incur limited deterioration with use or the passage of time are to be classified with land as non-depreciable.

Capitalization: All Land is to be capitalized. Land Improvements valued at or over $25,000 will be capitalized as well.

Buildings and Building Improvements

Definitions:

Buildings are structures that are physical property of a permanent nature that enclose people, equipment, services, or functions. Buildings may include major high cost components such as boilers, elevators, HVAC systems, and roofs. If practical, these components should be recorded separately in the capital asset system to simplify future replacement transactions and because their useful lives can differ from buildings.

Building Improvements are additions or improvements to buildings that increase the value or extend the useful life of a building. Refer to "Treatment of Costs Subsequent to Acquisition" section of this document for more specific information. Examples include replacing major building components, structural additions to a building, major energy conservation projects, installation of upgraded plumbing or electrical systems, and major renovations of exterior structural deterioration.

Capitalization: Buildings and Building Improvements valued at or over $25,000 will be capitalized.

Valuation: The cost of Buildings and Building Improvements includes all expenditures in connection with acquisition or construction, such as:

- Purchase price or construction costs
- Fixtures attached to the structure
- Filing and other closing costs
- Architects' fees
- Payment of damages
- Cost of permits and licenses
- Accident or injury costs Insurance during construction

Infrastructure

Definition: Infrastructure is categorized as community service assets that are long-lived, generally stationary in nature, and normally preserved for a significantly greater number of years than most capital assets. Examples are: pavements, curbs, gutters, and sidewalks associated with roadways, bridges, sewer systems, water distribution systems, and water drainage systems.

Expansions and Improvements to infrastructure are those capital outlays that increase the asset's capacity or level of service, such as adding lanes to a road.

> Capitalization: Infrastructure and infrastructure improvements valued at or over $25,000 will be capitalized.

Land purchased for infrastructure projects shall be capitalized into the Land account.

Infrastructure acquired from developers or private associations which have been 'Accepted into the City Maintained System' by the Council must have a value determined for capitalization review. Historical costs or estimated values should be available in reports required from the original developer within the permit process. Land must be capitalized as a separate non-depreciable asset within the Land capital account at fair market value as of the date of acceptance.

Preservation costs that significantly extend the useful life of an asset beyond its original estimated useful life, but do not increase the capacity of the asset, are generally capitalized. Examples are seismic retrofitting bridges and reconstructing, recycling, or overlaying pavement.

Maintenance costs allow an infrastructure asset to continue to operate at its intended level of service during its originally established useful life and are not to be capitalized.

Equipment

Definition: Equipment includes physical moveable personal property such as machines, tools, furniture, vehicles, aircraft, mobile home/office trailers, and computer servers. Equipment does not include major systems integrated into a building or structure such as elevators, boilers, roofs, or HVAC. Software capital assets are managed within the Equipment capital account (see Computer Software paragraph).

Capitalization: Individual units or dependent systems valued at or over $25,000 and a useful life of over one (1) year.

The group method for capitalization may apply in limited circumstances for equipment. Grouping includes a number of different units purchased at the same time whose defined purpose is to work in conjunction with one another, their independent operation is not feasible, and replacement of which is intended as a whole. Purchase of multiple identical units (e.g. 4 printers @ $1,850 ea.) rarely represents valid grouping. Examples of valid grouping are:

- Modular furniture. Initial lot purchases and each subsequent lot or component over $25,000
- Computer systems comprised of hardware and software components designed to work exclusively with one another at $25,000 or over
- Unique multi-device systems for communications or vehicles

Vehicles

In addition to the equipment requirements, all vehicles shall also be recorded and tracked including:

- Make/Model/ Year of Vehicle
- Mileage
- Vehicle maintenance
- Vehicle condition
- Any conditional changes such as accidents, scratches, etc.

Leased Assets

Leased Assets shall be tracked in the same manner as purchased capital assets, provided the lease term is for longer than 1 year. Leased assets such as vehicles shall be recorded and tracked along with lease period. Depreciation shall not be calculated for Leased Assets. If the leasing company provides tracking as part of the service, departments may utilize this tracking mechanism instead of the City's tracking system, provided the Finance department is provided with access and updates, and the tracking is comparable to what the City would provide. The Finance department may ask for reports or updates at any time.

Intangible Assets

Definition: Intangible assets are defined as financial assets that lack physical substance. Common examples of intangible assets are easements, rights-of-way, and computer software.

Software Capitalization: An individual software application or license purchased for City use shall be capitalized if it is valued at or over $25,000 and its useful life will be greater than one (1) year. (This does not include subscriptions)

Software Valuation: Software purchased as a component of a system designed to work exclusively with specific hardware shall be capitalized with the hardware using the group method and the $25,000 threshold as noted in the equipment paragraph above. Computer software developed or obtained for internal use shall follow the capital asset guidance provided in the AICPA SOP 98-1. Vendor modifications, such as patches and version upgrades, used to keep software in a usable state as opposed to adding significant new capabilities, should be charged as maintenance expense.

Capital Leases

A capital lease is a lease that transfers substantially all the benefits and risks of ownership of property to the City at the end of the lease term and shall be accounted for as a capital asset if the cost of the property exceeds its class's capitalization threshold. Leases which meet one of the four requirements listed below:

- The lease transfers ownership of the property to the lessee by the end of the lease term.
- The lease contains a bargain purchase option.
- The lease term equals 75% or more of the estimated economic useful life of the leased property.
- The present value of the minimum lease payments exceeds 90% or more of the fair market value of the lease property at the date of the lease agreement.

(The last two criteria do not apply when the asset is already in the last quarter of its economic life, which includes the asset's economic life prior to the lease.)

Leasehold Improvements

Leasehold Improvements are improvements to buildings or structures that the City leases to be used during the term of that lease. Leasehold improvements are permanent in nature in that they involve physical modifications to a leased property. As such, moveable equipment or office furniture that is not attached to the leased property is not considered a leasehold improvement. Leasehold improvements do not have a residual value as they revert to the lessor at the expiration of the lease.

Leasehold improvements are capitalized by the lessee and are amortized over the shorter of (1) the remaining lease term, or (2) the useful life of the improvement. Improvements made in lieu of rent shall not be capitalized. If the lease contains an option to renew and the likelihood of renewal is uncertain, the leasehold improvement should be written off over the life of the initial lease term or useful life of the improvement, whichever is shorter.

Eminent Domain

The value of a capital asset obtained through eminent domain shall include all direct costs included in reaching a settlement with the seller.

Works of Art and Historical Treasures

Works of Art and City Historical Treasures shall be capitalized and recorded at historical cost. Works of Art and Historical Treasures that are inexhaustible should not be depreciated.

Donated Assets

Capital assets that are donated to the City are to be recorded at their fair market value as of the date of acceptance by the Council. The department receiving the donation is responsible for obtaining and providing written information required to create a Capital Asset record. Surplus property purchased at nominal prices far below actual value are in part a donation and shall be valued at the estimated fair market value at the time of acquisition.

Construction in Progress

Construction in Progress includes new construction or improvements to land, buildings, or infrastructure that have not been physically completed or have not had all project costs processed by fiscal year-end and the final cost of which is expected to exceed $25,000. Construction in Progress expenditures shall be reported to the Finance's General Accounting Division at the end of each fiscal year as the sum of the expenditures to date by project, to be classified under Construction in Progress account.

Inventory

Items below the capitalization threshold may still be required to be tracked by the Finance department. These items will not need to be capitalized but will be tracked using the City of Sweet Home's Asset Tracking system. These items in include:

Equipment over $5,000, Vehicles over $5,000 and Small Highly Attractive Assets with value under $25,000.00

Small Highly Attractive Assets:

Small Highly Attractive Assets are defined as objects such as laptops, computers, cell phones and other items that do not meet the City's capitalization policy but the City considers particularly vulnerable to loss, thus subject to special property control.

These items will be tracked through the City's inventory tracking system. The department purchasing the items is responsible for providing the Finance department tracking and updates of distribution, and collection through the check in and checkout process

Depreciation

Depreciation is the process of allocating the cost of depreciable capital assets over a period, rather than incurring the entire cost as an expense in the year of acquisition. This process recognizes an asset's periodic cost of use and declining usefulness over time. Land, certain land improvements, and certain works of art and historical treasures are inexhaustible and are therefore not depreciated.

The City has elected to adopt the 5-year straight-line method of depreciation. Unless clear evidence indicating that the expected consumption of an asset will be significantly greater in the early portions than in the later portions of its useful life, the straight-line method of depreciation shall be applied as follows:

(Asset Cost – Residual Value) / Estimated Useful Life in Years = Annual Depreciation Expense

Residual value is the amount that can be anticipated to be recovered when the asset is no longer useful for its intended purpose. Useful life should approximate the time an asset will provide service to the City.

Capital assets that become fully depreciated and are still in use must remain in the financial capital accounts and identified within a capital asset system until they are disposed of.

Stolen or missing assets must be reported to the Finance Director

Asset Dispositions, Transfers, and Sales

Surplus items are those that are no longer required by the asset's controlling department. These assets may be traded in for new assets, transferred to other departments, or set up for classification as surplus and for subsequent redistribution to other departments, sale, or disposal. Any sale, transfer, donation, disposal, or dismantling of a capital asset must receive approval from the City Finance Director.

All transfers and sales require an update in the capital asset system. This includes transfers and sales between funds, transfers between departments, and site location changes. In addition to a capital asset system update, a financial transaction is necessary for the transfer or sale between funds. A transfer would remove the asset from the giving fund and record it in the receiving fund at the original acquisition cost with depreciation incurred to date. A sale would remove the asset from the giving fund and record it in the receiving fund at the agreed upon amount.

Asset Dispositions, Transfers, and Sales for Subrecipients

All equipment with a cost of $25000 or more purchased with grant funds shall revert to the City at the close of the activity. If a Subrecipient wishes to continue utilizing the equipment, and is not funded the following year, a letter must be submitted to the CDD requesting approval and describing how, through the continued use of the equipment, the grant objectives will be met. The City reserves the right to refuse any request.

A Subrecipient is required to maintain records of the grant funded equipment purchases and report to the City during the 5 year depreciation period. If the property is disposed of prior to the 5-year depreciation period, the City shall provide the Subrecipient with disposition instructions upon request. If the property is disposed of for cash during this period it constitutes Program Income, which must be reported and returned to the City.

When equipment has been fully depreciated, and if the equipment is sold, the Subrecipient shall return funds to the City.

Real Property Disposition for Sub-Recipients

Real property is defined as land, including land improvements and buildings. Any real property acquired or improved in excess of $25,000 must continue to meet the National Objective of the program for a minimum of 5 years after expiration of the contract, or for a period of time as deemed appropriate by the City.

If not used as stated above, the Subrecipient must sell the real property in a manner that results in the reimbursement of the federal grant funds that were expended for the project and returned to the City.

Stolen or missing assets must be reported to the City Finance Director.