

Capital Asset Policy

I. Scope

The establishment and maintenance of a capital asset system is essential to provide a standard system of control for all capital assets owned by the City of Savage. The City shall establish and maintain a capital asset system which incorporates adequate accounting procedures and records, provides management with data for physical and dollar value control of assets, permits the fixation of responsibility for custody and proper use of specific capital assets to individual public officials, and serve as a prerequisite to the preparation of satisfactory and complete financial reports.

II. General Objectives

The primary objectives of the capital asset system are:

1. To assign responsibility for the custody and proper use of specific assets to individual officials or department heads.
2. To substantiate valuations of capital assets in accordance with Generally Accepted Accounting Principles (GAAP) for fiscal reporting.
3. To control retirements of capital assets by type of retirement, i.e. sales, trade-ins, and items scrapped.
4. To assist in providing depreciation computations for federal and state annual reporting purposes.
5. To serve as a basis for valuation for insurance purposes and to provide a record of assets insured.
6. To encourage transfers of surplus equipment to areas of need.
7. To aid in budget preparation, analysis, and approval.

III. Definitions

Accumulated Depreciation	The total depreciation expense aggregated since a capital asset was acquired or placed in service through the current reporting period.
Ancillary Costs	Costs, in addition to purchase of construction costs, related to placing a capital asset into its intended use or state of operations. Normally, ancillary costs are to be included in the capitalized cost of a capital asset.
Asset Life	This is the standard estimated useful life of an item. To be considered a capital asset, an item must have a useful life greater than one year.

Asset Value	This is the value of an item. The value will be based on the invoice plus additional costs of preparing the asset for use. To be considered a capital asset, an item must have a value greater than \$5,000.
Building	A building is a structure that is permanently attached to the land, has a roof, is partially or completely enclosed by walls, and is not intended to be transportable or movable. For example, a picnic pavilion would be considered a structure although it may have no walls. A building or structure is a roofed and/or walled structure that is city owned. Certain buildings or structures that are an ancillary part of infrastructure networks such as pumping stations should be reported as infrastructure rather than buildings. A building or structure is a roofed and/or walled structure that is City owned.
Building Improvements	Capitalized costs that materially extend the useful life of a building or increase the value, or both, beyond one year. Building improvements should not include maintenance and repairs done in the normal course of business.
Capital Assets	Under the requirements of GASB 34, capital assets include land, improvements to land, easements, buildings, building improvements, vehicles, machinery, equipments, works of art and historical treasures, infrastructure and all other tangible or intangible assets that are used in operations and that have initial useful lives extending beyond a single reporting period.
Capitalization Threshold	The dollar value at which a government elects to capitalize tangible or intangible assets that are used in operations and that have initial useful lives extending beyond a single reporting period.
Capitalize	To record a cost as a long-term asset. The amount recorded is the costs to acquire or construct the asset, plus all costs necessary to get the asset ready for its intended use (see ancillary costs).
Construction in Progress	Construction in progress reflects the economic construction activity status of building and other structures, infrastructure, additions, alterations, reconstruction, installation, and maintenance and repairs, which are substantially incomplete.
Depreciation	The process of allocating the cost of assets over a period of time, rather than deducting the cost as an expense in the year of acquisition.
Depreciation Method	The method used to calculate the allocation (depreciation) of the cost of a capital asset over its estimated useful life. The most commonly used method is straight-line depreciation, which allocates the cost evenly over the life of the asset.

Easements	An interest in land owned by another that entitles its holder to specific limited use or enjoyment (right to use the land). Easements that would not be considered capital assets are temporary easements, which are the right to use land for a short time period, such as during a construction project.
Estimated Useful Life	An accounting estimate of time period that an asset will be able to be able to be used for the purpose for which it was purchased or constructed.
Capital Asset	An item obtained by the City with a value greater than \$5,000 and an estimated useful life greater than one year.
Full Month Convention	Under a full month convention, property placed in service at any time during a given month is treated as if it had been placed in service on the first day of that month. This allows depreciation to be taken for the entire month in which the asset is placed in service. If the property is disposed of before the end of the estimated useful life, no depreciation is allowed for the month of disposition.
Furniture & Fixtures	Assets that are used by people in any City facility that is considered furniture or fixtures.
Infrastructure	Assets that 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. They are permanent installations with a value greater than \$100,000. Examples include water/sewer mains, roads, bridges, tunnels, drainage systems, etc.
Infrastructure Improvements	Infrastructure improvements are capital costs that materially extend the useful life or increase the value of the infrastructure, or both.
Intangible Asset	Assets that are lacking physical substance, nonfinancial in nature and have an initial useful life extending beyond one fiscal year.
Land	Any parcel of land that is City owned whether developed or undeveloped. Include costs for professional fees, demolition, interest, taxes, commissions, etc.
Land Improvements	Grading, roads and parking lots on City owned land that will be capitalized.
	Inexhaustible – Expenditures for improvements that do not require maintenance or replacement, expenditures to bring land into condition to commence erection of structures, expenditures for improvements not identified with structures, and

expenditures for land improvements that do not deteriorate with use or passage of time are additions to the cost of land and are generally not exhaustible and therefore are **not depreciable**.

Exhaustible – Other improvements that are part of a site, such as parking lots, landscaping and fencing are usually exhaustible and are therefore depreciable. **Depreciation of site improvements is necessary if the improvement is exhaustible.**

Machinery & Equipment	Includes motorized and non-motorized equipment that had a primary function of use for a City street, park, ice arena, fire fighting or utility maintenance, etc. It includes items such as tractors, mowers, and snowplows.
Maintenance	Activities that ensure that the capital asset remains, as nearly as practical, in its original condition or its subsequent improved condition, subject to normal depreciation. Costs incurred to keep the capital asset in service for its original intended purpose over its normal expected useful life.
Park Improvements	Improvements made to a City park that will be capitalized. This category would include items such as playground equipment, backstops, bleachers, flagpoles, etc.
Salvage Value	The salvage value of an asset is the value it is expected to have when it is no longer useful for its intended purpose.
Tools & Other Equipment	This category includes small tools and equipment.
Vehicles	Motorized vehicles owned by the City such as trucks.
Vehicle Equipment	Equipment that is installed in/on a motor vehicle such as radios, wing plows, sanders, lighting packages and toolboxes.

IV. Capital Assets Categories

A capital asset is real or personal property that has a value equal to or greater than the capitalization threshold of \$5,000 and has an estimated useful life greater than one year. The City reports capital assets in the following categories:

Land (1600) Any parcel of land that is city-owned whether developed or undeveloped. This includes legal fees, appraisal and negotiation fees, surveying fees, site preparation costs, demolition of unwanted structures and damage payments. Land is to be capitalized but not depreciated. Intangible Assets such as Right of Way (ROW) and Easements are included in this category. Non-exhaustible improvements that do not require maintenance or replacement are additions to cost of land and are not depreciated. Recorded at historical cost until disposal.

Land Improvements (1600) Land improvements include such items as excavation, driveways, sidewalks, parking lots, flagpoles, retaining walls, fencing, outdoor lighting and other items intended to make the land ready for intended use. Exhaustible improvements such as parking lots, landscaping and fencing are subject to the appropriate threshold and are capitalized and depreciated.

Buildings & Structures (1620) Buildings and structures are recorded at cost. Buildings include components (e.g. roof, air conditioning system, etc.) that should be recorded separately when significant because these building components have different useful lives. Building improvements that extend the useful life should be capitalized. Building improvements include roofing projects, major energy conservation projects, remodeling and replacing major building components. Building Improvements basically include fixtures and any other necessary elements for the proper function of the building. This includes architect fees, legal fees, appraisers, costs of fixtures, damage claims, insurance premiums for construction, interest, and unrelated costs during construction.

Infrastructure (1610) Are long-lived capital assets that normally can be preserved for a significant number of years more than capital assets and are normally stationary in nature. Examples include roads, bridges, pedestrian walkways, sidewalks, walking and bike trails, pedestrian bridges, utility pipeline, water and sewer lines.

Machinery & Equipment (1630) Assets such as machinery, equipment, office furniture and office equipment that meet the threshold amount.

Vehicles (1650) Licensed and other vehicles meeting the threshold amount.

Construction in Progress (1690) Construction in progress should be capitalized, but not depreciated. Unspent debt proceeds from capital assets related debt should be reported in the net assets section of the statement of net assets as “restricted for capital projects”.

V. Valuation of Capital Assets

Capital assets should be accounted for at historical cost, or if cost is not easily determined, at estimated cost.

Capital assets should be recorded and reported at their historical costs, which include the vendor’s invoice (plus the value of any trade-in or allowance, if reflected on the invoice) plus sales tax, initial installation cost (excluding in house labor), modifications, attachments, accessories or apparatus necessary to make the asset useable and render into service. Historical costs also include ancillary charges such as freight and transportation charges; site preparation costs, professional fees, legal claims, and legal claims directly attributable to asset acquisition.

Capital asset improvement costs should be capitalized if the costs exceed the capitalization threshold and either the value of the asset or estimated life is increased by

25% of the original cost, or the cost results in an increase in the capacity of the asset, or the efficiency of the asset is increased by more than 10%.

In cases where the original purchase documents may be not available, or would require an inordinate amount of resources to obtain, an estimated cost basis will be used. An estimate of the original cost of an asset introduces some margin of error into the Capital Asset Accounts as compared with proper recording at the time of acquisition. However, such errors will have only short-run significance because, as older assets are retired and replaced, estimated costs are replaced by properly recorded actual cost amounts. The extent to which capital asset costs have been estimated, and the methods of estimation, will be disclosed in the notes to the financial statements.

VI. Acquisition of Capital Assets

Purchase. A purchase is an acquisition through direct outlay of cash and/or other consideration for the capital asset. The book value of an older capital asset traded in for a new one does not affect the basis of the new asset.

Construction. Construction includes buildings actually constructed by the city. The labor, materials, equipment and overhead costs are all part of the construction cost.

Lease-Purchase and Installment Purchase. Lease-purchase agreements are contractual agreements that, in substance, amount to purchase contracts. General capital assets acquired via lease-purchase agreement are capitalized in the Capital Asset System at the inception of the agreement in the amount of the item if it had been purchased outright. Multiple-year installment contracts are accounted for in the same manner as lease-purchase agreements.

Eminent Domain. This is the power of a government to acquire private property for public purpose, and it is frequently used to obtain real property that cannot be purchased from owners in a voluntary transaction. Where the power of eminent domain is exercised, owners are compensated by the Government in an amount determined by the courts. General capital assets acquired by eminent domain should be capitalized in the Capital Asset System in that amount.

Foreclosure. Closely related to eminent domain as an involuntary judicial procedure, but used much less frequently as a means of acquiring capital assets for government retention and use, is the foreclosure of tax or special assessment liens. Ordinarily, property foreclosed is resold to liquidate delinquent tax or special assessment obligations, but on occasion, Governments retain possession for their own needs. General capital assets acquired by tax or special assessment foreclosure which are to be resold in the near future are generally accounted for by the Government to which the taxes or assessments are owed and offset there with a fund balance reserve account. Assets that are not sold are capitalized in the Capital Asset System at their face value on the date of foreclosure.

Gift. Governments may acquire properties by gift. Donated capital assets should be recorded to the fund to which they relate or in the Capital Asset System, as appropriate, at their estimated fair value at time of acquisition.

VII. Retirement

The term retirement is used to describe the removal of a capital asset from the capital asset system. The various types of retirement are defined below and must be reported to the Finance Department to ensure that changes are entered in the system and that the master file is updated.

Surplus Property. Surplus property is used to describe a capital asset or non-expendable supply that is operable, but no longer usable to a particular department. If the surplus property cannot be transferred, the property will be disposed of by the City pursuant to Minnesota state statutes. The department head must notify the Finance Department of items transferred or disposed of on a Capital Asset Disposal Form so that the transactions can be recorded in the capital asset system.

Sale of a Capital Asset. Capital assets and/or non-expendable supplies that are to be sold are subject to the requirements described in Minnesota state statute. The department head must notify the Finance Department of items sold on a Capital Asset Disposal Form so that the items can be retired from the capital asset system.

Trade-in. A department head retiring a capital asset as a trade-in for a new acquisition will inform the Finance Department of the amount of trade-in allowance received on a Capital Asset Input Form.

Obsolescence. Capital assets or non-expendable supplies that have lost their usefulness resulting from invention, change of style, legislation, or other causes having no physical relation to the object affected are included in this category. The asset may still be operable, but it has lost its usefulness to a particular department. Since the obsolete capital asset may be of use to another department, the capital asset is first retired from a department by transferring the capital asset to surplus property.

Lost, Stolen or Damaged Beyond Repair. When a capital asset or non-expendable supply is retired from the capital asset system through one of these unexpected methods, the incident will be reported to the appropriate law enforcement personnel (if applicable) and to the Finance Department for risk management purposes. The department head must also notify the Finance Department on a Capital Asset Disposal Form so that changes can be entered into the capital asset system.

VIII. Procedures

The capital asset system maintains a complete record of individual capital assets for all departments. The maintenance of capital asset records is the joint responsibility of the department that is purchasing the item and thereby, has control of the asset, and Finance, who enters the asset information into the capital asset system. The capital asset system is operated and maintained within the financial system. Source documents for the financial system, such as purchase orders, invoices and payment vouchers, combined with a complete and accurate Capital Asset Input Form provide Finance with adequate documentation to enter the asset into the system.

When a department acquires a new asset, the department head is responsible for

completing a “Capital Asset Input Form” and providing the Finance Department with the Original. (See Appendix A.)

The Capital Asset Input Form includes the following:

- Description: The description should clearly describe the asset, keeping in mind that this description will be used to help identify the asset in the future, without being too lengthy.
- Location: This is the intended location in which the asset will be stored, be specific.
- Purchase/Invoice Date: The date the asset was acquired.
- Cost: The cost of the item. Cost will be based on the invoice plus additional costs of preparing the asset for use. Trade-in values will not be used to reduce the carrying cost of the new asset.
- Estimated Life: The standard life of the item based on the depreciation chart.
- Department: The department that purchased and will be responsible for the asset.
- Make: The name of the make or manufacturer of the asset, if applicable.
- Model: The model number assigned to the asset by the manufacturer, if applicable.
- Mfr Serial Number: The serial number assigned to the asset by the manufacturer, if applicable.
- Vendor: The name of the vendor from whom the asset was purchased.
- Invoice Number: The vendor’s invoice number for the purchase of the asset.
- Expenditure Account: The account that the invoice for the asset is coded to.
- Warranty Expiration Date: The date provided by the manufacturer, if applicable.
- PW ID/Unit No.: The number assigned at the department level (to be used for cross reference purposes).

The Capital Asset Input Form should be signed by the department head. The Finance department should input asset acquisitions monthly.

The Finance Department is responsible for working with the Director of Public Works/Engineering to record completed construction projects in the year completed.

When a department retires or transfers out an asset, the department head is responsible for completion of an “Capital Asset Retirement/Transfer Form”. The Finance department must receive the original. (See Appendix B)

The capital Asset Disposal/Transfer form should include the following information:

Asset Number: From Capital Asset Database

Department/Location: This line refers to the department retiring or otherwise changing the asset and asset location.

Date of Disposal or Transfer: This is the date the change took place.

Disposal Method: The department head should state whether the asset was destroyed, trade-in, sold, or transferred.

If **SOLD** the amount of the sale and copy of receipt of cash should be attached.

If **TRANSFERRED** the name of the department receiving the asset and its new location should be provided.

If **TRADE-IN** the amount of the trade in allowance received on a new item. This form should be attached to Input form for new asset..

If **DESTROYED** the amount of compensation received from insurance, if the asset was destroyed as a result of an accident. A copy of the cash receipt should be attached. If the asset was destroyed, please note how it was destroyed, examples would include junked, totaled in an accident, stolen, etc.

The Asset Disposal/Transfer Form should be signed by the department head. The Finance department should input asset disposal/transfer information monthly.

IX. Depreciation

Depreciation will be calculated using the straight-line method over the estimated useful lives of assets. To avoid the complications of depreciating each asset from the specific date on which it was placed in service, GAAP supports guidelines that assume various assets are placed in service or disposed of at designated dates through out the year. Governmental entities are generally recommended to use the full-month convention. (Unless the asset is fully depreciated). The total amount depreciated can never exceed the asset's historic cost less salvage value. At the end of the asset's estimated life, the salvage value will remain. Standard estimated useful life **guidelines** are as follows:

Land **Not Depreciable**

Right of Way(ROW) & Easements **Not Depreciable**

Land Improvements **15-20 years**

Asphalt 20 years

Ground Improvements (Fields, parks) 20 years

Structure Improvements (Sidewalks, trails)	15 years
Buildings	15-50 years
Buildings Foundation/Frame/Structure	50 years
Library	50 years
Building Roofing	15 years
Infrastructure	20-30 years
Roads – Paved	30 years
Sewage Disposal Works System	30 years
Street Lighting	20 years
Streets – Paving w & w/o Curb	20 years
Water & Sewer Lines	30 years
Water Tower	30 years
Water Wells	30 years
Machinery, Equipment, Radio	5-30 years
A/V Equipment	10 years
Buildings Equipment – Security	15 years
Communication Equipment	10 years
Computer – Hardware, Software	5 years
Firefighting Equipment	10 years
Grounds Equipment – Mowers, Plows	6 years
Machinery & Equipment – General	15 years
Office Furniture	20 years
Outdoor Equipment – Playground, bleachers	20 years
Telephone Equipment	10 years
Pump House Well	30 years
Recreation/Athletic Equipment	20 years
Water & Sewer Machinery	30 years
Vehicles	4-25 years
Cars & Light Trucks (Includes unmarked police)	8 years
Construction Equipment – bobcats, tractors	15 years
Fire Aerial Trucks	25 years
Fire Trucks – pumper, tanker, rescue	20 years
Heavy Duty Trucks	15 years
Medium Duty Trucks	10 years
Police Marked Cars (ONLY Marked)	4 years

X. Periodic Review of Inventory

After an initial physical inventory, the information in the Capital Asset System will be verified by each department on an annual basis. The Finance department will provide the department heads with a printout of the asset in their department and an inventory list form. The department heads will review and certify the list to determine that all capital assets are properly identified and that any adjustments are made and then reported to the Finance department. Finance will randomly select a department to verify that the inventory is correct. The auditors will also randomly select departments each year for verification. A complete physical inventory will be conducted every five years (or earlier, if deemed necessary).

City of Savage CAPITAL ASSET INPUT FORM

- Please use this form for additions of any capital asset over \$5000.
- Return to Finance (this form should be submitted with invoice/PO for payment)

Description _____

Location _____ Purchase/Invoice Date _____
(details please)

Cost _____ Estimated Life _____
(include tax/freight/shipping)

Department _____ Make _____

Model _____ Mfr Serial No. _____

Vendor _____ Invoice No. _____

Expenditure Account No. _____

Warranty Expiration Date _____ PW ID/Unit No. _____

Department Head: _____ Date: _____

FINANCE TO FILL IN

Asset No. _____ Class _____

Check Date _____ Check No. _____

Category Desc. _____ Insurance ID _____

Insurance YES NO

Reviewed by Risk Manager _____ Date: _____

Asset entered by: _____ Date: _____

City of Savage CAPITAL ASSET DISPOSAL/TRANSFER FORM

- Please use this form for disposals or transfers of any capital asset.
- Return to Finance (this form should be submitted with appropriate paperwork)

Asset No. _____

Department/Location _____ Disposal/Transfer Date _____
(details please)

Disposal Method DESTROYED TRADE-IN SOLD TRANSFER
(please circle appropriate method)

Department Transferred To _____ Make _____

Model _____ Mfr Serial No. _____

If Sold, Amount Received _____ Receipt/Check No. _____

PW ID/Unit No. _____

Department Head: _____ Date: _____

FINANCE TO FILL IN

If traded, New Asset No. _____

Salvage Value _____

Insurance ID _____

Insurance YES NO

Reviewed by Risk Manager _____ Date: _____

Asset Maintenance By _____ Date: _____