



CITY OF RAMSEY

FIXED ASSETS POLICY

PURPOSE:

This policy document is to account for all capital assets. A capital asset is defined as the purchase of or improvements to – land, easements, buildings, building improvements, vehicles, machinery, equipment, 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 (GASB 34).

The following policy articulates the accounting practices and procedures that will ensure effective and accurate control of the City of Ramsey's capital assets. The policy will also establish the accounting framework for governing capital asset values in conformity with General Accepted Accounting Principles (GAAP), detail the custody and use of capital assets by the appropriate city departments, and provide data for long term planning of capital assets.

I. Definitions

Capital assets – for City purposes tangible or intangible assets with an initial cost of \$10,000 or greater and estimated useful life more than one year. Tangible assets acquired together as part of routine replacement with an aggregate value of \$50,000 or greater and estimated useful life more than one year. Considerations for routine replacement shall include but are not limited to: grouped replacements planned as part of the City's capital budgets, likelihood of replacing the assets together in the future, and classification of assets purchased together. Tangible assets have physical substance and include items such as buildings, land, machinery, and infrastructure. Intangible assets lack physical substance but provide long term benefits to the city. Current city intangible assets include permanent and temporary easements and purchased software. Capitalization is the process of allocating the cost of an asset over its estimated useful life.

Depreciation - the gradual conversion of the cost of a tangible capital asset into an operational expense over the assets estimated life.

Straight Line Method Depreciation - Property, plant, and equipment are depreciated using the straight-line method which allocates the cost evenly, less residual value, if any, over the life of the asset. The city currently uses the Full Year Convention which gives the asset an entire year's depreciation in the first year of service irrespective of the date placed in service.

Useful Life - The estimated number of years that an asset will be used for the purpose for which it was acquired.

<u>Asset Types</u>	<u>Useful Life</u>
Land	not depreciated
Land Improvements	10-40
Land Held for Resale	not depreciated
Infrastructure - Street Overlay	20
Buildings	20-50
Sidewalks	20
Improvements	10-25
Furniture & Fixtures	3-10
Machinery & Equipment (Vehicles)	5-20
Mobile Equipment	5-20
Police Patrol Cars	3-4
Meters & Readers	20
Infrastructure-Water Mains & Lines	50
Infrastructure-Sewer Mains & Lines	50
Infrastructure-Storm Sewer	50
Infrastructure-Water Supply Facilities	50
Infrastructure-Water Storage Facilities	50
Street Lights	25
Infrastructure-Sanitary Sewer Lift Station	20-30
Infrastructure-Water Quality	50
Statues / Monuments	not depreciated
Construction in Progress	not depreciated
<u>Intangible Assets</u>	
Easements - Temporary	2-4
Easements – Permanent	not depreciated
Purchased Software	2-5 or term of agreement

Capital Assets that do not fall into the above classifications for useful life purposes will be evaluated on an individual basis.

Expenditures for minor repairs and ordinary maintenance which do not prolong the useful life of the property beyond that anticipated when it was purchased or constructed are not considered a fixed asset and should be charged to a maintenance and repair line item. An example of this might be the painting of the interior of a building.

Even though the cost may be over \$25,000 it will not prolong the life of the building past the original estimated life. Major repairs, which do prolong the life, should be capitalized.

Capital Asset Types:

Land - is capitalized but not depreciated. It is recorded at historical cost. Other costs such as legal fees, excavation and any other expenses incurred to put the land in condition for its intended use should be included.

Land Held for Resale - Land acquired with the intent of resale.

Infrastructure - Assets with a long life that are usually stationary in nature and last for a significantly greater number of years than most capital assets. Examples include water & sewer mains, drainage systems, roads & streets, bridges, etc.

Buildings - Recorded at acquisition or construction cost. Buildings are defined as structures that are permanently attached to the land, have a roof and walls, and are not intended to be mobile. Building components can include land, land improvements, construction, professional fees, permits, utilities and insurance applicable to construction, electric, plumbing, heating & cooling, flooring, and ceilings, roofing, and security.

Building Improvements - Improvements that increase the value of a building and/or materially extend the useful life of a building. Examples are replacement roofing, energy conservation materials, & remodeling and replacement of major building components.

Machinery & Equipment - Fixed or movable tangible assets used for operations where its use will extend beyond two years from the time it has been placed into service. Examples are vehicles, machinery, lawn mowers, furniture, tools, & public safety equipment.

Easements - Easements are defined as the right to a specific use of land or other property although it does not transfer actual ownership of the land.

- a) Permanent easements are treated the same as land and are not depreciated.
- b) Temporary easements have a limited life and are amortized over the life of the asset or contract.

Donated Assets - Donated assets are recorded at estimated fair market value at the time of the donation.

Construction in Progress - Construction in progress assets list the cost of construction work undertaken but not yet completed. Depreciation is not recorded until the asset is placed in service. When construction is completed, the asset is reclassified as building, improvement, etc. and capitalized and depreciated.

II. Procedures and Responsibilities

Accounting for Capital Assets:

Assets are accounted for and reported in the following areas:

1. Governmental-type – Capital assets of this activity type are used by the general city departments that are not accounted for in the enterprise funds. This includes but is not limited to the following funds: General Fund, Economic Development Authority, Equipment Revolving, Public Improvement Revolving and Pavement Management Fund.
2. Business-type:
 - a. Public Utilities Fund - Accounts for all capital assets in the water, sewer, streetlighting, and storm sewer utility systems.

Capital assets are recorded at historical cost. This should include any ancillary charges necessary to place the asset in its intended location and condition for use such as shipping, sales tax, and installation.

Disposition:

Capital Assets may be disposed of, in accordance with State guidelines, through the following methods:

- Sold by a public auction or advertisement for bids
- Exchanged or traded-in for a replacement
- Retirement – recycled or placed in garbage (obsolete or broken items)
- Salvage – the estimated worth of an asset at the end of its useful life
- Donation

Disposed assets will be retired from the capital asset system at original cost less accumulated depreciation. Gain or loss on disposal of capital assets shall be recognized in accordance with Generally Accepted Accounting Principles.

Notification:

Finance should be notified of all fixed asset changes. Examples of changes to be recorded include additions of fixed assets, deletions of fixed assets due to trade in, sale or retirement and transfers of fixed assets from one department to another such as the transfer of police vehicles to other departments. All items meeting the definition of a capital asset would have a general ledger object code starting with a 65XX and included in the annual Capital Improvement Program.

- Purchase of a new asset – Include all relevant information with the payment request that is submitted to accounts payable including, but not limited to the serial number, make, model, year, etc....
- Donation of a new asset – Notify finance department as soon as the transaction takes place and include all the same information as if purchasing new, including an estimated value.
- Transfers of assets between departments – Notify finance department as soon as transaction takes place and include key information to allow finance to identify asset to move.
- Sale, trade, disposal or transfer of an existing asset – Notify the finance department with the applicable information as soon as the transaction occurs. The traded asset will be retired at its book value. (Original cost less accumulated depreciation). The cost of the new asset should include the cash paid in addition to the trade-in value.

The Finance Department will be responsible for entering and maintaining all capital assets information in the Fixed Asset Accounting System.

The Finance Department will also prepare the required year end statements regarding capital assets for the City's annual financial report.

Departments are responsible for the proper use, care, and maintenance of city assets in their possession. It is the department's responsibility to maintain the equipment in a secure manner to minimize loss, damage, and unauthorized use.

Inventory

- An inventory of capital assets will be reviewed and updated annually.
- Reporting of the capital asset inventory will be reported with the Annual Comprehensive Financial Report in accordance with government accounting standards.
- The Finance Department will meet annually with the respective department heads/managers to review their department's Capital Assets. Any differences between the department records and the Fixed Asset reports will be researched.