

BUDGET INSTRUCTION MANUAL

CITY OF DENTON



FY 2019-2020

FIXED ASSETS

POLICIES & PROCEDURES

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I. SCOPE OF POLICY

The purpose of the Fixed Asset System is to improve the identification and internal control of the City's capital assets by providing for the uniform reporting of assets acquired, disposed, or transferred by the City's organizations.

The procedures and guidelines presented below will allow the City to safeguard its assets.

II. DEFINITION OF FIXED ASSETS

A. The factors to be considered in determining items to be capitalized as fixed assets are as follows:

1. The expected normal useful life is more than one (1) year.
2. The item has a unit cost of \$5,000 or more. Unit cost should include any charges for freight or installation. Exceptions to the above guidelines, which are not required to meet the minimum amount of \$5,000, are:
 - a. library books
 - b. computer equipment with a life expectancy of more than three (3) years. (Note: most of the City's computer equipment is leased at this time and is not considered a fixed asset.)
3. The item is not consumed, unduly altered, or materially reduced in value immediately by use.
4. The item belongs to one of the general classes of property, which are generally considered fixed assets under generally accepted accounting principles.
5. Items to be inventoried on a group or collective basis are to be determined on an "exception basis"—that is, each group or collective unit will be separately considered and a decision made as to whether or not to maintain a central control record for that particular group or collective unit.
6. The item is such that it is normally used in sets, or multiple units, which as a collective unit, has a total value in excess of that established as the minimum and which otherwise satisfies requirements of a fixed property.
7. The item is such that it must be tracked for state or federal legal requirements or regulatory purposes regardless of cost.

B. Factors to be considered in determining items, which should be excluded from capitalization, are as follows:

1. Item is such that it requires regular replacement because of rapid wear. Items purchased with less than a 12-month life should not be capitalized.
2. Item's one-time use depletes the item for further usefulness.
3. Item is readily available and its value is less than the administrative costs and inconvenience of handling the item.
4. Items, which are installed or otherwise added to an existing fixed asset, where such additions are required to return the asset to a functioning product; e.g., engine overhauls, painting, or replacement of a broken segment of pipe or street.

III. FUND CLASSIFICATION

Fixed assets purchased and used by governmental funds (General, Special Revenue, and Capital Projects) are accounted for in the General Fixed Asset Account Group and reported on the government-wide Statement of Net Assets.

Fixed assets acquired and used by proprietary funds (Electric, Water, Wastewater, Solid Waste, Fleet Services, Tech Services, and Warehouse) are accounted for in the applicable proprietary fund and are referred to as proprietary fixed assets.

IV. TYPE CLASSIFICATION

Fixed assets are classified by type to enable consolidation of data for reporting purposes. The fixed asset types are defined as follows:

- A. **Land:** property, which generally includes both the surface and contents of the land. Rights to land may include full ownership, land interests, or rights of passage such as easements and right-of-ways. Land cost includes the purchase cost of land or land rights; legal, title, surveying, appraisal and negotiation fees; damage payments; and clearing, filling, leveling, and grading; demolition of unwanted improvements with an indefinite life. Land cost will include only such costs as are applicable to the land itself. If the acquisition cost includes buildings, equipment, or other improvements, the acquisition costs will be allocated among the various asset categories on the basis of appraisal or other equitable means. Land is not depreciable.
- B. **Buildings:** are designed with a foundation, roof, and may or may not have full enclosure. Building cost includes construction and purchase costs; attorneys', architects', and inspection fees; building permits; and the costs of all fixtures permanently attached to and made part of the building. For constructed buildings, cost includes engineering/design, contractor payments, in-house labor costs, and professional fees of architects, attorneys, and appraisers. Also included are building services defined as those items, which are attached to or become a permanent operating function of a building—such as plumbing and sewerage systems; heating, ventilating, and air conditioning; electrical and lighting systems; and elevators—and which, if removed, would render the building unusable for general purposes. Building services will not include items of equipment or fixtures, which, if removed, do not impair the building's usability for general purposes.
- C. **Infrastructure:** category consists of land attachments of a permanent nature, other than buildings, and includes immovable assets such as roads, bridges, tunnels, walks, parking lots, curbs, gutters, streets, sidewalks, drainage systems, and lighting systems.

- D. **Plant, Machinery and Equipment:** Machinery and Equipment includes office furniture, business machines, computer equipment, and other types of personal property not attached to land, buildings, or improvements. Equipment attached to land, buildings, or 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 it is attached. Plant, Machinery and Equipment costs include purchase price, shipping and related site preparation, and installation charges.
- E. **Landfill Improvements:** Landfill Improvements include only the costs of landfill cell construction and preparation. These assets are depreciated over the life of the landfill cells.
- F. **Water Rights:** Water Rights include rights to water storage and water recreation sites. These assets are depreciated over the life of the water rights contract.
- G. **Construction in Progress:** in Progress is used to accumulate construction and installation costs of property, plant, and equipment. On project completion, the balance is transferred to the appropriate type classification.

V. OBJECT CLASSIFICATION

All fixed asset purchases should be charged to 85XX object numbers, except for capital projects where the whole project will be treated as a fixed asset.

VI. VALUATION

Fixed assets are normally valued at historical cost (original purchase price). The method used to compute historical cost varies with how the asset is acquired as follows:

- A. **Direct Purchase:** acquisition cost, which includes the cost to place the asset in service.
- B. **Lease:** types of leases are considered property acquisitions to be capitalized and added to the fixed asset system. Leases, which meet any one of the following criteria, should be capitalized. All other leases are not capitalized and lease payments should be expended. All leases are to be reviewed by Accounting to determine the proper treatment.
 - 1. The present value of total lease payments is at least 90% of the asset's fair market value.
 - 2. The lease will extend for at least 75% of the asset life.
 - 3. The lease contains a bargain purchase option.
 - 4. At the end of the lease term, ownership of the leased property is transferred to the City.
- C. **Construction:** may be constructed by a City department or an outside contractor. Costs include engineering/design payments, contractor payments, material purchases, salary and salary-related costs, and any other cost incurred in constructing the asset and placing it in service. All project payments for capitalizable expenditures should be treated as fixed asset acquisitions. The

- accumulated project costs from construction in progress will be transferred to the appropriate fixed asset classification type when the project is completed.
- D. **Contribution:** may be acquired by gift or contribution. Gifts should be valued at fair market value on the date of the gift. Contributions should be valued at the developer's actual cost.
 - E. **Exchange:** fixed asset records should be updated to show when fixed assets are exchanged for other assets. The value shown for new fixed assets should be the book value (historical or original cost) for the exchanged asset(s) plus funds paid or minus funds received as part of the exchange.
 - F. **Transfer:** transfers between divisions should be reported to Accounting. Transfers of property between governmental type funds and proprietary type funds should be recorded as equity transfers at the net book value (historical or original cost less depreciation) of the asset.
 - G. **Improvements:** for the replacement, renewal, or improvement of existing assets should be recorded as betterments to that asset in the fixed asset system. Expenditures for repairs of existing assets should be recorded as current expenditures and not included in the fixed asset system. These categories are defined as follows:
 - 1. "Repairs...the cost of incidental repairs, which neither materially add to the value of the property nor appreciably prolong its life, but merely keep it in an ordinarily efficient operating condition."
 - 2. "Renewals and Replacements...amounts spent in restoring property or for replacements, which arrest deterioration and appreciably prolong the life of the property." These costs are nonrecurring in nature and add to the service potential of the asset. They are normally incurred as part of a large-scale program of renovation. To the extent that renovation or modernization involves the substitution of new parts for old, the cost of the old part, less accumulated depreciation, if applicable, should be removed and the cost of the new part should be added.
 - 3. "Improvements...amounts spent to substantially improve an asset's capacity or capabilities in some way."

VII. TRANSACTION TYPES

- A. **Acquisitions:** may be acquired through direct purchase, lease, construction, or contribution. The Fixed Asset Coordinator will be responsible for preparing a fixed asset Acquisition Form when the receiver or check requisition is prepared and forwarding the form to Accounting. Only one Acquisition Form needs to be completed for a capital project. This should be completed by the Fixed Asset Coordinator when the project is completed.

- B. **Betterment/Modification:** may be improved or modified in such a way that increases the value over the \$5,000 threshold or extends the life beyond the normal estimated life of the asset. Substantial repairs and maintenance charges, which return the asset to its normal operating standards, are not considered betterments or modifications. The Fixed Asset Coordinator will be responsible for preparing a fixed asset Betterment/Modification Form when the receiver or check requisition is prepared and forwarding the form to Accounting.
- C. **Transfers:** may be transferred between divisions. If the transfer is between two governmental funds, no dollar adjustments need to be made; however, Accounting will need to be notified of the change. If the transfer is between two proprietary funds or between a governmental and proprietary fund, the transfer will be recorded as an equity transfer at the net book value of the asset. A Transfer Form should be submitted to Accounting whenever the asset is transferred.
- D. **Disposals:** may be disposed of through trade, sale, salvage, destruction, theft, auction, retirement, etc. The Accounting department must be notified when an asset is disposed. The original cost and related accumulated depreciation, if applicable, will be removed from the fixed asset system and accounts. Gains and losses should be recognized only in proprietary funds. Other funds should record sale proceeds in a revenue account or disposal costs in an expenditure account. A Disposal Form must be submitted to Accounting whenever an item is disposed of through one of the above-mentioned methods.
- E. **Capital Asset Impairment:** is a significant and unexpected decrease in the service utility (economic value) of a capital asset that will continue to be used in operations. Capital asset can be impaired from physical damage; changes in law, regulation or other environmental factors; technological developments; changes in the manner or duration of use of the capital asset; stoppage of construction; or stoppage of development. The definition of impairment requires that an event or change in the circumstances of a capital asset be both significant and unexpected. Should a asset used by a Operating Division suffer a significant and unexpected decrease in the service utility, the asset coordinator will be responsible for completing a fixed asset impairment form and turning the form over to the Accounting division so that Accounting can perform the impairment tests necessary to reduce the value of the asset.

VIII. DEPRECIATION

Depreciation represents a periodic estimate of how much the value of an asset has been reduced over time. Depreciation is recorded on each asset of depreciable property utilizing the straight-line method over the estimated useful lives of the assets. Most assets are added to the fixed assets system as of the date they are placed in service, while projects are added at April 1.

Estimated useful lives are as follows:

<u>Fixed Asset</u>	<u>Useful Life (Years)</u>
Buildings	40
Infrastructure	30 – 40
Streets	20
General Improvements	10
Machinery and Equipment	10 – 20
Furniture and Office Equipment	10
Computer Equipment and Software	3 – 10
Plant and Equipment	5
Underground Pipe	40
Water Storage Rights	50 – 100
Water Recreation Rights	50
Communication Equipment	5
Vehicles	5 – 10

IX. DEPARTMENT RESPONSIBILITIES

- A. **Designating a Fixed Asset Coordinator:** Department Head should designate one employee per division or area to serve as the Fixed Asset Coordinator for that division. The person assigned should be generally familiar with the assets used by that division (their cost, salvage value, useful life, general condition, etc.). The Fixed Asset Coordinator will serve as a contact person for Accounting when performing periodic inventories. The Coordinator will also submit asset data regarding acquisitions, retirements, etc., to Accounting. Each department should provide an updated list of Coordinator names to Accounting when changes are made.
- B. **Periodic Inventories:** inventory of fixed assets will be performed for each division or area at least one time in every three years. A schedule of these audits will be provided from Accounting. The Fixed Asset Coordinator will assist the Accounting department in conducting these audits.
- C. **Submitting Data to Accounting:** Fixed Asset Coordinator will be responsible for submitting all Fixed Asset forms (Acquisition, Transfer and Disposal) to Accounting. At the end of each fiscal year the Fixed Asset Coordinator will receive a listing of assets for his or her division prepared from the fixed asset system. The Fixed Asset Coordinator can request an updated list at any time from Accounting.
- D. **Description of Assets:** description, which appears on the Acquisition Form, will be the description which appears on the fixed asset system and all subsequent asset listings. If no acquisition form is submitted, the description on the purchase order will be the description used.

X. ACCOUNTING RESPONSIBILITIES

- A. **Maintaining the Fixed Asset System:** fixed asset system (J.D. Edwards) will be maintained in the Accounting department. When Accounting receives a Fixed Asset Form, the additions, disposals, transfers, etc. will be recorded in the fixed asset system. The Fixed Asset Coordinator will be able to request current information for their area as needed.
- B. **Reconciliations:** will reconcile the 85XX object code purchases to assets listed on the fixed asset system each month. These reconciliations will also take into account transfers and disposals.
- C. **Inventory Audits:** inventory of fixed assets will be performed for each division or area at least one time in every three years. A schedule of these audits will be prepared in Accounting. The Accounting department will conduct these audits with the assistance of the division's Fixed Asset Coordinator.
- D. **Distributing Asset Information:** the end of each fiscal year, Accounting will distribute a listing of assets to each Fixed Asset Coordinator. Any time during the year, the Fixed Asset Coordinator can request additional information.