

City of Palestine Capital Asset Policy

Approved 09/27/2021

Definition of Capital Asset

A capital asset is defined as tangible or intangible property that is used in operations and has a useful life extending beyond a single reporting period. Examples of capital assets include land, improvements to land, easements, buildings, building improvements, vehicles, machinery, equipment, works of art and historical treasures, infrastructure, and software. For constructed assets, the criteria apply to the completed project.

The purpose of capitalization is to defer the cost of an item that will be used in more than one reported period.

Capitalization Threshold

GASB 34 states that capital assets should be reported at historical cost. The cost of an asset should include any charges necessary to put the asset into place. The City of Palestine has a capitalization threshold of \$5,000. This is the minimum amount at which items are capitalized rather than charged off as an expense of the period in which they occurred.

Function

Expenditure Accounts

The City of Palestine uses an 11-digit account number for its expenditure accounts. The first three numbers in the series are the fund, the next number in the series is the account type (1=Asset, 2=Liability, 3=Equity, 4=Revenue, 5=Expense), the next three numbers in the series are the department within the fund and the final four are the object code. The expenditure accounts in the Operating Funds that have an object code beginning with an 8 shall be used exclusively for the purchase of capital assets as defined in this policy. No other items shall be charged to these accounts.

Capital projects shall use the account structure that has been designed by the City. Theoretically, any charge to a Capital Project is a capital item.

Tagging

At this time, the City of Palestine does not have a program in place to tag fixed assets, but plans are to develop one in the near future.

Policies and Procedures

Individual Major Asset Classes

Land – Land usually includes all land purchased or otherwise acquired by the City. Land should be recorded at its actual (historical) cost. Land that has been donated to the City should be recorded at its fair value. Land that is purchased to build a structure or building on should be recorded separately from the cost of the structure or building. Land purchased to build a highway or road should not be capitalized as part of the cost of the highway.

The cost of the land should include not only its acquisition price, but also the cost of initially preparing the land for its intended use, provided these preparations have an indefinite useful life, like the land itself. Examples of items that might be capitalized as part of the cost of the

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land include basic site improvements (e.g., excavation, fill, and grading), as well as the cost of removing, relocating, or reconstructing the property of others (e.g., power lines).

When land and building are purchased together an appropriate portion of the cost must be assigned to each (land has an indefinite life and building life is limited).

Buildings – Buildings include all permanent structures. The cost of a building should include all charges applicable to the building, including broker or architect’s fees. For a donated building, appraised fair value as of the date the building was donated should be used. The cost of an improvement (or betterment) to the building normally is added to the cost of the related structure, rather than treated as a separate asset. The same is true for restoration costs following capital asset impairment.

The City can elect to report major components of the buildings as separate capital assets when those components have a significantly shorter estimated useful life than the structure to which they relate (e.g., AC units).

Improvements other than buildings – Permanent improvements, other than buildings, that add value to land, but do not have an indefinite useful life. Examples include fences, retaining walls, parking lots, and most landscaping.

Machinery, Equipment, and Furnishings – Property that does not lose its identity when removed from its location and is not changed materially or expended in use. The property should be recorded at cost. It shall include cost of installation, delivery and other charges required to place the asset into service. Common examples of Machinery and equipment are vehicles, furnishings, heavy equipment, computers and software. If an asset is acquired through donation, an appraised value should be established as of the date of the donation.

Infrastructure – Long-lived capital assets that normally are stationary in nature and usually can be preserved for a significantly greater number of years than most capital assets. Examples of infrastructure include roads, bridges, tunnels, drainage systems, water and sewer systems, dams, and lighting systems.

Construction in Progress – Costs incurred to construct or develop a tangible or intangible capital asset before it is substantially ready to be placed into service (at which time the asset would be reclassified into the appropriate major class and capitalized).

Improvements vs. Repairs and maintenance

Improvements (betterments) - Provides additional value to an asset. Such added value is achieved either by 1) lengthening a capital asset’s original estimated useful life or 2) increasing a capital asset’s ability to provide service (i.e., greater effectiveness or efficiency). One example of an improvement would be the widening of a highway from two lanes to four lanes. The widened highway could bear more traffic at faster speeds, resulting in greater effectiveness or efficiency. That would be considered an improvement rather than a repair.

Repairs and maintenance – Retain value rather than provide additional value. The cost of repairs and maintenance should not be capitalized, but should be reported as an expense of the period in which it was incurred regardless of amount. One example would be overlaying a street. The street overlay maintains rather than extends the original estimated useful life of the street, and

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therefore, should be treated as a repair (Does not lengthen the life of the street, but simply avoids cutting it in half).

The Finance/Accounting Department will review each item and/or project and determine the status.

Acquisition Costs

The City incurs various costs in the process of acquiring a capital asset. Common examples include legal and title fees, closing costs, appraisal and negotiation fees, surveying fees, land preparation costs, demolition costs, audit and accounting fees, and transportation charges.

A cost should be capitalized only if it is directly identifiable with a specific asset, and the acquisition of the related asset has come to be considered probable, or likely to occur. Thus, the cost of a study undertaken to determine the best location for new building would not be capitalized. (i.e., Feasibility study- When the cost was incurred, it could not be identified with a specific property).

General and administrative costs should not be capitalized.

Intangibles – Software that is developed in-house by the City’s personnel or by a third party contractor on behalf of the City should be capitalized. Commercially available software that is purchased or licensed by the City and modified using more than minimal incremental effort before being put into operation should be capitalized. The Preliminary project stage should not be capitalized (i.e., RFPs). Post-implementation/operations stage should not be capitalized (i.e., application training and software maintenance).

Bulk Item Purchases—When capitalizing groups of items in the aggregate the purchase must meet all of the following criteria: Must be material to the overall financial statements, must be able to determine the disposal date or have a replacement schedule for the items so the City’s assets will not be overstated; the purchase must be practical or beneficial to the financial records.

Capitalizing items in the aggregate is at the City of Palestine’s discretion. Authoritative pronouncements do not address the manner in which a capitalization policy should be established and applied.

Treatment of Costs Subsequent to Acquisition

Funds that are expended on a currently owned asset that extend the original estimated useful life of the asset may be eligible for capitalization. If the amounts expended are for items other than routine maintenance and they extend the original estimated useful life of the asset, then the costs should be added to the existing fixed asset as an addition.

Seized vehicles

Seized vehicles are not considered capital assets, since they are not acquired by the City for use in operations.

Depreciating Capital Assets

The City of Palestine uses the straight-line method of depreciation (historical cost divided by useful life). The useful life is the time span in which the asset will be in service. The Finance Department or its contracted auditors will handle all depreciation calculations.

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Sale, Disposal, or Transfer of Capital Assets

It is the responsibility of each department to provide the Accounting/Finance Department with all information required to properly record the sale, disposal, or transfer of an asset. A Property Disposition Report (PDR) is to be filled out by the department and signed by a manager or director of that department.

If transferring an asset from one department to another, the receiving department manager or director should also sign the PDR upon receipt of the asset.

Assets Acquired by Trade of Other Assets

When assets are exchanged and no monetary consideration is paid or received, the cost of the asset acquired is recorded at the book value of the asset surrendered.

When monetary consideration is given, the new asset must be recorded at the sum of the cash paid plus the book value of the asset surrendered.

Capital Assets Acquired Through Donation

Donated capital assets should be recorded at their estimated fair value at the time of acquisition plus any additional charges, if any. The appropriate fair value is what the government would have had to pay to acquire the asset on its own.

Inventory

It is the responsibility of each City department to keep a current record of inventory held within their department. The Finance Department will provide each department with a list of the assets that are recorded into the Fixed Asset System on a yearly basis. The department responsible for the asset will then physically verify that each asset on the list still exists and that they are all accounted for. If there are any assets that are in the department's care that are not on the inventory list a PDR should be filled out by the department and sent to the Purchasing department for input into the Fixed Asset System.

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Table of Fixed Asset Classification & Useful Life

Useful Life (years)	Class Description
0	Land
0	Donated Land
45	Buildings Permanent
20	Buildings Temporary
20	Buildings Special Purpose
20	HVAC Equipment
20	Other Building Systems & Improvements
15	Leasehold Equipment
15	Site Paving/Playing Fields/Trails
30	Water Structures
40	Water Utility Structures
40	Wastewater Utility Structures
15	Other Land Improvements
15	Other Land Improvements Water
15	Other Land Improvements Wastewater
30	Storage Tanks
30	Streets/Alleys Sidewalks
30	Bridges
30	Water Wells
50	Canals
30	Water Lines
30	Water Conveyance & Storage Systems
30	Sanitary Sewer Lines
30	Storm Sewer Lines
25	Runway Improvements
25	Taxiway Improvements
15	Automotive Repair Equipment
15	Shop Tools & Equipment
15	Compressors/Generators/Power Washers
12	Grounds & Custodial Equipment
15	Warehouse/Mat.Handling Equipment
7	Computers Mainframe or Servers
10	Communications Systems
10	Radio Equipment - Utilities
7	Photographic Equipment
7	Audio-Visual Equipment
20	Communications Antennas & Towers
7	Other Communications Equipment
10	Engineering/Lab/Science Equipment

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Table of Fixed Asset Classification & Useful Life (continued)

Useful Life (years)	Class Description
10	Medical Equipment
20	Laboratory/Hospital Furniture
10	Business Machines
20	Furniture & Fixtures
10	Appliances & Food Prep Equipment
20	Sinks/Prep Tables/ Coolers
25	Water Treatment Equipment
10	Water Meters
15	Water Treatment Chlorinating Equipment
35	Water Hydrants & Piping
25	Wastewater Treatment Equipment
20	Wastewater Pump & Disp. Equip
30	Wastewater Treatment Piping
30	Electrical Equipment
20	Electrical Equipment-Utilities
20	Traffic Control Signage
5	Multimedia Materials/Library Stock
10	Athletic/Recreational Equipment
12	Firefighting & Rescue Equipment
10	Law Enforcement Equipment
10	Law Enforcement - Weapons
10	Parking Lot Equipment
10	Musical Instruments
10	Other Equipment
7	Automobiles
4	Automobiles - Police
7	Vans & Buses
3	Ambulances
7	Ambulance Modules
7	Fire Trucks Step Vans, Cascades
10	Fire Trucks Pumpers, Rescue
15	Fire Trucks Pump Aer. Ladders
7	Trucks, Light
7	Trucks, Medium
7	Trucks, Heavy
7	Trucks, Special Purpose
15	Earth Moving Equipment
10	Street & Utility Maintenance Equipment

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Table of Fixed Asset Classification & Useful Life (continued)

Useful Life (years)	Class Description
12	Tractors
7	Vehicle Attachments
10	Trailers & Towable Equipment
10	Boats
10	Antique Museum Vehicles
15	Helicopters
7	Other Vehicles
0	Construction in Progress

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PROPERTY DISPOSITION REPORT

Asset ID: _____ Asset Description: _____

Model #: _____ Serial #: _____

Department: _____

Please indicate one of the following:

_____ Sale of Asset

_____ Disposal of Asset

_____ Transfer of Asset

SALE OF ASSET:

Date Sold: _____ Sales Price: _____ Purchaser: _____

Signature of Department Head: _____

DISPOSAL OF ASSET:

Date of Disposal: _____ Manner of Disposal: _____

Signature of Department Head: _____

TRANSFER OF ASSET:

Date of Transfer: _____ Department Transferred To: _____

Signature of Department Head (Transferring Department): _____

Signature of Department Head (Receiving Department): _____