




POLICY AND PROCEDURE

Subject: Capital Assets – Capitalization	Index: Finance Number: 201-13-2
Effective Date: April 1, 2009	Prepared By: Finance & Administrative Services
Supersedes: Not Applicable	Approved By: 

1.0 **PURPOSE:**

To establish a financial accounting capitalization policy for land, land improvements, buildings, improvements, infrastructure, equipment and software.

2.0 **ORGANIZATIONS AFFECTED:**

All departments/divisions.

3.0 **REFERENCES:**

Not applicable.

4.0 **POLICY:**

4.1 Land – Cost to be capitalized includes all costs connected with the acquisition and amounts incurred to prepare the land for its intended purpose. These costs include but are not limited to purchase prices, real estate commissions, legal fees, escrow fees, title investigations, title insurance, surveying, clearing, draining and filling land.

If existing buildings on the land will be utilized, a portion of the cost should be allocated to land and a portion to buildings. If buildings are razed to prepare the land for its intended purpose, the cost of razing the buildings should be capitalized as land.

- 4.2 Land Improvements – Costs to be capitalized include the cost of landscaping, parking lots and outdoor public recreation fields with a cost greater than \$25,000. All land improvement costs associated with newly constructed buildings shall be capitalized.

This category includes parking lots, tot lots, playgrounds, outdoor lighting, fences, basketball courts, tennis courts, running tracks, soccer fields, ballfields, dugouts, grandstands, golf course greens, etc.

- 4.3 Buildings (New Construction). The cost to be capitalized includes but is not limited to the cost of professional services, materials, labor and site preparation.

If external debt is used to finance the building, net interest expense and the amortization of loan origination costs incurred during the construction period should be capitalized.

- 4.4 Building Renovations – Building improvements should be capitalized if there are significant alterations or structural changes that a) cost greater than \$25,000 and b) meet one or more of the following conditions:

- A. Extends the useful life of the building by half of its depreciable life.
- B. Changes the use of purpose of the original space.
- C. Expands the total square footage of the building.

The cost of any work required on the existing building such as removing walls should also be capitalized as part of the renovation cost.

- 4.5 Infrastructure and Utility Assets – The cost of the road network and the utilities infrastructure and any other infrastructure is capitalizable as a capital asset.

The road network includes roads, alleys, curbs, medians, sidewalks, streetlights, traffic signals and bridges. Street projects that are capitalizable include overlay of roads 2” and greater.

The utility assets include water, sewer, recycled water and storm drain lines. Also, included are pump stations, reservoirs, wells, lift stations, turnouts, pressure stations and water quality improvement projects, etc.

- 4.6 Improvement and Replacements – capitalize the cost of improvements and replacements if they meet at least one of the following criteria:

- A. The useful life of the asset is extended by half its depreciable life.
- B. The quantity of services provided by the asset is increased.
- C. The quality of services provided by the asset is enhanced.

4.7 Machinery and Equipment – The cost should be capitalized if all the following criteria are met:

- A. The item cost is at least \$5,000.
- B. The useful life of the equipment is at least three years.
- C. The item is able to function by itself.

This includes computer servers, vehicles, mowers and other equipment and machinery.

4.10 Leases – Each lease should be reviewed to determine whether it should be expensed or capitalized.

4.11 Software – The cost of software, whether purchased from an external source or developed internally, is expensed.

5.0 ***DEFINITIONS:***

5.1 Capital projects are projects that are to acquire, build or improve an asset. These projects do not include repair or maintenance projects on existing assets.

5.2 An improvement is the substitution of an asset currently in use with an updated or improved asset. (An old air conditioning system is replaced by a more powerful and sophisticated air conditioning system).

5.3 A replacement is the substitution of an existing asset with a similar asset. (An old air conditioning system is replaced by a new air conditioning system with essentially the same characteristics).

5.4 Repairs and maintenance are costs to be expensed if they do not provide future benefits. Costs to maintain assets in proper operating condition or to restore equipment to a proper operating condition are expensed. Examples include painting, lubrication of machinery, or replacement of minor parts.

6.0 ***PROCEDURE:***

6.1 The department/division is responsible to give Finance a list of capital assets that were built, renovated or improved upon at completion of a project.

6.2 Finance will obtain the information on the capital project and allocate the cost of construction to the various capital assets based on the information provided from the department.

6.3 When assets are contributed to the City by developers, the asset will be recorded based on information provided by Public Works/Engineering. These assets will be recorded at the time of acceptance by City Council.

6.4 When an asset or equipment is purchased the information on the purchase shall be provided to Finance.

6.4.1 Machinery and equipment (excluding fleet vehicles) shall be tagged with an asset tag provided by Finance. This tag shall be affixed to the actual asset.

6.5 The Finance division will periodically require a review of the assets that are held by departments and the tagged assets. This review may include either providing a list to the department to review or a physical inspection performed by Finance.

6.5.1 If an asset is unable to be located the asset will be removed from the accounting records and management may be informed.