

Town of Emerald Isle

CAPITAL / FIXED ASSET POLICY



Adopted August, 10, 2004

Mayor

Arthur B. Schools, Jr.

Board of Commissioners

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Town Manager

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Capital Asset Accounting / Fixed Asset Inventory

PROCEDURE PURPOSE:

To establish a set of rules/guidelines that facilitates control and custody of the property of the Town.

OVERVIEW:

The Town is required to maintain an inventory of its capital / fixed assets in accordance with current governmental accounting standards. Capital / fixed asset reports give a detailed account of the Town's property, provide protection from loss, justify financial statements and qualify the Town for the GFOA Certificate of Achievement for Excellence in Financial Reporting.

PROCEDURE:

Capital Assets are specific items of property that:

1. are tangible in nature
2. have a life longer than one year
3. have a value of \$5,000 or greater

Fixed Asset Inventory items (items to be inventoried and tracked but considered non-depreciable) are specific items of property that:

1. are tangible in nature
2. have a life longer than one year
3. have a value of \$500 or greater (with the exception of items less than \$500 but determined by the Department Head to be sensitive in nature, therefore requiring inventorying).

Items generally considered to be capital assets are:

1. **Land/Landscaping:** The land account will include all land purchased or otherwise acquired by the Town. Purchased land will be valued based on acquired cost. All costs for legal services incidental to the acquisition and other charges incurred in preparing the land for use is to be included in the value. Donated land is recorded at the appraised market value of the land at the time of its donation. Rights of Way, encroachments and leaseholds will not be recorded as a capital /fixed Asset.
If land and buildings are acquired as a single parcel, the value of the land should be determined separately from the building and only that amount carried in the land account. The value of the building will be carried in the building account.

2. **Buildings:** The buildings account includes the value of all buildings at purchase price or construction cost. The cost of the building should include all charges applicable to the building, including broker or architect's fees and interest on borrowed money during construction. If a building is donated to the Town, appraised fair market value at the time of the donation will be used to value the building. Additions and improvements to buildings, as well as cost of the heating and ventilating system or other permanently attached fixtures should be added to the buildings account.
3. **Improvements Other Than Buildings:** This account will be used to record such items as infrastructure (i.e. parking lots, sidewalks, fences, bridges and streets). Values assigned will be based on a "cost-of-construction basis".
4. **Equipment/Machinery:** The equipment/machinery account will consist of all items of tangible property that meet the prior mentioned capitalization/fixed asset amount not permanently affixed to real property, which are needed to carry out the operations of the Town. This property is recorded at cost, including freight, installation and other charges incurred to place the asset in use excluding sales tax. If an asset is acquired through donation, an appraised value is established as of the donation date and assigned to the asset.
5. **Construction In Progress:** This account is primarily used in conjunction with Capital Projects when amounts are expended on an uncompleted building or other capital construction project. Project costs are accumulated until completion and then transferred to another appropriate capital / fixed asset account. The capitalization policy does not apply in these cases, as all costs must be recorded to give accurate values.
6. **Furniture & Fixtures:** The furniture and fixtures account will consist of property that does not lose its identity when removed from its location. Furniture values will be recorded at cost, including freight, installation and other charges incurred to place the asset in use excluding sales tax. If an asset is acquired through donation, an appraised value is established as of the donation date and assigned to the asset.
7. **Vehicles:** The vehicle account will consist of property that does not lose its identity when removed from its location. Values will be recorded at cost including title, dealer prep and other charges incurred to place the vehicle into service. If an asset of this type is acquired through any means besides direct purchase, an appraised value is established as of the acquisition date and assigned to the asset.
8. **Data Processing Equipment:** The data processing equipment account will consist of equipment that does not lose its identity when removed from its location and has not changed materially or is expended in use. Data processing equipment values will be recorded at cost including freight, installation and other charges incurred to place the asset in use excluding sales tax. If an asset is acquired through donation, an appraised value is established as of the donation date and assigned to the asset.

9. **Lines & Improvements:** This account will be used to record such items as water and sewer lines, outfalls, pump stations, and related town fees. Values assigned will be based on a "cost-of-construction basis"

Costs are often incurred in connection with existing capital assets after the original acquisition cost has been established through additions and modifications. In general, any expenditure which is definitely an addition to a capital asset, or an integral part of it, that significantly increases the value of, enhances the performance of or changes its useful life, should be classified as a capital expense and added as an improvement to the capital asset. When modifications which enhance the performance or life of an asset are made, the modification, valued at cost, should be added as an improvement to the existing capital asset. If an improvement amount can not be determined, the purchase will be considered as a maintenance and repair expense.

STANDARD LIFE OF ASSETS/DEPRECIATION

Capital assets will be depreciated on a straight-line basis using the approved schedule of useful life. Certain assets may be depreciated differently, based on current governmental accounting practices and procedures.

ESTABLISHMENT OF USEFUL LIVES IN YEARS:

- Buildings 50
- Improvements 20
- Furniture & Fixtures 10
- Automobiles 5
- Equipment (non-computer) 10
- Computer Equipment 3
- Software 3

Useful lives may on a case-by-case basis need to be altered from the above, and the above represents a guideline for useful lives based on asset type.

ITEMS NOT CONSIDERED TO BE CAPITAL / FIXED ASSETS:

In order to clarify the question of asset classification, the following list of specific examples is provided:

A. Maintenance and Repair Replacements: The replacement costs of component part(s) of a fixed asset, not the entire asset itself, during a maintenance and repair operation which also enhances the performance or life of the asset are not generally considered to be capital asset additions or modifications. For example, replacing an original disk drive with a higher capacity disk drive in a microcomputer or a more powerful engine in a leaf vacuum machine is considered to be a maintenance and repair expense.

B. Draperies and Carpet: The original purchase of draperies and carpet is considered an addition to the total asset value of the building. Replacement of either of these items is classified as maintenance to the building.

C. Supplies: Any supply, regardless of cost, that is not permanent and will be consumed within a year is not considered a fixed asset.

D. Aggregate purchases: A purchase of items in quantity with a extended cost equal to, or more than, the policy limit is not considered to be a capital / fixed asset if the cost of the individual item is less than the policy limit. For example, 100 chairs at \$75 each were purchased on a single purchase order for a total of \$7,500. Even though the total is well above the policy limit, the chairs are not considered as capital / fixed assets since the individual cost does not qualify.

STEWARDSHIP OF PROPERTY:

The responsibility for the use and safekeeping of the asset will be the Department Head's for which department the capital asset was purchased. In addition, each Department Head will be the steward of his/her departmental property.

Stewardship duties include ensuring that appropriate property is acquired, maintained, used and disposed of in the Town's best interests. Department Heads will record the receipt of the asset, examine the asset to make sure that no damage was incurred during shipment and confirm that the asset was received in good working order. The Department Head is also responsible for arranging for necessary preventative maintenance and needed repairs to keep the asset in good working condition. The Department Head will ensure that the asset is used for the purpose for which it was acquired and that there is no personal or unauthorized use. Any property damage, unauthorized use or theft should be immediately reported to the Town Manager.

It is the Department Head's responsibility to maintain up-to-date information on his/her capital assets. If the asset changes location, is transferred or loaned to another department, condition is altered or availability varies in any way, then the Town Clerk should be notified in order to correct the capital / fixed asset data base. Finally, the Department Head is responsible for processing the disposal of the asset in accordance to the Town's disposal policies.

AUDIT OF PHYSICAL INVENTORY:

Every June 1st, each Department Head will conduct an audit of his/her department's physical inventory. The Town Clerk will generate a physical inventory report of each department's capital assets, as well as all non-capitalized assets. In addition, the Town Clerk will also maintain inventory information on all assets which are considered safety sensitive by the Department Head. The Department Head will then conduct the physical inventory count. Any discrepancies will be reported to the Town Clerk in order to keep the data base updated. In addition, the computer data base of Capital / Fixed Assets will be updated quarterly to accommodate all current fiscal year transactions. Each Department Head must make sure that any changes to their department's capital / fixed

asset data base are accurate. Reports will be forwarded to each department on a quarterly basis.

The inventorying of Capital / Fixed Assets will consist of the following steps:

1. Initial Physical Inventory
2. Periodic update/audit of physical inventory
3. Department notifies Town Clerk in writing of addition, deletion, transfer, accompanied by appropriate asset sheet with documentation (invoice, purchase order, donation letter, etc.) (If donation – fair market value determined by Department and noted)

Asset number assigned and item tagged.

- A. **Purchases:** The Town Clerk will identify all purchases against the capital outlay account.
- B. **Donations:** The Department Head from the department receiving the donated item(s) is responsible for notifying the Town Clerk of the addition. The Department Head will be responsible for completing a Capital / Fixed Asset Addition Form, supplying the Town Clerk with all pertinent criteria in relation to the newly acquired capital asset. Any problems occurring with establishing a fair market value should be referred to the Town Manager.
- C. **Computer Adjustments:** The Town Clerk will make sure that all entries made in the capital asset data base are in complete balance with current year's capital outlay expenditure line items within the general ledger.

TAGGING OF THE ASSET:

The primary purpose of tagging an item is to maintain a positive identification of capital / fixed assets owned by the Town. When a capital / fixed asset is purchased and an Asset Worksheet is forwarded to the Town Clerk, he/she will assign the capital / fixed asset a number. The Department Head will be supplied an inventory tag with that same number on it and will be required to attach the tag to the asset

ASSIGNING VALUES:

To conform to generally accepted accounting principles, capital / fixed assets' assigned values will be actual or estimated historical cost, or for contributed assets, at fair market value on the acquisition date. This value will also include shipping, installation charges and any other cost incurred in getting an asset operating for its intended use. This value *does not* include sales tax.

TRANSFERS:

- A. A transfer of an asset occurs whenever it changes location, building, department or account. A transfer may be in full or partial. A partial transfer could occur when there are multiple parts, and only certain pieces are changed. The responsibility of notifying the Town Clerk of the transfer is the Department Head of the *transferring* department. The transferring department will fully identify the asset on a Capital / Fixed Asset Transfer Form and submit the form to the Town Clerk.

Computer Adjustments: The Town Clerk will transfer the asset within the computer system.

DISPOSAL OF AN ASSET:

Any deletions to the Capital / Fixed Asset data base should be identified and approved by the Town Manager or Town Council. The asset will be fully identified to the Town Clerk by description and asset for disposal. The Town Clerk will then be authorized to delete the asset from the capital / fixed asset data base.

Attachments:

- Capital / Fixed Asset Addition Form – (Purple Form)
- Capital / Fixed Asset Deletion Form – (Yellow Form)
- Capital / Fixed Asset Transfer Form – (Orange Form)