

RESOLUTION NO. 05-55

**A RESOLUTION OF THE RIDGECREST CITY COUNCIL
RATIFYING THE CITY OF RIDGECREST CAPITAL ASSET,
INFRASTRUCTURE, VALUATION, AND FIXED ASSETS
ACCOUNTING POLICY**

WHEREAS, The City Council of the City of Ridgecrest has received numerous awards for excellence in financial reporting; and

WHEREAS, the Government Finance Officers Association of the United States and Canada (GFOA) most recently has recognized the City of Ridgecrest among the most professionally managed Cities by awarding to it the Award for Excellence in Financial Reporting for Fiscal Year 2003-04; and

WHEREAS, the City's independent Auditors have recommended that the City formally recognize and adopt its Infrastructure, Capital, and Fixed Asset Accounting Policies;

NOW, THEREFORE, BE IT RESOLVED that the City Of Ridgecrest Capital Asset, Infrastructure, Valuation, And Fixed Assets Accounting Policy herein identified as Exhibit "A" is Adopted and Ratified;

APPROVED AND ADOPTED this 17th Day of August 2005, by the following vote:

AYES: Mayor Holloway, Council Members Martin, Clark, Morgan, and Carter

NOES: None

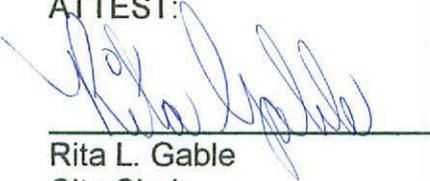
ABSENT: None

ABSTAIN: None



Marshall "Chip" Holloway, Mayor

ATTEST:



Rita L. Gable
City Clerk

ATTACHMENT "A"

Department: Administrative Services

Policy No.: Administrative Services 2005-03

Title: Capital Asset, Infrastructure Valuation, and Fixed Assets Accounting Policy

BACKGROUND/PURPOSE:

This policy establishes procedures as to how the City of Ridgecrest records the acquisition of and disposal of capital assets to ensure accurate reporting and compliance with government regulations and accounting standards.

The value of assets that are capitalized and recorded is depreciated over time to reflect their cost during the useful life of the assets and not only on the date of acquisition. Assets that do not meet the capitalization threshold are not depreciated. Instead, they are fully written off as expenditure at the time the assets are acquired.

CAPITALIZATION POLICY:

The City of Ridgecrest capitalization policy is as follows:

- All land, regardless of cost;
- Infrastructure with a value of \$100,000 or greater;
- All other capital assets with acquisition cost of \$5,000 or more and have a useful life of three years or more.

Any asset that does not fall within these criteria is to be expensed and not added to the capital assets inventory but will be tracked separately for inventory purposes (see small assets of value)

Exceptions to the above shall be determined by the current Governmental Accounting Standards Board (GASB) Pronouncements. The City of Ridgecrest fully adopts and supports such pronouncements and statements as the policy of the City.

CAPITAL ASSET VALUATION:

Capital assets should be reported at their historical value. In the absence of historical cost information, the asset's estimated historical cost may be used. Capital asset donated should be reported at its fair market value on the date the donation is made. The historical cost of a capital asset should include all of the following charges:

- Ancillary charges necessary to place the asset in its intended location (freight or transportation charges, for example)
- Ancillary charges necessary to place the assets in its intended condition for use such as installation and site preparation charges.
- Capitalized interest – only for enterprise funds and internal service funds.

The historical cost of a capital asset should include the cost of any subsequent additions or improvements but exclude the cost of repairs. An addition or improvement, unlike a repair, either enhances a capital asset's functionality (effectiveness or efficiency), or it extends a capital asset's estimated useful life.

1. Budgetary Authority

This policy is not a budget or purchasing document. Further, nothing contained in this policy replaces or supersedes the currently adopted purchasing policies, budget resolution, or any related Council approved resolution.

2. Purchased Assets:

The acquisition cost must include the purchase price, sales tax, shipping costs, installation costs, value received from a trade in, and any other direct costs incurred by the City in obtaining the asset. Training, maintenance and warranty agreements are not to be part of the capitalized cost and should be expensed.

3. Assets purchased thru Grants or Contracts:

If an existing capital asset funded by a grant or contract and subsequently the City purchased additional components valued below the city's capitalization threshold – they may be capitalized if the additional components are specifically budgeted in the grant/contract.

4. Donated Assets:

The value to be recorded by the city for donated assets will be the fair market value of the asset when it was given. The fair market value may be determined by using the appraisal price or the selling price of an equivalent item. Shipping cost and installation cost of the donated asset should be included in its valuation. (Shall be consistent with Administrative Services Policy # 2005-02 Donations)

5. Leased Assets:

Assets purchased under capital lease are to be capitalized when it is place in use. Their value is purchase price as stated on the lease contract. Interest paid on capital lease should NOT be added to the valuation of the leased asset.

5. Land – the cost to capitalize should include the following:
 - a. Purchase price
 - b. Legal and title fees
 - c. Appraisal and negotiation fees
 - d. Surveying fees
 - e. Professional fees of engineers, attorneys, appraisers, etc.
 - f. Site preparation costs and cost related to demolition of unwanted structures.

6. Constructed Buildings, Improvements/Renovations:

The asset value to be capitalized must include the amount paid for acquiring or improving the asset. Capital improvements include structures and all other property permanently attached to or an integral part of the structure. Building improvements may be capitalized by components when the useful lives of components vary. This may include the following:

 - a. Labor
 - b. Materials
 - c. Architectural and design fees
 - d. Charges by brokers, agents, notaries
 - e. Building permits
 - f. Inspections
 - g. Filing costs
 - h. Utilities during construction
 - i. In proprietary and trust funds, include the net interest costs incurred during the period of construction in the capitalized cost of the asset, if material.

7. A. MAJOR COMPONENTS:

Computer Hardware Related Assets – this includes all hardware components such as CPUs, printers, monitors, scanners, or servers. These assets must meet the City's capitalization threshold.

B. MINOR UPGRADES, REPAIRS, and COMPONENTS: Minor upgrades and repairs to previously capitalized computers will be expensed in the year the upgrade occurs. These upgrades include RAM, processors, hard drives, sound cards, Ethernet cards, and other ancillary components.

C. TRAINING, CONSULTING, DEVELOPMENT AND ANCILLARY EXPENSES: Training costs, consulting fees, and development project expenses will always be expensed, unless they are directly related to the installation of the new computer system. Computer hardware or systems that are not capitalized will be tracked separately for inventory purposes (see category below).

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8. Computer Software – computer software costs, whether externally purchased or developed in house, are considered capital assets if the cost meets the capitalization threshold of \$5000. Capitalization costs include external direct costs of materials and services in developing or obtaining the software, payroll related costs devoted directly to the project incurred during the development, coding, installation, and testing. Costs incurred during the planning stage of a project should not be capitalized.

DEPRECIATION POLICY:

All assets capitalized with the EXCEPTION of land and construction in progress will be categorized and depreciated or amortized over their estimated useful lives as described below using the straight line method of depreciation.

ASSET CATEGORY	USEFUL LIFE (in years)
Audio Visual Equipment	5
Building Improvements	15
Buildings	50
Buildings & Grounds	20
Communication Equipment	5
Computer Equipment	5
Computer Software	5
Furniture	7
General Equipment	5
Land Improvements	20
Leasehold Improvements	15 or the remaining term of the lease whichever is shorter
Network Equipment	5
Office Equipment	5
Scientific/Lab Equipment	7
Vehicles	5
Vehicles – Heavy Duty	7
Vehicles – Construction	10
Pavement	30
Sidewalk	100
Curb & Gutter	100
Traffic Signals	25
Street Lights	100
Sewer Pipes	50
Manholes	30
Facilities	25

Depreciation begins when an asset is purchased, completed or accepted. Regardless of what day in the month the asset is placed into service, the

depreciation starts on that month. When an asset is disposed prior to reaching its full useful life, depreciation will be calculated and expensed up to the month it is disposed. Any remaining book value will be recorded as a decrease in Investment in Fixed Assets (080-0000-280-0000) for governmental funds and for enterprise funds the remaining book value will be recorded as Loss on Asset disposal (XXXX-XXXX-XXX-2910).

SMALL ASSETS OF VALUE:

All assets with a cost of \$200 but not more than \$5000 and has a useful life of more than one year will be tracked, tagged, and catalogue for inventory purposes. For computer systems that are built in house, MIS department will tag the unit and complete the fixed asset form for tracking purposes indicating on the form the total cost of all the components that were put together.

Each year, responsible department will do a physical count of both capital and small value assets and will return to Finance the count report. Finance personnel will do a random audit of some of the items listed on the count report.

Finance will classify the inventory of these assets as to:

- in use/service
- in inventory for future use
- disposed/stolen/missing
- holding for future auction sale

ASSET DISPOSAL:

All capitalized assets will not be written off from the books until the assets are disposed of physically. Asset to be disposed must be approved by the Department Head and the City Manager. The form must contain the item number, book value, reason for disposal and recommended method of disposal (sale or auction, transfer or donation, trash, use for part) and if the asset is funded thru grant. Assets funded thru grants/contracts may have restrictions on how the assets can be disposed and grant contract should be referenced before disposal. The same will be observed in disposing small assets of value.

Approved by City Manager: Harvey M. ... Date: 8-19-05