



Fixed Asset Capitalization and Inventory Control Policy

Purpose:

The purpose of this policy is to ensure adequate control and appropriate use of City Fixed Assets. These procedures are designed to define fixed assets and to establish guidelines for budgeting, purchasing, using, financial reporting, depreciating and disposing of fixed assets. This policy does not apply to infrastructure assets.

Policy:

It is the policy of the City of Winters that fixed assets be used for appropriate City purposes and be properly accounted for and secured. It is the responsibility of the Finance Department to ensure fixed assets will be tagged, inventoried on a regular basis, and accounted for by fund and asset category. It is the responsibility of Department Heads to ensure that proper budgeting and purchasing guidelines are followed, and that fixed assets are adequately controlled and used for appropriate City purposes, and to secure such fixed assets.

Scope

All City Departments are subject to the provisions of this policy.

Objectives

1. **Accounting and Reporting.** To accurately account for and report fixed assets in financial reports issued to the City Council, external-reporting agencies, granting agencies and the public.
2. **Safeguarding.** To protect the City's fixed assets from loss or theft.

To meet the two objectives above, the City has established a Capitalization Policy and an Inventory control policy, providing guidelines to determine which fixed assets are subject to separate accounting and reporting (capitalization) and safeguarding, (inventory control) respectively.

The Finance Department is responsible for, and has established, systems and procedures through which both objectives are met. These systems and procedures are used to identify, process, track, control and report City fixed assets.

Capitalization Policy

Fixed assets will be identified as:

1. Equipment and Machinery
2. Office Equipment
3. Land
4. Buildings
5. Vehicles

In General, items classified as equipment or machinery, office equipment or vehicles with an original cost of \$5,000 or more will be subject to capitalization. All costs associated with the purchase should be considered, including such costs as freight and transportation charges and installation charges attributable to asset acquisition.

Items classified as Land and Buildings with an original cost of \$50,000 or more will be subject to capitalization. All costs associated with the purchase should be considered, including site preparation, professional fees and legal costs directly attributable to asset acquisition.

Specific capitalization requirements are described below:

- The capitalization threshold is applied to individual units of fixed assets. For example, ten desks purchased through a single purchase order each costing \$1,000 will not qualify for capitalization even though the total cost of \$10,000 exceeds the threshold of \$5,000.
- The capitalization threshold will generally not be applied to components of fixed assets. For example, a keyboard, monitor, and central processing unit purchased as components of a computer system will not be evaluated

individually against the capitalization threshold. The entire computer system will be treated as a single fixed asset.

- Repairs to fixed assets will generally not be subject to capitalization unless the repair extends the useful life of the asset. In this case, it represents an improvement and is subject to the capitalization policy and should be evaluated separately.
- Improvements to existing fixed assets will be presumed (by definition) to extend the useful life of the related fixed asset and, therefore will be subject to capitalization only if the cost of the improvement meets the threshold. In theory, an improvement to a fixed asset that had an original cost of less than the threshold (\$5,000 or \$50,000), but now exceeds the threshold as a result of the improvement, should be combined as a single asset at the total cost (original cost plus the cost of the improvement) and capitalized.
- Capital projects will be capitalized as "construction in progress" until completed. Costs to be capitalized include direct costs, such as labor, materials, and transportation, indirect costs such as engineering and construction management, and ancillary costs such as construction period interest.

Inventory Control Policy

Department heads are responsible for safeguarding fixed assets under their control from theft or loss. However, the Finance Department is responsible for establishing and maintaining systems and procedures that enable Department Heads to properly safeguard assets.

In general, Inventory Control is applied only to movable fixed assets such as machinery and equipment, and office equipment, and not to land, buildings or other immovable fixed assets. Fixed assets subject to inventory control will be accounted for and controlled through the same systems and procedures used to account and control fixed assets subject to capitalization.

Fixed assets will be subject to inventory control if they meet at least one of the following criteria:

1. The original cost of the fixed asset is equal to or greater than \$5,000.
2. All Computers
3. Any asset that cost less than \$5,000 as requested from a Department. This may include certain machinery and equipment that due to portability, value outside the office, or character, are susceptible to theft or loss. It may also include an asset that has been requested by a department to be controlled in order to satisfy an internal or external requirement.
4. An asset required to be controlled and separately reported pursuant to grant conditions or other externally imposed reporting requirements. For example,

a grant program that has funded the acquisition of a fixed asset may impose a requirement that the fixed asset be tracked and identified as a grant-funded asset.

Tagging

The purpose for tagging assets is to provide an efficient mechanism for inventorying fixed assets. A tag is a bar coded label that is affixed to each asset that is to be inventoried. The tag should be placed in an inconspicuous, but accessible place on the asset, for example, on the back of a computer component or the inside leg of a chair.

Why Tag an Asset

1. To provide accountability for the assets, ensuring the asset assigned to a Department is controlled and accounted for by a specific department/person.
2. To help determine asset replacement cost and life
3. To provide the City's outside auditors with a mechanism to verify that the City is in control of fixed assets and to provide an accurate record of the City's capital expenditures

Should the Asset be tagged?

1. Yes, if the cost of the asset is greater than \$5,000 and the useful life is greater than one year.
2. Yes, if it is physically possible/practical to tag and meets the dollar and life guidelines.
3. Yes, if it is an asset that is handled frequently, has a high cost, and/or is likely to be stolen.
4. Yes, if the asset needs to be controlled due to high incidence of theft/misplacement/borrowing.
5. Yes, if the asset is a computer, or computer component.
6. Generally no, if the asset cost is less than \$5,000. However, the Department Head and/or Finance may choose to tag items that cost less than \$5,000.
7. No, if the asset will be used up within one year.

Who is responsible for tagging the asset?

The Finance Department with assistance from the other Department Heads will be responsible for tagging fixed assets.

Purchasing Fixed Assets

1. Fill out purchase order. Include information in the comments section indicating whether the item is to be tagged or not.
2. The requested asset should have already been included in the current year's budget. Verify this, by reviewing your department's budget.
3. If the asset is not in the budget, you must contact Finance to determine appropriate action.

Disposal of Surplus Property

Department Heads will submit a list of items to the City Manager to be declared as surplus for purposes of sale or disposal for record keeping purposes. Surplus property, with the approval of the City Manager, can be sold to any public or private person or entity, recycled or disposed of as junk to a landfill or other appropriate waste removal facility.

Proceeds from the disposal of surplus property will be allocated to the City's Equipment Replacement Fund.

Depreciable Lives

Category Description	Depreciable Life
Land	n/a
Buildings	50
Improvements other than Buildings	50
Machinery and Equipment	10
Vehicles	5
Furniture and Fixtures	5
Office Equipment	3
Capital Improvement Project (CIP) in progress	n/a

Depreciation Convention

Depreciation is computed using the half-month convention. Depreciation is computed from the beginning of the month it is placed in service if it was acquired

by the 15th of the month, if not it is depreciated from the beginning of the next month. Similarly, depreciation for the month of disposition is computed for that month if it is disposed of after the 15th.