

 City of Santa Ana Administrative Policies and Procedures	 City Manager Authorization	
	Subject	Date
CAPITALIZATION POLICY	Revised July 2021	

1. OBJECTIVE

To establish guidelines and procedures for proper accounting and effective control of the City of Santa Ana's (hereafter referred to as the "City") capital assets. The primary goals of this policy are:

- To ensure that the City's capital assets are reported in accordance with Generally Accepted Accounting Principles (GAAP).
- To assist departments in gathering and maintaining information needed for proper recording of the City's capital assets.
- To ensure that an accurate record keeping system is in place to protect and safeguard the City's capital assets.

2. CAPITALIZATION CRITERIA

The City capitalizes items only if they have an estimated useful life of at least two years following the date of acquisition. Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated acquisition value at the time of donation. Capital assets should be tagged (where applicable) and inventoried properly. The capitalization thresholds are as follows:

Asset Classification	Threshold
Land	\$250,000
Right of way	\$250,000
Buildings and buildings improvements	\$250,000
Improvements other than buildings	\$250,000
Infrastructure	\$250,000
Equipment	\$75,000
Library materials	\$75,000
Computer software	\$250,000
Construction in progress	\$250,000
Assets purchased with Federal grant funds	\$5,000

Historical Costs of various categories of assets include:

Land - Purchase price, legal and title fees, surveying and environmental fees, appraisal, negotiating fees and site preparation costs (clearing, filling, and leveling) and demolition of unwanted structures. Land is characterized as having an unlimited life.

Right of way – Purchase price and related costs to acquire the easement. If donated, the outlay the City would have incurred to acquire the easement in an exchange transaction (e.g. comparable sales records provided by the Department). The City complies with GASB Statement 51 – *Accounting and Financial Reporting for Intangible Assets*.

Buildings and building improvements - Purchase price, contract price, or job order costs, and any other expenditure necessary to put a building or structure into its intended state of operation. Additional expenditures may include professional fees, costs of fixed fixtures, insurance premiums, and related costs incurred during the period of construction. This asset class includes walled and roofed structures plus improvements that are permanently attached. Building improvements include items such as heating and air-conditioning equipment, loading dock, storage tanks, reservoirs and all other property permanently attached to the structure. Items not included are furniture, carpeting, fixtures, or other equipment that are not integral part of the structure.

Improvements other than buildings – Purchase price, contract price, or job order costs, and any other expenditure necessary to put an improvement into its intended state of operation. Additional expenditures may include professional fees, insurance premiums, and related costs incurred during the period of construction.

Infrastructure – Purchase price, contract price, or job order costs, and any other expenditure necessary to put the asset into its intended state of operation. Additional expenditures may include professional fees, damage claims, insurance premiums, and related costs incurred during the period of construction. This asset class includes assets that are long-lived assets that normally are stationary in nature and can be preserved for a significantly greater number of years than most capital assets. Examples include roads, curbs and sidewalks, bridges, bike trails, drainage systems, water wells, water systems, sewer systems, storm drains, street lights and traffic signals. Infrastructure assets do not include buildings, drive-ways and parking lots.

Equipment–Purchase price, installation, or any other ancillary costs required to place the asset in its intended state of operation less any applicable discounts. This asset class includes properties that are not permanently attached to a building or land or movable tangible assets to be used for operations. Examples include vehicles, computer, computer related items, machinery, and furniture.

Library materials – Purchase price less any applicable discounts. It also includes any ancillary costs required to place the asset in its intended state of operation. Examples include books, audio, video, and reference materials.

Computer software – Computer software is considered an intangible asset and should be capitalized if purchased or developed for internal uses. Acquisition costs and other costs incurred in the Application Development Stage will be capitalized. All costs incurred in the Preliminary Stage and Post-Implementation/Operation Stage will be expensed. Major software upgrades that provide a significant increase in functionality and efficiency or extend the estimated useful life of the software will be capitalized. The City records intangible assets in accordance with GASB Statement 51 – *Accounting and Financial Reporting for Intangible Assets*.

Construction in progress – Total costs incurred to date on a construction project. If the asset has been placed into service the costs will be capitalized into the appropriate asset classification. The total cost includes all applicable expenditures such as: direct labor costs, overhead allocations, legal and architect's fees, installation charges and any other costs incurred in preparing the structure or project for its intended use. Assets in this class represent an accumulation of all costs incurred on uncompleted buildings, infrastructure, land improvements, or other capital construction projects.

Similar Assets – Some assets individually may not meet the capitalization threshold; however, collectively they may be considered material. In that case, capitalizing the collective asset group would be appropriate if the total is over the capitalization threshold. Some examples include, but are not limited to: computers, equipment, furniture, library materials, etc.

3. ASSETS ACQUIRED WITH FEDERAL GRANTS

Assets purchased with Federal grant funds which meet the criteria for capitalization shall be identified as such in the Lawson Capital Assets module. These assets must be used for the grant program for which they were acquired. Proceeds from the sale of assets acquired with Federal grant funds shall revert to the originating grant fund to be used for the original purpose of the grant. Grant Funded dispositions shall be reviewed by the Accounting Division or designee prior to disposition. Federal Grant program managers from each department must manage assets purchased with Federal grant funds in accordance with the Uniform Guidance 2 CFR Part 200.310 through 200.316, 200.436, 200.439, and 200.453.

4. LEASED EQUIPMENT AND FACILITIES

Lease assets, which include buildings and building improvements, and equipment, follow the same capitalization as capital assets and are measured as follows:

- The amount of the initial measurement of the lease liability,
- Plus, any payments made to the lessor at or before the commencement, and
- Certain ancillary direct costs to place the leased asset into service

The City records leases in accordance with GASB Statement 87 – *Leases*.

5. DEPRECIATION

Depreciation will be calculated using the straight-line method with no provision for salvage value. The historical cost of the asset is depreciated over the following estimated useful life of the asset.

<u>Assets</u>	<u>Life</u>
Buildings and building improvements	10-40
Improvements other than buildings	20
Infrastructure	10-75
Equipment	3-15
Library Materials	6
Computer software	10-20

Depreciation begins when an asset is purchased or completed and placed in service. Depreciation is calculated with a full month's depreciation starting from the month following the month it is placed in service. Departments are responsible for indicating an appropriate useful life for their assets based on the schedule shown above and their estimation.

Leased assets are amortized using the straight-line method over the shorter of the lease term or the useful life of the underlying asset, unless the lease contains a purchase option that the City has determined is reasonably certain of being exercised. In this case, the lease asset is amortized over the useful life of the underlying asset.

6. DISPOSITION

When capital assets are no longer in use, departments must declare them surplus by completing the ***Property Transfer/Disposal Form*** and submit it to the Central Stores Division. The Central Stores Division is responsible for the custody of the surplus asset after receiving the ***Property Transfer/Disposal Form***.

Central Stores Division is responsible for disposing surplus assets. When an asset is disposed, the ***Property Transfer/Disposal Form*** must be completed and submitted to the Accounting Division with supporting documentation within 30 days of the date of disposal.

Sold/auctioned assets – Surplus property is to be sold/auctioned to the highest bidder at public auction. The Central Stores Division will submit to the Accounting Division the ***Property Transfer/Disposal Form*** with supporting documentation, such as settlement summary and breakdown, purchase ticket, retail purchase contract or statements. Any sales proceeds shall be sent directly from the auction company to the Accounting Division. Surplus vehicles remain in the capital asset records of the owning agency until they are auctioned.

E-Waste – For assets disposed as E-Waste, the ***Property Transfer/Disposal Form*** should be sent directly to Finance. IT is responsible for disposing E-Waste. Any sales proceeds shall be sent directly from the E-Waste companies to the Accounting Division.

Trade-In assets – Trade-in values will be considered, when in the best interest of the City. The Central Stores Division will submit to the Accounting Division a completed ***Property***

Transfer/Disposal Form with supporting documentation that show trade-in value and purchasing records of the new asset to which trade-in value was applied.

Scrapped/abandoned Assets – Such assets will be sold to recycling companies. The Central Stores Division will submit to the Accounting Division the ***Property Transfer/Disposal Form*** with supporting documentation. Any sales proceeds shall be sent directly from the recycling companies to the Accounting Division.

7. IMPAIRMENTS

An impairment is a significant and unexpected decrease in the service utility of a capital asset that will continue to be used in operations. Adjustments to the book value of the capital asset shall be made if the events or circumstances which give rise to the impairment is prominent. Examples of events which cause capital asset impairment include:

- Evidence of physical damage to the capital asset that requires repair efforts to restore the asset's service utility.
- Enactment or approval of laws or regulations, or other changes in environmental factors, that limit or curtail the use of the capital asset because the asset does not meet and cannot be modified to meet the requirements of the new laws or regulations.
- Technical development or evidence of obsolescence resulting in the capital asset being used much less frequently, or not at all.
- A change in the way an asset is used or in the length of time it is expected to be used.
- A permanent construction stoppage prior to the completion of an asset.

A capital asset is generally considered impaired if both (a) the decline in service utility of the capital asset is large in magnitude and (b) the event or change in circumstance is outside the normal life cycle of the capital asset. Impaired capital assets are recorded in accordance with GASB Statement 42 – *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*.

8. PHYSICAL INVENTORY

The City conducts a physical inventory of capital assets biannually. Departments are responsible for keeping records of the current and updated capital assets. During a physical inventory, the Accounting Division provides the current list of assets recorded in the General Ledger to each department. The Property Asset Specialist performs a physical inventory for each department to ensure that the General Ledger information agrees to the actual assets on hand.

When an asset is physically present, but is not recorded in the General Ledger report, the department should gather the asset information such as the identification tag number, description, and manufacturer, model, serial number, and original cost and submit it to the Accounting Division. For assets that are shown in the General Ledger report, but cannot be physically located, the department should complete the ***Property Transfer/Disposal Form*** and follow the capital asset disposal procedure stated in this Policy.

9. RESPONSIBILITIES

Every City employee is responsible for good stewardship of the City's capital assets. Assets should be used for their intended City business purposes only and shall not be used for personal gains. Any employee's misuse of a capital asset may be subject to disciplinary action. Examples of misuse of a capital asset include, but are not limited to the following actions:

- Theft
- Damage or destruction with willful intent
- Permitting other individuals to use the capital asset for non-city purposes
- Non-return of a capital asset when requested
- Inappropriate use

Departments are responsible for protecting and controlling the use of the City's capital assets assigned to their department, which includes monitoring and maintaining adequate controls and records of all capital assets in their department. They shall implement measures to physically safeguard assets, such as asset tags, locks, passwords, or other security devices deemed appropriate. They are also responsible for conducting a physical inventory of capital assets in their department on a biannual basis. They shall report all additions, deletions, and transfer of capital assets along with supporting documentation to the Accounting Division in a timely manner throughout the year, using the form prescribed in this policy. They are responsible for ensuring that the assets purchased with Federal grants funds are handled in accordance with the Uniform Guidance, grant agreements, and other applicable regulations.

Accounting Division, with assistance of other departments, is responsible for maintaining a full list of the City's capital assets and recording them in the subsidiary and General Ledger. Accounting Division shall record adjustments, depreciation, and amortization based on the City's policy. It is also responsible for properly reporting capital assets in the City's Comprehensive Annual Financial Report.

ATTACHMENT: 1- *Property Transfer/ Disposal Form*



FINANCE AND MANAGEMENT SERVICES PROPERTY TRANSFER/DISPOSAL FORM M-17

FOR ACCOUNTING USE ONLY
DATE RECEIVED
DATE RECORDED

TRANSFER FROM

DEPT: _____ LOCATION: _____
FUND: _____ AU#: _____
REASON FOR TRANSFER: _____ EXP OTHER: _____
CONDITION OF PROPERTY: _____ EXP OTHER: _____
TRANSFER BY: _____ X _____ DATE _____

TRANSFER TO

FUND: _____ AU#: _____ LOCATION: _____
RECEIVED BY: _____ X _____ DATE _____

DISPOSAL

DISPOSAL TYPE: _____ EXP OTHER: _____

ASSET #	TAG #	SERIAL/VIN #	DESCRIPTION	GRANT?	FUND #

COMPLETED BY: _____ X _____ DATE _____

APPROVED BY: _____ X _____ DATE _____

Notes/comments: