

RESOLUTION NO 6199

RESOLUTION OF THE COUNCIL OF THE CITY OF SEBASTOPOL APPROVING AND ADOPTING
CAPITALIZATION AND DEPRECIATION POLICY NO. 91

WHEREAS, the auditor for the City has recommended the adoption of a uniform policy addressing the type of assets to be capitalized and the value at which such assets are capitalized; and

WHEREAS, the Finance Department has prepared a standard policy in response to the recommendation of the City's auditor; and

NOW, THEREFORE, BE IT RESOLVED, by the Council of the City of Sebastopol hereby approves the Capitalization and Depreciation Policy #91 as submitted with the operating budget for the City of Sebastopol and attached hereto as Exhibit D;

IN COUNCIL DULY ADOPTED this 19th day of June, 2018.

I, the undersigned, hereby certify that the foregoing Resolution was duly adopted by the City of Sebastopol City Council by the following vote:

VOTE:

Ayes: Councilmembers Carnacchi, Gurney, Vice Mayor Hinton and Mayor Slayter
Noes: None
Abstain: None
Absent: Councilmember Glass

APPROVED: _____


Mayor Patrick Slayter

ATTEST: _____


Mary Gourley, Assistant City Manager/City Clerk, MMC

APPROVED AS TO FORM: _____


Larry McLaughlin, City Attorney



CITY OF SEBASTOPOL Capitalization and Depreciation Policy #91

The City of Sebastopol has a Capital (Fixed) Asset Accounting System to safeguard a sizeable investment, fix responsibility for the custody of equipment, assist in the formulation of acquisition and retirement policies through accumulation of data regarding prices, sources of supply and useful life, to provide data for financial reporting, to provide record support and to account for reimbursement of depreciation under grants and proprietary service programs, and to provide information for insurance purposes.

Fixed assets are capitalized because they are used in the production of the goods or services provided and sold. Depreciation must be recorded to determine total expenses, user charges, net income, and changes in fund equity. Capital assets also may serve as a basis for debt issued to establish, acquire, or improve a public enterprise.

Capital assets are reported in the applicable proprietary funds or in the general fixed assets account group.

Definitions:

Capital assets are assets of a relatively permanent nature and of significant value, and are broadly classified as property, plant, equipment, and infrastructure (e.g. roads, bridges, sidewalks, and similar items) assets.

Land includes the investment in real estate other than:

- a. Structures, pipeline, pump stations, reservoirs and other improvements, and
- b. Land acquired for pipeline and road purposes.

All land, as above defined, shall be capitalized without regard for significance of cost.

Buildings and improvements are physical property of a permanent nature, examples of which are buildings, structural attachments, storage tanks, reservoirs, pump stations, wells, and parking areas. Sidewalks, trees and drives in connection with other structures should also be capitalized. Fixtures are permanent attachments to structures which are not intended to be removed and which function as part of the structure, such as boilers, pumps, lighting fixtures or plumbing.

Pipelines include mains, services, valves, hydrants, manholes, and other appurtenances. Paving of ditch lines is also included in plant values.

Equipment includes moveable personal property of a relatively permanent nature and of significant value, such as machines, tools, and vehicles, computer equipment and software.

Relatively permanent is defined as a useful life in excess of one year.

Significant value is defined as a minimum initial cost of more than \$10,000 (\$25,000 for infrastructure type assets).

Treatment of Costs Subsequent to Acquisition

Expenditures on fixed assets which are incurred after their original acquisition are defined and recorded as follows:

Maintenance is defined as expenditures, which neither materially add to the value of property nor appreciably prolong its life, but merely keep it in an ordinary efficient operating condition. Maintenance costs shall not be capitalized.

Capitalized Expenditures are defined as expenditures, which materially add to the value of property or appreciably extend its life. The cost of capitalized expenditures should be added to the book value of the asset where the original cost of a component being improved can be specifically identified. This amount should be written off and the new cost capitalized. Capitalized expenditures are on occasion referred to as betterments. The decision as to whether an expenditure should be capitalized shall be made by an evaluation of engineering, physical, or other relevant factors apart from cost.

Additions are new and separate units, or extensions of existing units, and are considered to be fixed assets. As with betterments the test of significance should be applied.

Alterations are changes in the physical structure or arrangement of fixed assets, the cost of which does not qualify as an increase in fixed assets under the foregoing definitions of betterments and additions. Alterations shall not be capitalized.

Valuation

Reasons for Assigning Value

A dollar-value should be assigned to each fixed asset item for the following reasons:

- a. Dollar amounts serve as a control device; they are an important aspect of identification of a particular item or group of items.
- b. Dollar amounts make it possible to present to the public the City's investment in fixed assets.
- c. Dollar amounts provide a check on the adequacy of the City's insurance coverage.
- d. Dollar amounts on individual items provide information for cost accounting.

Valuation Basis

Fixed assets should be accounted for at historical cost, or estimated historical cost if purchased or constructed. Donated fixed assets should be recorded at their estimated fair market value at the date of donation. Surplus property purchases at nominal prices far below actual value are in part donations and should be so valued.

Land Cost

The cost of land includes all expenditures in connection with its acquisition, such as: purchase price; appraisal and negotiation fees; title search fees; surveying fees; cost of consents; relocation costs; condemnation costs; clearing land for use; demolishing or removing structures; and filing costs. Receipts from the sales of salvage should be credited against the land cost.

Buildings and Improvements Cost

The cost of structures and improvements includes all expenditures in connection with their acquisitions, such as: purchase price or construction cost; fixtures attached to the structure; architects' fees; accident or injury costs; payment of damages; insurance during construction; cost of permits and licenses; and net interest cost during construction.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

The cost should be reduced for: sale of salvage from materials charged against the construction; discounts, allowance and rebates secured; and amounts recovered through surrender of liability and casualty insurance. Rentals of property during the construction period should be credited to revenue unless otherwise restricted.

Equipment Cost

The cost of equipment includes: purchase price or construction cost less discounts; freight or other carriage charges; sale, use, or transportation taxes; and installation costs.

Construction by Force Account

Fixed assets constructed by the City are recorded in the same manner as those acquired by purchase or construction contract. Costs are initially charged to the accounts of the cost center performing the construction and are then transferred to the project. These costs include direct labor, materials, equipment usage and overhead. Overhead is limited to those items, such as worker's compensation and employee group insurance premiums, retirement, sick leave and vacation allowances, which can be distributed on the basis of direct labor. Administrative overhead outside the cost center may be capitalized when clearly related to the construction.

Assets Acquired Under Lease Purchase Agreements

Lease contracts convey property to another for a specific period of time for a specified rent. Lease contracts are accounted for either by the operating method under which periodic payments are charged as expenditures, or by the financing method under which the payments are treated as debt service.

Sources of Information

Information regarding fixed asset additions is best taken from purchase invoices and contracts, even though there is sometimes an undue lag between physical possession of the property and the receipt of these documents. The individual department head controls the purchase, movement, and disposition of assets.

Disposition of Fixed Assets

With City Manager approval, capital assets may be sold, abandoned or traded in on new assets. Regardless of the manner of disposition or the amount of the proceeds, the asset must be removed from the fixed asset account at its recorded value along with the asset's accumulated depreciation. The resulting gain or loss is recorded in the revenue and expense accounts.

Recordkeeping

Individual Records

An individual record of each unit of accountability should be maintained. Information recorded should include:

- a. Date acquired.
- b. Classification, such as: Buildings, Vehicles, Machinery & Equipment, etc.
- c. The vehicle unit number assigned.
- d. An abbreviated word description.
- e. Cost or other basis.
- f. Method by which acquired, such as: lease, grant, donation, purchase.
- g. Grant from which purchased, if applicable.
- h. Vendors name, if purchased.
- i. Date and method of retirement.
- j. Posting reference.

Optional data might include value for insurance purposes, estimated life, and equipment class code.

Subsidiary Records

For control purposes it is convenient to group detailed records by classification, department, or by location. Such records constitute a subsidiary ledger to the fixed asset control accounts.

Depreciation

Depreciation, depletion, or amortization of capital assets must be recorded to determine the total expenses, net income, and changes in fund equity. In addition, as an option, depreciation on fixed assets acquired by contributed capital can be closed to the contributed capital account. This method should be considered when there is no obligation and the policy is not to replace the fixed assets with future contributed capital. In such circumstances, the contributed capital rather than the retained earnings account is decreased by the related depreciation expense.

Depreciation is computed using the straight-line method over the estimated years of useful life at the time the asset is placed in service. Useful life shall be determined by the Public Works Superintendent, Finance Director or City Manager or his/her designee, as appropriate, using the following guidelines:

<u>Assets</u>	<u>Years</u>
Buildings	30
Building improvements	15-20
Public Domain Infrastructure	50
System Infrastructure	50-100
Vehicles	7
Office Equipment	3-7
Computer Equipment	3-5

Once established, the useful life may be modified as necessary to account for betterments or impairments of an asset.