



ADMINISTRATIVE DIRECTIVE

Title: Capital Assets
Issuing Department: Finance
Effective Date: 07/01/2022
Approved: Terry Rozema, Town Manager
Type of Action: Original Release

1.0 PURPOSE

The purpose of this directive is to provide a comprehensive and understandable guide to be utilized in the definition, organization, and reporting of data for capital assets. This directive will ensure consistent management of all capital asset activity. The intent of this directive is as follows:

- To safeguard the capital assets for Town of Marana citizens
- To establish responsibility for the custody and maintenance of capital assets
- To develop a comprehensive list of capital asset records for insurance coverage
- To provide a basis for formulating capital asset acquisition, maintenance, and retirement processes. To establish definitive guidelines and general policies for the proper accountability of the Town's capital assets
- To ensure compliance with various accounting and financial reporting standards including general accepted accounting principles (GAAP) and applicable State and Federal capital asset regulatory and reporting requirements related to property

2.0 DEPARTMENTS AFFECTED

All Town of Marana departments and employees

3.0 REFERENCES

- 3.1 Governmental Accounting Standards Board (GASB) Statement No. 34
- 3.2 Town Code Chapter 3-4, Procurement
- 3.3 Town of Marana Administrative Directive: Mobile Communication Equipment

4.0 DEFINITIONS

- 4.1 Acquisition: A newly acquired capital asset.
- 4.2 Acquisition date: The date the asset was acquired or substantially complete and available to be placed in service.

- 4.3 Actual cost: Costs include all charges necessary to place the item in its intended location and condition for use, such as taxes, freight, title search fees and installation charges.
- 4.4 Capital asset: Assets of a relatively fixed or permanent nature owned by the Town of Marana that have initial useful lives extending beyond a year, and meet the Town's defined dollar threshold. Upgrades and/or enhancements of capital assets that increase the asset's utility or significantly extend the asset's useful life, will also be classified as a capital asset. Capital assets includes:
 - 4.4.1 equipment, machinery, vehicles
 - 4.4.2 improvements other than buildings
 - 4.4.3 buildings
 - 4.4.4 infrastructure assets
 - 4.4.5 land parcels, regardless of value, including easements and right-of-way
 - 4.4.6 intangible assets
- 4.5 Capital Asset Custodian: A person designated by the Department Head to be primarily responsible for the capital assets in the department. For purposes of buildings, the custodian may be the department in charge of maintaining building functions.
- 4.6 Depreciation: The allocation of the cost of the property over its economic (useful) life
- 4.7 Disposal: The process of removing an asset from Munis due to sale, destruction, obsolescence, loss/theft, etc. The disposal process is initiated by the owner department.
- 4.8 Intangible assets: An asset that lacks physical substance, has a value of more than \$5,000, and has an initial useful life over one year. Examples of intangible assets include easements, computer software, water rights, and trademarks.
- 4.9 Munis: The financial accounting system used by the Town as of the effective date of this directive.
- 4.10 Salvage value: The estimated amount that can be realized from the disposition of a retired asset at the end of its estimated useful life. Salvage value for all Town assets is zero.
- 4.11 Useful life: The time period, in years, over which a capital asset is expected to remain valuable to the Town.

5.0 POLICIES AND PROCEDURES:

5.1 General Policies

- 5.1.1 The Finance Department will utilize Munis to capture and report the data associated with capital assets and expenditures including:
 - 5.1.1.1 Maintaining the general capital asset inventory listing for the Town by adding, deleting, and transferring capital assets within Munis
 - 5.1.1.2 Performing annual reconciliations of all capital asset object accounts against capital asset additions and deletions to Munis.
- 5.1.2 It is the responsibility of each department to notify the Finance Department when a capital asset is acquired, lost, stolen or otherwise disposed. The Capital Asset Change

Report form (Attachment A) must be filled out and sent to the Finance Department within 15 business days of the event.

- 5.1.3 All assets to be capitalized and entered into Munis by the Finance Department must be expended out of a capital asset object code. These accounts are intended for capitalized assets only. No other items shall be included in these accounts.
- 5.1.4 Assets are capitalized on an individual basis. To be capitalized, an asset must meet the \$5,000 benchmark as a single, complete unit. For example, the purchase of six identical chairs for a total of \$5,400 does not require capitalization, as the unit price for each chair is only \$900. A patrol vehicle is capitalized, but not until it is fully ready for service. The patrol car capitalized cost includes lights, decals, and interior equipment. Sensitive items (for example a laptop or cell phone) that are under \$5,000 will not be capitalized, but must be tracked by the department for control purposes. It will be the responsibility of each department to determine which items are required for tracking purchases. The Technology Services Department will be primarily responsible for controlling and tracking computer equipment below the \$5,000 threshold. Each department must comply with the Mobile Communication Equipment Administrative Directive regarding laptops, tablets and Town issued cell phones.
- 5.1.5 Capital assets will be recorded at actual cost. Maintenance and repairs to an asset are not a part of the actual cost and service maintenance agreements and warranties will not be capitalized. Accessories to the asset, unless they are necessary for use of the asset and an integral part of the system, will not be capitalized. For example, a laptop may be a capital asset but accessories such as a carrying case or a car adapter will be expensed, when their costs are itemized or purchased separately. The following capitalization levels are utilized by the Town:
 - 5.1.5.1 Land (LA) – All land parcels (regardless of value) shall be capital assets and entered into Munis by the Finance Department. The actual cost of land is its original purchase price and any costs incurred to put the land in the condition necessary for its intended use, such as legal fees and excavation costs. The items included in this section are tracts and parcels of land owned by the Town.
 - 5.1.5.2 Infrastructure Assets (IN) – Long-lived assets are normally stationary in nature and normally preserved for a significantly greater number of years than most capital assets. These include roads, bridges, drainage systems, water and sewer systems, sidewalks and lighting systems. The actual cost of infrastructure is its original purchase/project cost.
 - 5.1.5.3 Land Improvements (LI) – Improvements to land, such as fencing, signs, and playground equipment shall be capitals assets if the cost meets the current threshold. The actual cost is entered into Munis by the Finance Department. The actual cost is the actual dollar cost of acquisition and/or installation of these assets at the acquisition date, including any fees for related services.
 - 5.1.5.4 Buildings and Improvements (BU) – All buildings meeting the threshold shall be capitalized and entered into Munis by the Finance Department. The actual cost will include the cost to construct or the purchased cost at acquisition date, architect and engineer’s fees, permits, insurance during construction, and other administrative (indirect) costs and appraisals. Costs such as land acquisition

and demolition are not included as part of building costs; they are included as costs of the land as set forth in Section 5.5.1 above.

5.1.5.5 Machinery and Equipment (EQ) – All machinery and equipment assets that are equal to or exceed \$5,000 in original cost and have a useful life greater than one year are capital assets to be entered into Munis by the Finance Department. Generally, this classification includes tangible personal property. Items that meet these criteria include computer servers, large copiers, major machinery and construction equipment, audio-visual equipment, communications equipment, and recreational equipment. This classification also includes construction and passenger vehicles, trucks, trailers and other mechanized vehicles. This category can also include intangible assets.

5.1.5.6 Water Rights (WR) – The actual cost of water rights is the original purchase price.

5.1.5.7 Construction in Progress (CIP) – Construction in progress includes construction of buildings, improvements, and other projects that are not completed at the end of the fiscal year. The threshold limits for individual asset groups apply to each construction in progress project. This account represents a temporary classification of capitalized interest, labor, materials, equipment and overhead costs of a construction project. At year-end, if the project is not complete, the amount is recorded as Construction in Progress (CIP) and reported in the financial statements. At the completion of a project, the actual cost of the asset is entered into the capital asset system. Each Department must inform the Finance Department of all construction in progress and completed projects to ensure they are included in the capital asset system and accurately reported in the financial statements.

5.1.6 Donated capital assets that have a value equal to or exceeding \$5,000 must be accepted and approved by action of the Town Council. Donated capital assets are accepted at the estimated fair market value at the acquisition date. Each department is then responsible to report all donations that are equal to or exceed the applicable capitalization level to the Finance Department. The department must submit a Capital Asset Change Report form along with all other available documentation to ensure these assets are included in the capital asset system and appropriately recorded in the financial records.

5.2 Inventory

5.2.1 A complete physical inventory of all capitalized assets must be taken on an annual basis. Each year the Finance Department will provide a system-generated list of all capital assets specific to each department. The department must reconcile physical inventory to the listing and then follow appropriate guidelines to account for any discrepancies. Once the inventory is completed, the Department Head must review and certify the inventory. The listing shall be returned to the Finance Department along with all necessary documentation. A copy is to be kept in the receiving department for its records. Inventories must be completed and returned to the Finance Department within 15 business days of receipt.

5.2.2 Discrepancies. When a discrepancy is noted, the department shall prepare a Capital Asset Change Report form and provide the appropriate documentation as follows:

- 5.2.2.1 New equipment must include purchase date and PO number(s) or check number(s), especially if asset has multiple components. Also indicate if the item was purchased through special or outside funds
 - 5.2.2.2 Stolen equipment must be accompanied by a police report.
 - 5.2.2.3 Trade-in equipment must be accompanied by an invoice showing credit to the new equipment that replaced it.
 - 5.2.2.4 Returned equipment must be accompanied by a credit invoice. The credit invoice is especially critical if the purchase and return cross fiscal years.
 - 5.2.2.5 Lost or destroyed equipment must be supported by a satisfactory explanation from the Department Head and, where applicable, accompanied by an insurance claim.
 - 5.2.2.6 Items transferred to the department or out of the department must have all necessary signatures on the Capital Asset Change Report form.
- 5.2.3 Interdepartmental Transfers. The department transferring a capital asset to another department within the Town shall fill out a Capital Asset Change Report form. Department Head signatures are required from the transferring and receiving departments. The completed form shall be sent to the Senior Accountant in the Finance Department within 15 days of the transfer date.
- 5.2.4 Disposals. In accordance with Town Code section 3-4-31 (Supply management), the purchasing director (Finance Director) shall be responsible for the management of Town supplies during their entire life cycle. Damaged or obsolete assets must be approved for transfer, salvage, or auction by the Finance Director. Lost or stolen assets must be immediately reported to the appropriate law enforcement agency and to the Finance Director. Insurance claims, if applicable, shall be promptly initiated.
- 5.2.4.1 Destroyed assets must be reported on the Capital Asset Change Report form by the Department to the Finance Department within 15 days of the loss.
 - 5.2.4.2 Damaged or obsolete assets shall be reported to the Finance Department when discovered. With the Finance Director's approval, the asset will subsequently be transferred to salvage or auction. The transferring department shall use the Capital Asset Inventory Change Report form to request the Finance Department's approval for the transfer. No asset will be transferred to salvage until the Finance Department receives the form with all the appropriate signatures.

5.3 Depreciation

- 5.3.1 All assets, with the exception of Construction in Progress, Land, and Water Rights (land and water rights are never depreciated) shall be depreciated using the straight-line method with no allowance for salvage values.
- 5.3.2 When an asset is entered into Munis, it is assigned an estimated useful life, as follows:

Buildings	15-40 years
Building improvements	10-15 years

Water and sewer systems, treatment plants and pump stations	20-50 years
Public domain infrastructure	20-40 years
Machinery, equipment, and assets under capital lease	5-10 years

5.4 Repairs and Maintenance

5.4.1 The cost of repairs (incidental or otherwise) which neither materially add to the value of the property nor appreciably prolong its life or significantly change its use, but merely keep it in a normal operating condition will be expensed.

6.0 RESPONSIBILITIES

6.1 The Department Head (or Capital Asset Custodian) is responsible for the following:

- Managing capital assets in the department and serving as the primary contact for the Finance Department's fixed asset activities.
- Ensuring the safety of all capital assets procured or donated within the respective department.
- Notifying the Finance Department of any new capital assets acquired by either purchase or donation as well as any disposals of capital assets within the department.
- Ensuring the capital asset inventory is completed accurately and reviewing and certifying the inventory.
- Reviewing and signing for all capital asset dispositions and transfers within the department.
- Ensuring that the Finance Department receives a completed signed copy of the Capital Asset Change Report form whenever there is a disposal or transfer of a capital asset.

6.2 The Finance Department is responsible for the following:

- Providing a complete listing of capital assets on an annual basis, or upon request to the Department Head or Capital Asset Custodian.
- Maintaining Munis to ensure accurate and timely financial reporting.

7.0 ATTACHMENTS

7.1 Attachment A – Capital Asset Change Report