

CITY OF SEASIDE

Infrastructure and Fixed Asset Capitalization and Inventory Control Policy

PURPOSE

The purpose of this policy is to ensure adequate control, appropriate use of, and proper reporting of the City's infrastructure assets and fixed assets. This policy and the related procedures are intended to establish guidelines for purchasing, using, financial reporting, logging, inventorying, depreciating, and disposal of infrastructure and fixed assets.

POLICY

It is the policy of the City of Seaside that infrastructure and fixed assets will only be used for appropriate City purposes and that they will be properly accounted for and secured. It is the responsibility of the Finance Department to ensure infrastructure and fixed assets are tagged whenever feasible, inventoried on a regular basis, and properly accounted for by fund and asset category. It is the responsibility of City Department Heads to ensure that proper purchasing guidelines are followed, and to ensure that fixed assets are adequately controlled and used for appropriate City purposes. It is the responsibility of the Public Works Department to ensure infrastructure assets are identified and inventoried on a regular basis. It is the responsibility of the Finance Department to assure that infrastructure assets are properly accounted for by fund and asset category.

INFRASTRUCTURE ASSETS

In general, infrastructure assets includes streets, roads, sewer lines, water lines, bridges, sidewalks, curbs and gutters, traffic signals, traffic signs, street trees, landscaped medians, storm drains, etc.

The City of Seaside's infrastructure asset policy has two objectives:

1. *Safeguarding* - To maintain its infrastructure assets for the use and enjoyment of its citizens.
2. *Accounting and Financial Reporting* - To accurately account for and report infrastructure assets in financial reports prepared for the City Council, external reporting agencies, granting agencies, and the public.

To meet these objectives, the City has established an inventory control level and a capitalization level which provide specific guidance to determine which infrastructure assets are subject to safeguarding, i.e. inventory control, and which infrastructure assets and also subject to accounting and reporting, i.e. capitalization.

Inventory Control Level – *Safeguarding*

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The Public Works Department is responsible for safeguarding and maintaining infrastructure assets. All infrastructure assets with a value over \$5,000 will be subject to Inventory Control Level procedures, including tagging whenever feasible and conducting an inventory on a regular basis. The Finance Department will facilitate systems and procedures to enable the Public Works Department to properly safeguard infrastructure assets.

Capitalization Level - Accounting and Financial Reporting

All infrastructure assets, including streets, roads, sewer lines, water lines, bridges, sidewalks, traffic signals, etc. with an original cost of \$100,000 or more, with a life of 25 years or more, will be subject to capitalization. All costs associated with the purchase and/or construction should be considered, including costs such as design engineering, construction management, inspection, permits, insurance, freight and transportation charges, site preparation expenditures, installation charges, professional fees, and legal costs directly attributable to asset acquisition. The capitalization threshold is applied to major general infrastructure assets. The capitalization threshold will generally not be applied to components of infrastructure assets.

Repairs to infrastructure 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 level policy and should be evaluated separately

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.

The Finance Department is responsible for, and will establish, systems and procedures through which capitalization objectives are met.

Purchasing Infrastructure Assets

The construction or acquisition of infrastructure assets is to be approved by the City Council.

How To Retire/Dispose Of An Infrastructure Asset

An infrastructure asset is usually only disposed of in connection with its replacement or reconstruction. The Public Works Department and the Finance Department must coordinate the identification of the new and old assets so the proper financial reporting may be accomplished.

Depreciation

Infrastructure assets will be depreciated using the following guidelines.

Each infrastructure asset will be added to one of the following categories.

Description	Depreciable Life
Streets, including grading, base, paving, striping	50

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Sidewalks, curb, and gutter	50
Street trees, with or without grates	50
Traffic signals	30
Landscaped medians	50
Bridges	50
Signs, street name, directional, caution, stop, etc.	30
Sewer laterals and mains	50
Storm drains	50

Depreciation will be computed using the straight-line method. Depreciation will be computed from the beginning of the month the asset is placed in service.

FIXED ASSETS

Fixed assets generally include land, buildings, machinery and equipment.

The City of Seaside's fixed asset policy also has two objectives:

1. *Safeguarding* - To maintain its fixed assets for the use and enjoyment of its citizens, and/or for appropriate city business.
2. *Accounting and Financial Reporting* - To accurately account for and report fixed assets in financial reports prepared for the City Council, external reporting agencies, granting agencies, and the public.

To meet these objectives, the City has established an inventory control level and a capitalization level which provide specific guidance to determine which fixed assets are subject to safeguarding, i.e. inventory control, and which fixed assets are also subject to accounting and reporting, i.e. capitalization.

Inventory Control Level – *Safeguarding*

All fixed assets with a value over \$1,000 will be subject to Inventory Control Level procedures, including tagging whenever feasible and conducting an inventory on a regular basis. The Finance Department will facilitate systems and procedures to properly safeguard fixed assets.

Capitalization Level - *Accounting and Financial Reporting*

All fixed assets with an original cost of \$5,000 or more and a useful life of more than one year, will be subject to capitalization. All costs associated with the purchase or construction of a fixed asset including ancillary costs such as freight and transportation charges, site preparation expenditures, professional fees, and legal claims directly attributable to asset acquisition will be considered when

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determining inventory control and capitalization levels. The Finance Department will facilitate systems and procedures to properly capitalize fixed assets. 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 (\$10,000) exceeds the threshold of \$5,000. However, each of these desks would be tagged and inventoried.
- For purposes of capitalization, the 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.
- Improvements to existing fixed assets will be presumed 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 \$5,000 threshold.
- Repairs to existing fixed assets will generally not be subject to capitalization unless it extends the useful life of the asset.

Purchasing Fixed Assets

The construction or acquisition of fixed assets is to be approved by the City Council during the budget process.

How To Retire/Dispose Of a Fixed Asset

The disposal of fixed assets is subject to Section 2.49 of the Municipal Code:

2.49.010 - Disposal of surplus items.

The city manager shall provide to the city council an itemized list of any surplus items with a current market value in excess of one thousand dollars. Subsequent to a finding by the city council that such items are no longer usable by the city, the city manager or his designee shall have the authority to dispose of all such items. The disposal of items shall be accomplished by sale, auction, or by other means as may be determined appropriate from time to time by the city council. In addition, with the specific prior approval of the city council, the city may donate surplus items to any nonprofit organization or governmental entity providing services to the city or its residents, or to any Seaside Sister City.

Depreciation

Capitalized fixed assets will be depreciated using the following guidelines. Each asset will be added to one of the following categories.

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Description	Depreciable Life
Land	n/a
Buildings	30
Vehicles	5-7
Computer equipment	3-5
Furniture	10-15
Other equipment	3-10

Depreciation will be computed using the straight-line method. Depreciation will be computed from the beginning of the month the asset is placed in service.

INTANGIBLE ASSETS

Intangible assets generally include assets that: lack physical substance, are non financial in nature and have a useful life of more than one year.

The City of Seaside's intangible asset policy also has two objectives:

3. *Safeguarding* - To maintain its intangible assets for the use and enjoyment of its citizens, and/or for appropriate city business.
4. *Accounting and Financial Reporting* - To accurately account for and report intangible assets in financial reports prepared for the City Council, external reporting agencies, granting agencies, and the public.

To meet these objectives, the City has established an inventory control level and a capitalization level which provide specific guidance to determine which intangible assets are subject to safeguarding, i.e. inventory control, and which intangible assets are also subject to accounting and reporting, i.e. capitalization.

Inventory Control Level – *Safeguarding*

All intangible assets with a value over \$5,000 will be subject to Inventory Control Level procedures. The Finance Department will facilitate systems and procedures to properly safeguard intangible assets.

Capitalization Level - *Accounting and Financial Reporting*

All intangible assets with an original cost of \$25,000 or more and a useful life of more than one year will be subject to capitalization. All costs associated with the acquisition of an intangible asset or all costs associated with an internally generated intangible asset will be considered when

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determining inventory control and capitalization levels. The Finance Department will facilitate systems and procedures to properly capitalize intangible assets. Specific capitalization requirements are described below:

- The capitalization threshold is applied to individual units of intangible assets.
- For purposes of capitalization, the threshold will generally not be applied to components of intangible assets.
- Improvements to existing intangible assets will be presumed to extend the useful life of the related intangible asset and, therefore, will be subject to capitalization only if the cost of the improvement meets the \$5,000 threshold.
- Repairs to existing intangible assets will generally not be subject to capitalization unless it extends the useful life of the asset.

Purchasing Intangible Assets

The construction or acquisition of intangible assets is to be approved by the City Council during the budget process.

Amortization

Capitalized intangible assets may be subject to amortization. Amortization will be computed using the straight-line method over the useful life of the asset. Generally the useful life is determined by contractual or legal provisions. Some intangible assets have an indefinite useful life and are not amortized. Amortization will be computed from the beginning of the month the asset is placed in service.