

CITY OF KIMBALL
MUNICIPAL POLICY NUMBER 02-2010
CAPITAL ASSET POLICY

DATE COUNCIL APPROVED: July 6, 2010

INTRODUCTION

The City of Kimball is required to follow Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*. GASB 34 establishes financial reporting requirements for state and local governments throughout the United States. GASB 34 is intended to make annual reports more comprehensive and easier to understand.

GASB 34 requires governments to report general infrastructure assets and depreciate general governmental capital assets over their estimated useful lives.

While the City of Kimball’s Asset policy is not all encompassing, it provides general guidance on complying with capital asset reporting requirements for financial reporting purposes only. The primary objectives of financial reporting generally pertain to valuation, allocation, presentation, and disclosure. This policy is not intended to be used for property control purposes.

I. Capital Assets and Capitalization Thresholds

A capital asset is real or personal property that has an estimated useful life greater than one year and a value equal to or greater than the corresponding capitalization threshold. The City of Kimball reports capital assets in the following categories:

- Land
- Land improvements
- Buildings & building improvements
- Machinery, equipment, and vehicles
- Infrastructure

For financial statement purposes, a capitalization threshold is established for each capital asset category as follows:

Capital Asset Category	Capitalization Threshold
Land	\$2,500
Land improvements	\$2,500
Infrastructure	\$2,500
Buildings and building improvements	\$2,500
Machinery, equipment, & vehicles	\$2,500

II. Reporting Capital Assets

A capital asset should be recorded and reported at its historical cost, which includes the vendor's invoice plus the value of any trade-in or allowance. The historical cost also includes freight, sales tax, installation, modifications, accessories and professional fees.

When the historical cost of a capital asset is not practicably determinable, the estimated historical cost of the asset should be determined. The basis of valuation for capital assets constructed by personnel is the cost of material, direct labor and overhead identifiable to the project.

A donated capital asset should be reported at fair value at the time of acquisition plus ancillary charges; if any. Fair value is the amount at which an asset could be exchanged in a current transaction between willing parties.

III. Depreciating Capital Assets

Depreciation is the process of allocating the cost of an asset over the period the asset is used for its intended purpose. Capital assets should be depreciated over their estimated useful lives unless they are inexhaustible (i.e. land, certain works of art and historical treasures).

For financial statement purposes, the straight-line method will be used to calculate depreciation for each capital asset recorded. Under the straight-line depreciation method, the cost of the asset less the salvage value is written off evenly over the useful life of the asset. The same amount of depreciation is taken each year. At the end of the asset's estimated life, the salvage value will remain.

IV. Improvements vs. Repairs/Maintenance

Capital asset improvement costs should be capitalized if:

1. The costs exceed the capitalization thresholds, and
2. One of the following criteria is met:
 - a) The value of the asset is increased by at least 25% of the original cost,
 - b) The life of the asset is increased by at least 25% of the original life,
 - c) The efficiency of the asset is increased by at least 25% or
 - d) The capacity of the asset is increased by at least 25%.

Otherwise, the cost should be recorded as a repair and maintenance expense within the appropriate expense function.

V. Capital Asset Definitions and Categories

1. Land

Land is the surface of the earth, which can be used to support structures and grow plants. Land is characterized as having an unlimited life.

Examples of items to be capitalized as land are:

- Purchase price or fair market value at time of gift
- Commissions
- Professional fees
- Accrued and unpaid taxes at date of purchase
- Other costs incurred in acquiring the land

2. Land Improvements

Land improvements consist of site improvements and assets built, installed or established to facilitate the use of land for a particular purpose.

Examples of items to be capitalized as land improvements are:

- Fencing and gates
- Landscaping
- Parking lots, driveways and parking barriers
- Outside sprinkler systems
- Recreation areas and athletic fields
- Paths and trails
- Softball fields, soccer fields, basketball courts and skateboard parks
- Fountains
- Pavilions
- Retaining walls

3. Infrastructure

Infrastructure assets are long-lived capital assets that normally are stationary in nature and can be preserved for a significantly greater number of years than most capital assets.

Examples of expenditures to be capitalized as infrastructure:

- Highways
- Roads, streets, curbs, gutter, alleyways and sidewalks
- Dams and storm sewer (drainage) systems
- Water and wastewater systems
- Electric lines-overhead and underground
- Fire hydrants
- Signage

4. Building and building improvements

A building is a structure that is permanently attached to the land, has a roof, is partially or completely enclosed by walls and is not intended to be transportable or moveable. A building is generally used to house persons, property and fixtures attached to and forming a permanent part of such a structure. Certain buildings or structures that are an ancillary part of infrastructure networks, such as a pumping station, should be reported as infrastructure rather than as buildings.

Building improvements are capital events that materially extend the useful life of a building or increase the value of a building beyond one year.

Examples of items to be capitalized as buildings and building improvements are:

Purchased Buildings

- Original purchase price
- Expenses for remodeling a building to make it ready for use
- Environmental compliance (i.e. asbestos abatement)
- Professional fees
- Payment of unpaid or accrued taxes on the building to date of purchase
- Cancellation or buyout of existing leases
- Other costs required to place or render the asset into operation

Constructed Buildings

- Completed project costs
- Cost of excavation or grading or filling of land for a specific building
- Expenses incurred for the preparation of plans, specifications, blueprints, etc.
- Cost of building permits
- Professional fees
- Costs of temporary buildings used during construction
- Unanticipated costs such as rock blasting or relocation of an underground stream
- Permanently attached fixtures that cannot be removed without impairing the use of the building
- Additions to buildings

Building Improvements

- Conversions of attics, basements, etc. to usable office space
- Structures attached to the building such as garages, enclosed stairwells, etc.
- Structural changes such as reinforcement of floors or walls, installation or replacement of beams, rafters, joists, steel grids or other interior framing
- Exterior renovation such as installation or replacement of siding, roofing, masonry, etc.
- Installation or upgrade of plumbing and electrical wiring
- Installation or upgrade of phone or closed circuit television systems, networks, fiber optic cable or wiring required in the installation of equipment that will remain in the building
- Other costs associated with the above improvements

5. Machinery, equipment, and vehicles

Machinery, equipment and vehicles being described as fixed or movable tangible assets include those items to be used for operations; the benefits of which extend beyond one year from date of receipt and placed into service. Personal property paid jointly by the city and other governmental entities should be capitalized by the entity responsible for future maintenance.

Examples of expenditures to be capitalized as equipment and vehicles:

- Original contract or invoice price
- Freight charges

- Handling and storage charges
- In-transit insurance charges
- Sales, use and other taxes imposed on the acquisition
- Installation charges
- Charges for testing and preparation for use
- Cost of reconditioning used items when purchased
- Parts and labor associated with the construction of equipment

Cost of extended warranties or maintenance agreements, which can be separately identified from the cost of the equipment, should not be capitalized.

Leased Equipment

Equipment should be capitalized if the lease agreement transfers ownership of the property to the lessee by the end of the lease term.

VI. Capital Assets Estimated Useful Lives

Land improvements

Fencing, gates	10 years
Landscaping	10 years
Outside sprinkler systems	20 years
Ball fields, soccer fields and skateboard parks	20 years
Retaining walls	20 years
Airport runways	20 years
Campground sites	20 years

Infrastructure

Roads and highways (including curb & gutter)	20 years
Parking lots – public	20 years
Pathways and trails	20 years
Sidewalks	20 years
Bridges	30 years
Dams	50 years
Electric distribution	25 years
Wastewater treatment plant	25 years
Water and wastewater mains	25 years
Storm sewer system	25 years
Street lighting	25 years

Wells 20 years

Buildings and building improvements

Buildings – excavation, foundation, frame/structure 50 years

Temporary/portable buildings 20 years

Roof 20 years

HVAC – heating, ventilation, air conditioning 20 years

Electrical 20 years

Plumbing 20 years

Sprinkler system 20 years

Security/fire alarm system 10 years

Cabling 10 years

Floor covering (other than carpet) 20 years

Carpeting 10 years

Rubber floor covering (arena) 10 years

Interior construction 10 years

Interior renovation 10 years

Elevators 20 years

Generators 20 years

Machinery, equipment, and vehicles

Athletic equipment 10 years

Business machines/office equipment 5 years

Radio/communications equipment 10 years

Computer equipment/software 5 years

Fire department equipment - ladders, hoses, gear, etc 10 years

Office furniture 15 years

Grounds equipment – mowers, tractors, etc. 10 years

Kitchen equipment – appliances 10 years

Law enforcement equipment - light bars, radar, etc 10 years

Tools and other equipment 5 years

Outdoor equipment – playgrounds and scoreboards 10 years

Ice resurfacing equipment (Zamboni) 10 years

Custodial equipment 10 years

Ambulance defibrillators	10 years
Photocopiers	5 years
Motor vehicles:	
Cars, light trucks	10 years
Heavy trucks (13,000 lbs and greater)	10 years
Fire Department vehicles	15 years
Ambulances	10 years
Generators	20 years
Heavy equipment: front loaders, graders, etc.	10 years

VII. Approval of Capital Asset Policy

The useful lives are intended to be guidance, not absolutes. The useful life of a capital asset may be adjusted based on the professional judgment of a qualified individual. Determinations must be made on a case-by-case basis.

The Capital Asset Policy shall be formally approved and adopted by the City Council.