CAPITALIZATION POLICY

Resolution 03-23

Purpose

To establish for the City of Raymore a **policy** for **capitalization** for real property, infrastructure, equipment, works of art and historical treasures, intangible assets, donated assets and leased property.

Background

Historically, City of Raymore has complied with the financial reporting requirements of the Government Accounting Standards Boards (GASB.) City assets for the **Proprietary** Funds have been recorded and depreciated. **Governmental** fund assets will be recorded in the General Fixed Asset Account Group (GFAAG) at original or historical cost and adjusted each year for new assets purchased and assets replaced due to obsolescence, damage, theft or loss.

The GASB issued Statement No. 34, effective June 30, 2003, requires City infrastructure, works of art, historical treasures, intangible assets and depreciation to be recorded for all funds in the government-wide financial statements.

This **policy** addresses the new elements of financial reporting introduced by GASB Statement No. 34 and ensures that capital asset transactions are accounted for consistently and in accordance with generally accepted accounting principles.

Policy

It is the **policy** of the City of Raymore City Council that:

Responsibility

The Finance Department is responsible for the overall management and accuracy of the asset management system.

Elected Officials and Department Directors are responsible for the safeguarding and accounting for property in accordance with City **policy** and City administrative procedures.

Capital Assets

Capital asset transactions addressed in this **policy** include all equipment, land, buildings, infrastructure, works of art and historical treasures, intangible assets and leasing transactions of the City's government-wide activities and proprietary funds.

According to GAAP, fixed assets should be recorded at original cost or historical cost/ estimated historical cost. Cost includes purchase price or cost of construction and any other charges incurred to place the asset in its intended location and condition for use. Examples of other charges include, but are not limited to:

- legal and title fees
- appraisal and negotiation fees
- surveying fees
- other closing costs
- damage payments
- land-preparation costs
- demolition cost
- architect and accounting fees
- insurance premiums during the construction phase
- transportation charges
- interest cost incurred during construction of the asset

Donated assets should be recorded at their fair market value on the date donated. The fair market value is the estimated amount at which the asset would be exchanged between a willing buyer and seller when neither is forced into the exchange. Both parties should have knowledge of all facts and consider it an equitable exchange.

Capitalization Threshold

The **capitalization** threshold for the various assets classifications shall be those with a value of $5,000 and greater. Those classifications are as detailed below, but not limited to this listing.

- Land
- Land Improvement
- Right-of-Way
- Buildings
- Infrastructure
- Works of Art and Historical Treasures

- Intangible Assets
- Equipment
- Construction in Progress
- Leasehold Assets

Renovation/Improvements

Renovation and improvement costs are incurred to restore or improve buildings or other capitalized assets. These costs involve the substitution of old parts for new ones and increase the economic benefits to be derived from the asset.

In order to capitalize a renovation or improvement cost, certain criteria must be met. First, the cost must equal or exceed the $5,000 capitalization threshold established for all fixed assets. Second, the renovation or improvement must either: a) significantly extend the useful life of the original asset, or b) increase the future service potential of the asset.

If both of these criteria are met, the expenditure must be capitalized and recorded separately in the Fixed Asset System at total purchase or construction cost. Expenditures not meeting both of these criteria should be classified as a maintenance expense. Care must be taken when distinguishing between maintenance costs and renovation and improvement costs. The City will record assets valued from $250 to $4,999.99 in the Fixed Asset System for internal control purposes only.

If parts of an asset are removed during a renovation/improvement project, the original cost (less depreciation if applicable) of the part of the asset being removed should be retired from the Fixed Asset System. Because of the difficulty of measurement or of immateriality, this may not be possible. The removal costs associated with the renovation should be expensed. The remaining cost of adding the renovation would be the cost of the new asset.

Additions

An addition represents a new asset. It increases the physical size or operating capabilities of an asset through expansion or extension. Additions do not involve renovations. A new wing to a building or the addition of an air-conditioning system to a building serves as examples of additions.

Additions are considered separate assets. The addition is capitalized if its cost is $5,000 or more. Assets valued below $5,000 are expensed; they are not capitalized nor depreciated for financial reporting purposes. The City will record assets valued from $250 to $4,999.99 in the Fixed Asset System for internal control purposes only.

Addition costs are different from maintenance costs. Additions add future benefits. Maintenance costs are incurred to keep the original asset in normal operating condition.

Maintenance

Maintenance expenses are incurred to keep assets in normal operating condition and to help maintain the original use of the asset. Maintenance expenses do not extend the life of the asset beyond the expected useful life at acquisition or increase the future service potential of the asset. Maintenance costs are incurred to keep the asset operational throughout its useful life. Therefore, the replacement of roofs, plumbing/electrical systems and carpet are typically classified as maintenance costs. It does not extend the life of the asset longer than originally intended, so the costs are expensed.

Regardless of the dollar amount, maintenance costs are expensed and not capitalized. The costs are charged to repairs and maintenance expense.

It is recommended that management review the maintenance account at least once a year to consider:

1. Replacing an asset with higher maintenance costs than other similar assets;

2. Reducing maintenance costs by signing a service contract;

3. Comparing the costs of a service contract with a repair-as-needed program;

4. Verify that costs were for maintenance rather than amounts that should be capitalized.

Management

Departments will continue to maintain inventories of equipment costing $250 to $4,999. Inventory of items costing less than $250, particularly those susceptible to theft or requiring risk management coverage, will be inventoried also. Once fixed assets are recorded, any adjustment to the values or useful lives requires management authorization.

Classification

According to the Governmental Accounting Standards Board (GASB), the classification of fixed assets depends upon the funds used to purchase them:

"A clear distinction should be made between fund fixed assets and general fixed assets. Fixed assets related to specific proprietary funds should be accounted for through those funds. All other fixed assets of a governmental unit should be accounted for through the General Fixed Assets Account Group." (GASB Sec 1400)