INTRODUCED BY ALDERMAN BAUMANN

RESOLUTION NO. 20-0772

A RESOLUTION OF THE CITY OF MANCHESTER BOARD OF ALDERMEN APPROVING THE FIXED ASSET POLICY FOR 2020.

WHEREAS, the City of Manchester's auditors Stopp & Vanhoy recommended that the City adopt a formal capital asset policy; and,

WHEREAS, the Fixed Asset Policy will formalize the fixed asset process; and,

WHEREAS, staff presented the draft fixed asset policy for review by the Audit and Finance Committee and they recommended formal approval by the Board of Aldermen; and,

NOW, THEREFORE, BE IT RESOLVED BY THE BOARD OF ALDERMEN OF THE CITY OF MANCHESTER, STATE OF MISSOURI, AS FOLLOWS:

Section One: The Board of Aldermen of the City of Manchester hereby adopt the Fixed Asset Policy, attached as Exhibit A hereto and incorporated herein by reference, as the Fixed Asset Policy of the City of Manchester. The Policy may be revised from time to time by the Board of Aldermen.

Section Two: This Resolution shall be in full force and effect from and after its passage and approval as provided by law.

PASSED AND APPROVED THIS 19TH DAY OF OCTOBER 2020.

CITY OF MANCHESTER, MISSOURI

By John Clement
Mayor

ATTEST:

City Clerk

Exhibit A

CITY OF MANCHESTER

Fixed Asset Policy
PROPERTY CONTROL MANUAL

TABLE OF CONTENTS

SECTION 1 - INTRODUCTION

Overview:

The City of Manchester wishes to establish accounting control and accountability for the City's assets. The Finance Department is the central accounting locale for all audited fixed assets. Assets under this classification follow specific accounting rules and are subject to annual audit requirements. The accounting and reporting policies of the City conform to generally accepted accounting principles (GAAP) applicable to state and local governments. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The City intends to apply all applicable Government Accounting Standard Board pronouncements as well as follow all Financial Accounting Standard Board Statements and Interpretations, Accounting Principles Board Opinion and Accounting Research Bulletins of the Committee on Accounting Procedure issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements will supersede all financial reporting requirements referenced within this policy.

SECTION 2 – DEFINITIONS

Capital Assets:

Capital assets are real or personal property with a value equal to or greater than the capitalization threshold for the classification of the asset and have an estimated life of greater than one year. They include land, buildings and improvements, machinery and equipment, vehicles, and infrastructure. A capital asset is to be reported and, with certain exceptions, depreciated in government-wide statements. In the government-wide statements, assets that are not capitalized are expended in the year of acquisition.

Infrastructure assets are long-lived capital assets that normally can be preserved for a significantly greater number of years than most capital assets and that are normally stationary in nature. Examples include roads, sidewalk, traffic lights, street-lights, sewer lines, and similar items). Donated capital assets, donated works of art and similar items, and capital assets received in a service concession arrangement are reported at acquisition value. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset lives are not capitalized.

Capital assets of the City are depreciated using a straight-line method over the following estimated useful lives:

Classification	Life
Building and improvements	5-40 years
Machinery and equipment	5-20 years
Vehicles	5 years
Infrastructure	10-50 years

Depreciation:

In accounting terms, depreciation is the process of allocating the cost of tangible property over a period rather than deducting the cost as an expense in the year of acquisition. Generally, at the end of an asset's life, the sum of the amounts charged for depreciation in each accounting period (accumulated depreciation) will equal original cost less salvage value. Good accounting and financial management practices require that a government entity take both the cost expiration and the declining value of an asset into consideration. The cost expiration of a government entity's assets must be recognized if the cost of providing services is to be realistically reported. Also, the decline in the value of those assets must be considered if the government entity's net assets are to be stated correctly.

Information Needed to Calculate Depreciation:

To calculate depreciation on a capital asset, the following five factors must be known.

- The date the asset was placed in service.
- The asset's cost or acquisition value.
- The asset's salvage value
- The asset's estimated useful life, and
- The depreciation method

Salvage Value:

The salvage value of an asset is the value it is expected to have when it is no longer useful for its intended purpose. In other words, the salvage value is the amount for which the asset could be sold at the end of its useful life. This value can be based on (1) general guidelines from some professional organizations such as GFOA, ASBO, etc., (2) information from other governmental entities, (3) internal experience, or (4) information from professionals such as engineers, architects, etc. **Since the City normally keeps assets until there is no remaining value, due to being obsolete, scrapped or junk, most equipment and vehicles should have a zero salvage value**. In most cases, it is probable that many infrastructure assets will have no residual or salvage value, given the cost of demolition or removal.

Estimated Useful Life:

An asset must have an estimated useful life greater than one reporting period to be considered for capitalization and depreciation. Assets that are consumed, used-up, habitually lost or worn-out in one year or less should not be capitalized.

Estimated useful life means the estimated number of months or years that an asset will be able to be used for the purpose for which it was purchased. In determining estimated useful life, the City will consider an asset's present condition, use of the asset, construction type, maintenance policy, and how long it is expected to meet service and technology demands. Useful lives should be based upon the City's own experience and plans for the assets. Although comparison with other governments or other organizations may provide some guidance, property management practices, asset usage, and other variables (such as weather) may vary significantly between governments.

SECTION 3 - POLICY

Asset Cost – The City will not capitalize every asset with a useful life greater than one year. The table listed below will be used in determining the dollar thresholds to use for tracking the City's capital assets. The capitalized and depreciated column will be audited on an annual basis as part of the external auditor's fieldwork.

Establishing and Setting the Threshold levels for Recording Capital Assets

GASB Statement #34 does not give a "complete" definition of a capital asset. Paragraph #19 lists many categories. Other criteria and the threshold levels for capitalizing and depreciating are:

	Capitalized and Depreciated Thresholds
Land	$1 – Capitalize Only
Land Improvements	$10,000
Buildings	$25,000
Building Improvements	$25,000
Machinery & Equipment	$ 5,000
Infrastructure	$50,000

Construction in Progress — Capitalize Only

Obtaining an Asset's Cost or Acquisition Value:

Capital assets should be reported at historical cost and should include the cost of freight, site preparation, architect, and engineering fees, etc. If payment is made other than in cash and the fair-market value of the non-cash payment or consideration cannot be determined, the asset's fair-market value determines its cost.

With few exceptions, an asset's cost should also include necessary costs incurred to place the asset in service. Costs include the invoice price plus incidental costs (insurance during transit, freight, capitalized interest as described below, duties, title search, registration fees and installation costs).

Maintenance & Repairs:

The following criteria will determine if maintenance or repairs should be capitalized or expensed. With respect to asset improvements of $25,000 or more ($50,000 for infrastructure) should be capitalized if:

1. The estimated life of the asset is extended by more than 25%, or
2. The cost results in an increase in the capacity of the asset, or
3. The efficiency of the asset is increased by more than 10%, or
4. Significantly changes the character of the asset, or
5. In the case of streets and roads – if the work done impacts the "base" structure.

Otherwise, the cost should be expensed as repair and maintenance.

Maintenance costs allow an asset to continue to be used during its originally established useful life. Maintenance costs are expensed in the period incurred. Preservation costs generally extend the useful life of an asset beyond its original estimated useful life, but do not increase the capacity or efficiency of the asset. Preservation costs are capitalized and depreciated if they extend the original estimated life by more than the assigned percent listed above and cost $25,000 or more ($50,000 for infrastructure).

A change in capacity increases the level of service provided by an asset and is capitalized and depreciated if the cost is $25,000 or more ($50,000 for infrastructure). For example, additional lanes could be added to a road or the weight capacity could be increased. The following improvements will be considered maintenance and not capitalized: tuck pointing, roof repair or replacement (unless it extends the life of the building, such as going from a flat roof to a pitched roof), window replacement (unless replaced with energy efficient windows), repainting, epoxy repair, re-carpeting, etc.

SECTION 4 – ASSETS THAT REQUIRE MONITORING

Land:

Land is to be capitalized but not depreciated. It is recorded at historical cost and remains at the cost until disposal. If there is a gain or loss on the sale of land, it is reported as a special item in the statement of activities. All land will be capitalized unless the City plans to immediately sell it instead of putting it to use.

The following items should be included as part of the cost of land: purchase price or fair market value at the time of the gift; commissions, professional fees (title searches, legal, appraisal, etc.), grading, removal, relocation, or reconstruction of property of others (railroad, telephone and power lines); interest on mortgages accrued at date of purchase; accrued and unpaid taxes at date of purchase; other costs incurred in acquiring the land.

Rights of Way (ROW):

ROW costs will be booked at the time of the project. If ROW costs are known at the time of the project, those values will be setup based upon actual costs. If the actual cost is not available, a cost per square foot will be determined by using an assessor's valuation of bare agricultural land in the vicinity.

Easements:

Easements are not reported in the financial statements. An easement is an interest in land owned by another that entitles its holder to a specific limited use or enjoyment (right to use the land). The City has no ownership interest in the property associated with easements across private property, only a right to access the property for the stated use (water lines, sewer, lines, etc.).

Land Improvements:

Land improvements consist of betterments, other than buildings, that ready land for its intended use. A few examples include retaining walls, parking lots, pavilions, sidewalks, playground equipment, dugouts, bleachers, outdoor lighting, fencing/gates, and landscaping. Land improvements can be further categorized as non-exhaustible and exhaustible.

> **Non-Exhaustible** – Expenditures for improvements that do not require maintenance or replacement, expenditures to bring land into condition to commence erection of structures, expenditures for improvements not identified with structures, and expenditures for land improvements that do not deteriorate with use or passage of time are additions to the cost of land and are generally not exhaustible and therefore not depreciable. The portion of the cost attributable to non-depreciable land improvements should be reported with other assets not being depreciated, such as land and construction in progress in the Comprehensive Annual Financial Report (CAFR).
>
> **Exhaustible** – Other improvements that are part of a site, such as parking lots, landscaping, and fencing, are usually exhaustible and are therefore depreciable. Depreciation of site improvements is necessary if the improvement is exhaustible. Other items include gates, outside sprinkler systems, athletic fields, golf courses, swimming pools, tennis courts, fountains, retaining walls, soccer fields, recreational lighting, sidewalks, bus ramps, etc. Exhaustible land improvements that meet the capitalization threshold of $10,000 will be capitalized.

Buildings:

Buildings should be recorded at either their acquisition cost or construction cost if they meet the capitalization threshold of $25,000. Usually projects consist of major components such as land, land improvements, building construction (including professional fees and permits), furniture, fixtures, and equipment. The various components should be broken out when setting up the initial building construction project. The components of the building itself (heating/air conditioning, carpet, windows etc.) should be included in the initial cost of the building.

Building Improvements:

Building improvements that extend the useful life of the building by more than 25% should be capitalized. Examples of building improvements include major roofing projects that tear the original roof down to the joints or peak a flat roof, major energy conservation projects, or remodeling and replacing major building components. Normal maintenance and repair projects like re-shingling or re-tarring a roof will be expensed. The inventory should include a project description, the year completed, and funding source and dollar amounts. Only those projects that meet the capitalization threshold of $25,000 should be included.

Machinery & Equipment:

Assets such as furniture, shop equipment, lawn equipment, computers, machinery, and other equipment that meet the threshold levels should be identified and inventoried. Some assets, individually, may fall below the capitalization threshold but may be purchased in large quantities. Examples include library books, textbooks, and computers. They should only be capitalized if they meet the threshold individually of $5,000.

Computer Equipment:

Computers will be excluded if they individually cost less than the threshold per unit of $5,000. If the dollar amount exceeds the limit, those assets will be capitalized and depreciated. **However, they will be inventoried for insurance purposes even if they are excluded for depreciation.**

Computer Software:

Computer software will be excluded if its cost is less than the threshold per unit. Computer software that meets the capitalization threshold of $5,000 should be capitalized.

Vehicles:

Vehicles should be identified, inventoried, and depreciated if they exceed the threshold limit per unit. When setting up the initial costs of the vehicle, lettering will be added to the cost of the vehicle. In addition, for the police department; the cost of the sirens, light bars, etc., will be included as part of the cost of putting the car in service. In the case of moving existing sirens etc. that cost will be included as part of the initial cost associated with new purchases. Vehicles that meet the capitalization threshold of $5,000 will be capitalized.

Sidewalks:

The City owns the sidewalks that are in the public ROW and is responsible for maintaining and replacing them. The City will capitalize sidewalks on in the ROW classify as land improvements if they exceed the dollar threshold of $10,000.

Street Signs:

The City's street department installs street signs after a project is complete. Developer's install the street signs in developments before the Infrastructure is turned over to the City. The cost of the signs is not part of the construction costs. Based upon the above criteria, **the City will not capitalize street signs.**

Street lighting:

AmerenUE owns most of the street-lights. Any City owned street-lights that meet the capitalization threshold of $10,000 per unit will be capitalized.

Infrastructure Assets:

As most new infrastructure construction is associated with a project, with certain funds set aside based on the project, infrastructure items will be evaluated based on the total cost of the project. Any project with a total cost that meets the threshold for infrastructure should be capitalized, with the date of acceptance as the acquisition date. If a project includes more than one type of Infrastructure, each part of the project should be setup separately. In addition to the actual construction costs, engineering fees, and other incidental expenses should be added into the project cost. If engineering costs cannot be determined for each segment, then the costs should be prorated to each segment based on the segment's percent of the overall project (excluding costs that will be allocated).

If ownership of infrastructure associated with land, such as roads, sewers etc. is unclear, the government with primary responsibility for managing the asset should report the asset.

Streets, roads, and other components:

The City will include frontage roads and alleys as part of the street and roads network if it exceeds the dollar threshold of $50,000 per street, alley, or portion thereof. Within this category, the original project will include costs associated with curb and gutter. Streets and alleys will be broken down by the following types: seal coat, gravel, concrete, asphaltic concrete and brick or stone.

Bridges:

Bridges will be broken down into vehicular and pedestrian subsystems. The cost of the initial project will include the sidewalk and guardrails associated with the bridge. Bridges that meet the capitalization threshold of $50,000 will be capitalized.

Storm Sewers:

Storm sewers, detention ponds and other collection systems will be kept separate. Storm sewer projects often involve assets that are under the responsibility of different departments. For example, replacing the street over the sewer that is being worked on is the responsibility of the street department. A project that involves replacing a section of storm sewers also included replacing the street that must be torn up. The entire project may meet the capitalization threshold of $50,000, but the street portion does not. The street portion will still be set up as a separate asset if it meets the threshold of $50,000. The exception to this would be if the street is not improved by this process or is made worse; in this case the entire cost of the project would be under the sewer asset.

Construction in Progress:

Construction in progress that is financed by the City should be capitalized and not depreciated until in service. It should be reported with land and other non-depreciating assets at the government-wide level. Unspent debt proceeds from capital assets related debt should be reported in the net assets section of the state of net assets as "restricted for capital projects".

SECTION 5 – PROCEDURES

Inventory Records:

Completeness and accuracy of inventory records should be ensured through physical counts, review of purchase records, prior inventory count records, listings maintained by other agencies, and other methods deemed necessary.

An inventory of all capital assets that meet or exceeds the City's threshold limits shall be maintained. Each inventory record should include description, year of acquisition, method of acquisition (purchase, donation, etc.), funding source, cost or estimated cost, salvage value, estimated useful life, and the function(s) that use the asset. The inventory of assets will be centrally maintained through the Finance Department.

Non Expendable Items Not Capitalized:

The City has determined that it is both prudent and sound business practice to keep track of certain non-expendable items not meeting the minimum capitalization requirement ($5,000 or more) with a cost between $500 and $4,999.

The following is a partial listing of examples of non-expendable items not capitalized with a cost of between $500 and $4,999.

1. Desktop and laptop computer systems, including monitors
2. Printers
3. Copiers
4. Fax machines
5. Scanners
6. Video and/or audio recording equipment
7. Televisions
8. VHS and DVD players
9. Furniture & cabinets
10. Precision tools, laboratory equipment and other such items

Each Department is responsible for establishing procedures, tailored to best suit the individual Departments' needs (i.e., a Department may choose to track items with a cost of less than $500) that ensure the following:

1. Identification of such non-expendable items to ensure cost is charged to appropriate general ledger account, project, or personnel code
2. Periodic review of the nonexpendable items not capitalized to safeguard against unauthorized, unnecessary, or duplicate purchases of such items
3. Non-expendable not capitalized items listings, records, analysis, or the like may be subject to outside, independent verification, i.e., external auditors

The City's general and specific (departmental) policies and procedures for fixed assets or non-expendable items ensure the following:

- Prevention of unauthorized acquisitions
- Control over fixed assets and their related records to ensure all recorded fixed assets exist and are in use as prescribed by the City
- Safeguards against loss, damage, or theft
- The cost of each acquisition is accurate, complete, and recorded in the appropriate period
- Accurate calculation and recording of depreciation expense and accumulated depreciation
- Periodic physical inventory of fixed assets is reconciled to records
- Control over the disposal of fixed assets
- Distinguish repair and maintenance expenses from fixed asset acquisitions
- Compliance with OMB Circular A-110, subpart C
- Fixed asset disposals are accurately recorded in the general ledger and the Fixed Asset Module

Disposal of Capital Assets:

All depreciated assets in this policy must be taken to the City Administrator for approval prior to disposition. The report to City Council will include the method of disposal and identify whether it is for sale, obsolete, junked, or using other disposal methods.

When an asset is sold, a gain or loss must be recognized under this policy when:

- Cash is exchanged and the amount paid does not equal the net book value of the asset.
- Cash is not exchanged, and the asset is not fully depreciated or has a residual value.

Based on the answer from question #131 of GASB 34 implementation guide #1, GASB recommends that as a practical matter, insignificant gains or losses could be eliminated by adjusting the current period's depreciation expense by the amount of the gain or loss.

Based upon this, gain or loss will not be reported when:

- Cash exchanged equals the net book value and the asset does not have a residual value.
- Cash is not exchanged, and the asset is fully depreciated and has no residual value.

Reporting Capital Assets in the Audited Financial Statements:

Capital assets and the associated accumulated depreciation are reported in the Statement of Net Assets. Accumulated depreciation will be reported separately. Capital assets will be reported in greater detail by major class of asset (for example, infrastructure, buildings and improvements, machinery, and equipment, etc.)

Insurance Records:

The City will maintain insurance records in conjunction with the fixed assets. It is the responsibility of each department to notify the Director of Finance concerning insurance coverage. Coverage, when applicable, must be added to new equipment prior to use.

Record Retention:

The Finance Department will keep individual asset detail associated with capital assets that meet or exceed the city's threshold limits while an asset is current. Individual asset detail records may be disposed three years after an asset's disposal date. All fiscal year end reports can be disposed five years after the audit has been finalized unless grant provisions require a longer retention period. The recommendations from the "Record Retention Manual for Missouri Cities" will supersede any time periods covered in this paragraph if their retention period exceeds the time periods listed.