

City of Palm Coast

Capital Assets

Policies and Procedures Manual



Helena Alves

Helena Alves, Financial Services Director

Nov 13, 2023

Date

Denise Bevan

Denise Bevan, City Manager

Nov 15, 2023

Date

CITY OF PALM COAST

POLICY

CAPITAL ASSETS

1. INTRODUCTION

The purpose of this manual is: (1) to provide control and accountability over capital assets, and (2) to gather and maintain information needed for the City's annual audit in conformity with Generally Accepted Accounting Principles (GAAP) and with Governmental Accounting Standards Board (GASB) Statement 34.

2. POLICY

The acquisition, disposition, and monitoring of City owned property is governed by Chapter 274 of the Florida Statutes. The City will consider capital assets to be any tangible or intangible property according to the criteria outlined in section 4 of this policy as per guidance provided by the Government Finance Officers Association (GFOA) and Governmental Accounting Standards Board (GASB). Properly accounting and maintaining physical control of capital assets ensures accountability to the residents of the City of Palm Coast. The cost of a capital asset is depreciated yearly over its useful life based on GAAP guidelines. Disposition of capital assets shall be according to City Ordinance 2021-23 Sec. 2-28. – Disposal of surplus property.

Each department is responsible for assisting in providing accurate, complete, and timely capital asset information to the Financial Services Department.

3. DEFINITIONS

Acquisition – The point at which the City takes possession of an asset. This could be when it was purchased, or when it was donated.

Amortization – The systematic expensing of the cost of an intangible asset over its estimated useful life based on Generally Accepted Accounting Principles. Straight-line amortization, which allocated the cost of a capital asset evenly over its estimated useful life, will be recorded yearly.

Buildings – Depreciable structures with a cost over \$5,000 that are permanent in nature. Buildings are valued at the purchase price or construction cost. Cost should include all charges relating to the building, such as broker's fees, architect's fees, etc. Permanently attached fixtures to the building should also be included in the cost of the building. If using in-house resources such as labor, materials, and supplies from various City departments to construct or add on to the building, the costs should be part of the cost of the asset. If an addition is constructed, it is added to the asset system as a component of the original building.

Capital Asset – Tangible and intangible property that the City can use as a resource in providing services to the residents. Capitalized assets include equipment, buildings, infrastructure and improvements.

Capital Asset Cost – The amount or amounts expended to acquire capital assets. This will include the amount spent to acquire the capital asset and any charges to put the asset in service, such as site preparation, architectural design, project management, or freight charges.

Capital Expenditure – Expenditure that has been designed for specific capital improvement purposes or major infrastructure improvement projects. These include major purchase and construction projects that may last over a period of years.

Capital Improvement – An expenditure of \$25,000 or more that provides additional value to a capital asset by either lengthening the estimated useful life of a capital asset or increases a capital asset's ability to provide greater capacity or efficiency. The useful life will be the same as the capital asset.

Construction in Progress (CIP) – Capital assets that are incomplete at fiscal year-end. Upon completion, these projects are recorded in the appropriate capital asset category in the asset system.

Depreciation – The systematic expensing of the cost of an asset over its estimated useful life based on Generally Accepted Accounting Principles. Straight-line depreciation, which allocates the cost of a capital asset evenly over its estimated useful life, will be recorded yearly.

Disposal – An asset is disposed of in the asset system if it has been sold, traded in, scrapped, abandoned or in any way removed from service.

Donated Property – The City may accept donated property upon Council approval. Donated property can include equipment, land or easements, buildings, and infrastructure. Donated property should be capitalized at the estimated fair market value at the time of donation.

Easement – An easement is defined as an interest in land owned by another that entitles its holder to a specific limited use or enjoyment (right to use the land). Easements are characterized as having an inexhaustible life.

Equipment – Tangible property other than land and buildings such as machinery, furnishings, vehicles, etc. The cost includes the equipment purchase price and any other charges necessary to purchase or install the equipment including the cost of labor, delivery, setup, etc.

General Accepted Accounting Principles (GAAP) – A set of rules and accounting practices developed by the Financial Accounting Standards Board (FASB).

Governmental Accounting Standard Board (GASB) – The board that develops the accounting standards for governmental entities.

Governmental Funds – Funds generally used to account for tax-supported activities. The City uses four different types of governmental funds: the general fund, special revenue funds, debt service funds, and capital projects funds.

Infrastructure Assets – Long-lived capital assets that are normally stationary in nature and normally can be preserved for a significantly greater number of years than most capital assets. Examples of infrastructure assets include roads, bridges, and water and sewer systems.

Intangible Assets – Capital assets that lack physical form, such as computer software and easements.

Land – The real estate property held by the City. The land can be purchased or donated. Purchased land should be entered into the asset system at its cost. The cost includes its purchase price and any other charges necessary to purchase the land. The other charges include costs such as site preparation expenditures, professional fees, and legal claims directly attributable to the land acquisition. Land is a non-depreciable asset comprised of owned land parcels and non-depreciable costs associated with preparing the site for development. All Land acquisitions need to follow the Land Acquisition Work Request included in Appendix B.

Improvements other than Buildings – Depreciable assets, including assets such as paving, outdoor lighting, irrigation systems, sidewalks, drives, fencing, and structures, with a costs of over \$25,000 which do not meet the definition of a building.

Proprietary Funds – Funds that focus on determination of operating income, changes in net position (or cost recovery), financial position, and cash flows. The City uses two types of proprietary funds: enterprise funds and internal service funds.

Tangible Assets – Capital assets that are durable and physical in form, such as land, buildings, vehicles, etc.

Transfer – Permanently moving an item from one department to another department. If it's within the same department, it is a location/division change.

Useful Life – The number of years the asset is expected to be operational.

4. CAPITALIZATION GUIDELINES

These guidelines are being provided to assist management when making the determination between which asset related expenditures are/are not recommended to be capitalized in accordance with governing laws, rules, and regulations. The following guidelines, except where noted, apply equally to both Governmental funds and Proprietary Funds.

- a. **New Asset Acquisition** – Cost of \$5,000 or more incurred to acquire an *individual* asset or to make an asset ready for its intended use should be capitalized and the useful life is expected to be more than two years.

- b. **Capital Asset Additions** – Purchased additions to previously capitalized assets that meet the capitalization threshold, should be capitalized as add-ons to the existing property record.
- c. **Replacement/Improvements** – Costs incurred to replace or improve an existing asset should be capitalized if it meets the capitalization threshold and at least one of the following criteria:
 - i. Extends the useful life of the existing asset
 - ii. Increase the capacity or efficiency of an asset

For replacements, the old asset should be removed from the asset system if it can be separately identified or if a cost can be estimated for its original value and then adjusted in the asset system.

- d. **Repairs and Maintenance** – Costs that are associated with repairs and maintenance are not recommended for capitalization because they do not add value to the existing asset. However, major repairs that extend the useful life or increase the capacity or efficiency of an asset may be classified as improvements and therefore should be capitalized (see #c).
- e. **Right to use leased assets** – If the present value of the leased asset payments and any additional residual value guaranteed by the City is more than \$50,000, the City will apply GASB 87. That is, the City will recognize a lease asset or liability. This policy does not apply to lease agreements classified as short term per GASB 87 (less than 1 year). The discount rate is determined in the terms of the lease agreement. If the rate is not readily determinable, the City will use an estimated incremental borrowing rate based on the City's weighted average cost of capital.

Thresholds for capitalizing assets for each major class of assets are as follows:

<u>Asset Type</u>	<u>Threshold</u>
Land	N/A
Buildings/Building Improvements	\$5,000/\$25,000
Improvements other than Buildings	\$25,000
Infrastructure	\$25,000
Machinery and Equipment	\$5,000
Right to use leased asset	\$50,000

5. **INTANGIBLE ASSETS**

Intangible assets, such as computer software, easements, and land use/water/leachate rights will be capitalized on the City's books and amortized over their useful lives unless that life is indefinite.

Computer software is considered an intangible asset if it is developed in-house by City employees or by a third party contractor on behalf of the government. This includes commercially available software that is purchased or licensed by the City and that the City must exert minimal

incremental effort before the software can be put into operation (per GASB 51). Such purchases will be capitalized if they meet the City's capitalization threshold (Section 4). Yearly renewals and regular upgrades of existing software will be considered an operating cost and expensed as incurred. The City will amortize software over 3-5 years, depending on whether the software is a component of an existing system or a brand new system.

Easements and rights granted or purchased by the City will be assumed to have an indefinite useful life unless there are contractual or legal requirements that state otherwise. In those instances, the City will amortize those easements and rights over the life stated in the contract documents.

CITY OF PALM COAST

PROCEDURES

CAPITAL ASSETS

1. Asset Acquisition Procedure

All acquisitions will follow the procedures outlined:

- a. After a department determines a need for a capital asset, they will obtain approval to purchase the item from the City Manager and the City Council or designee during the annual budget process. Also during the annual budget process, the Fleet Management Department will review and identify current Fleet assets that are in need of being replaced. The Fleet replacement list will identify the asset being replaced and the cost of the replacement asset. In the event a capital asset needs to be purchased and was not approved in the budget, the department will need approval first from the Financial Services Director, then the City Manager, and the City Council, if applicable.
- b. After approval is obtained, the requesting department will enter a requisition through the purchasing module with the required authorizations per the purchasing policy. The requisition shall contain a detailed description of the item and the cost, as well as required supporting documentation. The requisition will then be converted to a purchase order after approval from the purchasing department.
- c. After receiving a capital asset, the requesting department will enter the invoice into Munis through the A/P process and include the following information: control number, description of asset purchased, useful life. Supporting documents will be attached to the invoice such as the invoice, certificate of origin, delivery receipt, application for title, registration.
- d. The Financial Services Department assigns capital asset numbers for all capital assets. City vehicles are tagged by the Fleet Management Department and computer equipment is tagged by the IT Department. Items that are unable to be tagged will still be assigned a capital asset number.
- e. Donated property with a market value in excess of \$5,000 will be added into the asset system. The receiving department of the donated property must provide written notification to the Financial Services Department of any donated assets. Donated assets will be accepted by the City through Council approval.
- f. Land acquisitions should follow the land acquisition work request included in appendix B.
- g. All vehicles purchased will be held solely in the name of the City.

- h. Modular furniture that meets the capitalization threshold should be capitalized as equipment, by lot or by individual unit. To capitalize as individual unit, the threshold must be met per unit. If the modular furniture cannot be separately identified from the total cost of the building, it is recommended that the modular furniture be capitalized as part of the building.

2. **Depreciation and Useful Life**

All assets, other than land, must be depreciated. These assets should be depreciated in a straight-line method over their expected useful life. Useful life is the estimated number of years that an asset will be able to be used for the purpose for which it was purchased or constructed. See Appendix A for detail useful lives.

3. **Bi-Annual Physical Inventory**

Finance will send an inventory list by department on a bi-annual basis for review. The Department is responsible for completing a physical count of their inventory items. Any changes should be reviewed and approved by the Department Director and City Manager prior to submission to the Finance Director for approval and removal from inventory.

4. **Asset Disposition Procedure**

All dispositions of capital assets are coordinated by the Financial Services Department. Fleet Management is responsible for the evaluation and approval of all Fleet and equipment disposals. If the capital asset is computer equipment or technology, the IT Department will review and approve the disposal. All dispositions of capital assets through the Fleet replacement program will need to be identified during the annual budget process. All others will need a completed Asset Disposal Form (Appendix A) to be submitted to Finance.

- a. The Fleet Management Department will arrange for the disposal of capital assets through direct sale, trade-in, scrap, or auction.
 - i. The Fleet Manager or representative will notify the Financial Services Department when a capital asset is sold through direct sale, such as selling an asset to another government entity.
 - ii. The Fleet Manager or representative will notify the Financial Services Department when a capital asset is used as a trade-in against the replacement asset. All assets replaced through a trade-in should be noted on the replacement asset invoice with value of trade-in. All trade-in replacements will need a Trade In Assets Form (Appendix C) noting the replacement asset (see 5.c.) and the traded-in asset to be disposed of in the capital asset system.
 - iii. The Fleet Manager or representative will notify the Financial Services Department when a capital asset is sold as scrap material. The required documentation is the sales receipt from the salvage yard noting the cash received and asset number, and a copy of the check. Assets sold as scrap are considered in non-working condition and have little or no value.

- iv. The Fleet Manager or representative will post all assets up for auction on the approved auction website. When payment is received for the assets sold through auction, the Financial Services Department is notified by the auctioneer through an email noting the assets sold and sale price.
- b. The Financial Services Department will remove the sold capital asset from the capital asset inventory, and record the payments received for the disposed assets. All disposed assets will be tracked annually on the Asset Disposal worksheet and reconciled annually for the annual audit.
- c. The items will be disposed of in accordance with Florida Statutes, Section 274 and City Ordinance 2021-23 . Any funds received from the sale of those assets will be posted as revenue to the originating fund.

Capital assets paid for by a grant should follow the granting agency's procedures for disposal. *Note: Capital assets obtained through Federal or State grants may have restrictions on disposal. Capital asset custodians are responsible for abiding by any guidelines associated for capital assets assigned to their department.*

- d. If the capital asset is missing and believed stolen, a police report must be completed and a copy attached to the disposal record.
- e. All IT capital assets disposals will follow the Fleet Management Department procedures listed in section 4.a.

Public works will coordinate the storage and pickup of all equipment assets approved for disposition and the IT Department will coordinate the storage and pickup of all computer or technology equipment.

5. **Departmental Transfer of Capital Assets**

In the case where an asset transfer has been identified as beneficial for City operations, a request must be made through the Fleet department using the Vehicle Transfer Request form (Appendix B). Once approved by Fleet, the form needs to be submitted to Financial Service department for review prior to submission to the City Manager for consideration.

6. **Disposition of Non-Capital Assets**

If a department wishes to dispose of a non-capital item that is not in working condition, this disposal must be initiated and approved by the Department Director. It is the responsibility of the department to dispose of the item. If the item requires additional assistance to dispose of, contact Public Works.

If a department wishes to dispose of a non-capital item that is in working condition, then they must follow the same procedures outlined in Section 6.

7. **Disposition and Replacement of Asset by Insurance**

When a capital asset is severely damaged or destroyed by a covered peril under the City's insurance policy, and the replacement of that asset has been approved through funding from the City's insurance policy, the new capital asset must be paid for by the department that owns the asset. Insurance settlement reimbursement must then be requested by the department to Risk Management. Risk Management will instruct the Financial Services Department to credit the department for their cost of replacing the asset. Proper backup is necessary to complete the insurance reimbursement. The purchase of the replacement asset will follow the purchasing policy (See Section 1). Also, the asset that was destroyed must be disposed of from the capital asset inventory.

APPENDIX A

FIXED ASSET DISPOSAL FORM

- | | |
|---|---|
| ☐ DESTROYED | ☐ LOST |
| ☐ AUCTIONED | ☐ SALVAGED |
| ☐ SOLD – INTERNAL | ☒ THEFT |
| ☒ SOLD – EXTERNAL | ☐ REPLACED |
| ☐ TRADED IN | ☐ SCRAPPED |

ASSET DESCRIPTION	
ASSET DESCRIPTION	
ASSET NUMBER	SERIAL NUMBER
DEPARTMENT	
LOCATION	
MANUFACTURER	
MODEL	MODEL YEAR
ACQUISITION DATE	
ACQUISITION AMOUNT	
DATE DISPOSED	
USEFUL LIFE	

TO BE COMPLETED BY FINANCE	
CURRENT BOOK VALUE	
REMAINING USEFUL LIFE	

COMMENTS	
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PREPARED BY	
DIRECTOR APPROVAL	
FINANCE APPROVAL	

APPENDIX B

Vehicle Transfer Request

REQUEST INFORMATION

Vehicle # *

Make

Model

Year

Odometer

Person who approved transfer *

Reason For Request *

Submit Request

APPENDIX C

FIXED ASSET TRADE-IN FORM

Original Asset Number Description
Serial Number Department
Date of Trade-in Trade-in Amount \$

Please provide an explanation of why this vehicle was traded-in:

New Asset Serial Number New Asset Description
New Asset Department New Asset Location

Prepared By

Submitted to Finance



Capital Assets Policy FINAL

Final Audit Report

2023-11-15

Created:	2023-11-13
By:	Shannon Boone (sboone@palmcoastgov.com)
Status:	Signed
Transaction ID:	CBJCHBCAABAAvN2wXjP-2swzYL-2C1RvPwZFqlxG0jnx

"Capital Assets Policy FINAL" History

-  Document created by Shannon Boone (sboone@palmcoastgov.com)
2023-11-13 - 3:35:46 PM GMT- IP address: 204.145.118.4
-  Document emailed to Helena Alves (HALves@palmcoastgov.com) for signature
2023-11-13 - 3:36:08 PM GMT
-  Email viewed by Helena Alves (HALves@palmcoastgov.com)
2023-11-13 - 3:37:20 PM GMT- IP address: 104.47.65.254
-  Document e-signed by Helena Alves (HALves@palmcoastgov.com)
Signature Date: 2023-11-13 - 3:37:28 PM GMT - Time Source: server- IP address: 204.145.118.4
-  Document emailed to Denise Bevan (dbevan@palmcoastgov.com) for signature
2023-11-13 - 3:37:29 PM GMT
-  Email viewed by Denise Bevan (dbevan@palmcoastgov.com)
2023-11-13 - 7:48:11 PM GMT- IP address: 104.47.64.254
-  Document e-signed by Denise Bevan (dbevan@palmcoastgov.com)
Signature Date: 2023-11-15 - 6:29:03 PM GMT - Time Source: server- IP address: 204.145.118.4
-  Agreement completed.
2023-11-15 - 6:29:03 PM GMT

