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# CITY OF RIO COMMUNITIES

## Fixed Asset Policy

2017

Adopted: June 14, 2016

Amended: March 28, 2017

## **I. PURPOSE**

The purpose of this policy is to provide guidelines and regulations for the logging and depreciation of capital and controllable assets.

Capital assets are defined as real or personal properties which retain value equal to or greater than the capitalization threshold for their respective asset classes; the estimated initial useful life of such assets must also be greater than one (1) year.

## **II. ADMINISTRATIVE POLICIES**

### **A. FISCAL RESPONSIBILITIES & AUTHORITY**

The subsequent are recognized as authoritative, capital-asset-bodies of the City of Rio Communities:

#### **1. BOARD OF FINANCE (GOVERNING BODY)**

##### RESPONSIBILITIES

- a. Policy development aiding in the determination of fixed asset acquisition, depreciation, and disposal.
- b. Provision of appropriate declarations/notifications to the corresponding state governing body.
- c. If applicable, upon completion of audit processes, review any relevant findings.
- d. Upon pronouncement by appropriate authority, and if applicable, approve a list of surplus items and suggest methods of adequate disposal (pursuant to NMSA 1978, §13-6-1 (2007)).

#### **2. DEPARTMENT OF FINANCE**

##### RESPONSIBILITIES

- a. Provide administrative officials/department directorates with a complete or annotated catalogue of inventory of which such individuals/departments are to be held accountable.
- b. Maintain a detailed catalogue of inventory for all capital and controllable assets which meet oversight/management requisites.
- c. Maintain discrete documentation for the duration of time in which an asset is actively accounted for within financial registers.
  1. Documentation associated with controllable assets (i.e. computers, technological instruments) which fail to meet the threshold, shall not require retention.
- d. Adhesion of serial-numbered asset tags onto surfaces of active capital and controllable assets which require directorate oversight.
- e. The Department of Finance shall track assets utilizing a computer-based asset management approach.
  1. All capitalized fixed asset shall be recorded in a property log. This log shall include the following with respect to each item:
    - Date of acquisition
    - Cost
    - Description (color, model, and serial number)
    - Asset Location
    - Estimated Useful Life
    - Depreciation Method

- f. Subsequent to notification of the proper department directorates, the NM State Auditor's Office, and the City of Rio Communities Board of Finance, any superannuated/obsolete assets shall be declassified from active to inactive and archived within a designated system.
- g. Following declassification, assets will be stripped of serial tags.
- h. Reconciliation of, and reporting (to the City Manager and any department directorates) of disparities between fixed asset and physical inventories.
- i. The development and maintenance of a capital asset committee, if necessary.
- j. The Department of Finance shall also be responsible for the coordination of regular, periodic meetings to review and discuss directionality of relevant capital and controllable assets.

### **3. DEPARTMENT OFFICERS**

#### RESPONSIBILITIES

Department heads/officers are responsible for the custody and maintenance of all assets purchased for or assigned to their office.

- a. For purposes associated with indemnity reporting, the official (narrative statement) documentation must be acquired (from law enforcement), signed (by divulging party), and submitted to the Office of the City Manager.
- b. Report (to the Department of Finance) any assets deemed to be surplus or superfluous so as to initiate the asset disposal/transfer process.
- c. Department Officers shall allow the Department of Finance access to all records necessary for fixed asset reporting.
- d. Sanctioning, to a designated asset steward, the custody, regulation, and responsibility of departmental assets.
- e. Names of stewards shall be officially submitted, to the Department of Finance. If no name(s) is (are) submitted, the Department Officer will serve as steward.
- f. To ensure appropriate serial identification, notify the Department of Finance of any new, untagged fixed acquisitions.

## **III. CAPITAL ASSET CLASSES**

### **A. LAND**

Land, in its legal parameters, is defined as any ground (regardless of composition), air space, or area below the visible surface. Land need not be held apart from its physical surface in that it may sustain buildings and sub-structures in addition to air spaces, mines, and minerals. Land is also inclusive of spaces engulfed by water.

Within asset parameters, land is characterized as having unlimited life and capitalization, but is not subject to depreciation. Land is recorded at historical cost or, if determinable, actual cost.

### **B. BUILDINGS & BUILDING IMPROVEMENTS**

#### **BUILDINGS**

A building is any structure or edifice of human construct. As an asset, buildings are to be recorded at either their acquisition or construction cost:

- a. Original purchase price and any other costs associated with modification or adaptation.
- b. All costs associated with the original construction.

## **BUILDING IMPROVEMENTS**

Building improvements which extend the useful life of a building and meet thresholds should be capitalized. Only site and facility improvement projects completed within the last five (5) years will be considered for retroactive recognition unless meaningful data are readily available. Replacement of an original utility would qualify if improvements are of a significantly increased quality and monetary value. Restorations do not qualify an asset for capitalization. Determinations will be made on a case-by-case basis. Maintenance expenses are incurred to keep assets operational and to preserve structural integrity. Following asset acquisition, maintenance does not extend the life of a structure beyond its expected useful life nor does it increase future service potential. Maintenance costs are expensed and non-capitalized.

## **C. LEASEHOLD IMPROVEMENTS**

Defined, leasehold improvements constitute construction of, or improvements to, existing structures by a lessee who has been issued right of use; leasehold improvements must be carried out over the term of the lease. Mobile, unattached equipment and furnishings will be exempt from designation as a leasehold improvement.

Should leasehold improvement qualify for capitalization, depreciation scheduling will occur over the shorter of: (1) the remaining lease term or (2) the useful life of the improvement.

## **D. INFRASTRUCTURE**

Infrastructure captures a class of sustainable, generally *immobile, durable* assets which retain significant economic value (over time) relative to comparative asset classes. Improvements which materially extend the durability or useful life of infrastructure assets should be capitalized. Improvement determinations should be evaluated case by case.

## **E. EQUIPMENT**

Tangible assets which retain an operational life value of one (1) year (subsequent to acquisition) shall be classified as equipment.

Examples: Computing, furnishings, machinery, appliances, telecommunication systems, automobiles, etc.

## **F. LEASE PURCHASE**

Assets should be capitalized if a lease agreement is adherent to any of the following:

- a. Grants a transfer of ownership by the time *of* or *at* lease maturity.
- b. The lease term is equal to or greater than 75% of the estimated economical life.
- c. At origination, the minimum lease payment (at present value and excluding executorial costs) must be, at minimum, 90% of fair market value.

## **G. PROGRESSIVE CONSTRUCTION**

Construction marks the status of structures undergoing progressive, joint or independent infrastructure, remodeling, renovation, and/or installation. For financial reporting processes, all projects and their related expenditures must be evaluated to determine when completion will commence. Documentation of all outstanding labor must be drawn on all projects which have surpassed 90% of budgeted expenditures and which have not breached the completion phase.

- a. Construction-in-progress projects should be capitalized to their appropriate capital asset classes upon one of the following:
  1. Final city acceptance
  2. Placement into service

## F. EASEMENTS

Easements grant legal rights to cross or otherwise use land for a specified purpose. An easement grants a *right of access* and does not accord possession to the user. Easements will not be capitalized.

- a. **Right of Way:** Right-of-way access is designated by means of a title or fee; title holders retain absolute, perpetual rights. Therefore, as an absolute power, a right of way may be capitalized.
- b. **Conservation/Land Trust:** A conservation easement or land trust transfers legal usage rights by way of contract. Land trusts are entered into by contractual parties for purposes of conservation; trusts restrict development, industrial use, or other mutually agreed upon activities.

The following easement types fail to meet capitalization thresholds and are exempt from capital asset status:

Access	Maintenance	Temporary Construction
Drainage	Pond Easement	Visibility
Flowage	Signal	
Lift Station	Slope	

## G. PATENTS, COPYRIGHTS, AND TRADEMARKS

### TRADEMARKS

A trademark is any symbol, word, or phrase which is legally registered or established for use by a representative company or product.

### COPYRIGHTS

Copyrights are exclusive legal rights given to an originator or an assignee to print, publish, perform, film or record literary, artistic, or musical material and to authorize others to do the same.

### PATENTS

A patent grants a time constrained, legal use of an invention. Patents, copyrights, and trademarks will be amortized.

## H. COMPUTER SOFTWARE (INTERNAL USE)

Software is programming code used to operate computer systems. Software is mobile property which requires special considerations due to its nature and difficulty in accounting for associated costs.

Purchased software and/or costs incurred to implement software will be included in the acquisition cost.

Software will not be capitalized if it is leased or sold. Purchases of software packages and associated licenses are eligible for capitalization. Payments to renew annual license agreements are not to be capitalized. Software costs associated with training, data conversion, maintenance, administration, overhead, and those incurred prior to acquisition or following full deployment/installation shall not be capitalized.

## IV. COSTS

Fixed assets shall be recorded at actual cost. If unknown, costs are to be estimated or taken at historical value.

### ACTUAL COSTS

Actual cost will encompass purchase and construction costs but also any transportation costs associated with moving an asset to its intended usage location. Transportation costs include: freight, site

preparation, expenditures, interest, professional and legal fees, legal claims directly attributable to asset acquisition, etc.

### **ESTIMATED HISTORICAL COSTS**

Estimated historical costs will be based on empirical evidence including affidavits, personnel interviews, and price level adjustments for each asset as indexed by the Marshall & Swift® Valuation Service cost manual.

### **DONATED COSTS**

Donated costs will be based on fair-market value at the time of acquisition. A determination of fair market value will be included with property records as indicated by the most recent Notice of Value statement.

## **V. DEPRECIATION & ESTIMATED USEFUL LONGEVITY**

Depreciation is a reduction in the value of an asset with the passage of time. The value of capital assets must be expensed over the life of the asset as an indirect cost.

Annual depreciation will be calculated using the straight line method.

- a. Beginning with the month an asset is acquired, and within the year of acquisition, depreciation will be recorded based on the number of months an asset is in service.
  1. Ex. An asset purchased on the 15<sup>th</sup> day of the fifth month shall have 8 full months depreciation (eight twelfths) recorded for that year.

The estimated useful life of an asset should be obtained from professional industry/organizations or comparable external governments. The present condition of an asset and the length of time it is expected to meet service demands should also be considered when establishing the useful life of a fixed asset. Final useful life determinations shall be made by the Department of Finance in conjunction with the asset-using department.

Condensed and estimated, categorical useful- life schedule (in years):

Land	40
Buildings	40
Utility Systems	33
Infrastructure	30
Machinery & Equipment	5-10
Computer (hardware & software)	3-7

## **VI. CONTROLLABLE ASSETS**

Controllable assets retain a threshold value acceptable for inventory recording, but fail to qualify as a capital asset. Such assets include individual items with a replacement value of at least \$500. Controllable assets should be listed by assigned department or location and shall be tagged and tracked in the same manner as capital assets.

## **VII. ASSET DISPOSAL**

Disposal or transfer of assets will occur through the appropriate bodies following all applicable statutes and regulations. Disposal or transference will take effect only after proper notification has been completed and approval has been obtained. Any such dispositions will be logged and recorded. If money is received for the asset, then the difference between the money received and the “book value” (purchase price less depreciation) of the asset will be recorded as a loss if monies received are less than the book value; gains will be recorded if monies are greater than book value.

## **A. SALE/RETIREMENT**

Assets will be placed for sale after formal committee or governing body notification and approval. Upon receipt of proceeds from sale or transfer of ownership assets will be removed from the official record.

## **B. RENDERED OBSOLETE**

Obsolete assets will be removed from the inventory record upon formal committee or governing body notification and determination.

## **C. TRANSFERRED, PROPRIETARY, TRUST FUND**

Assets in operating condition may be removed from designated departmental responsibility and placed in storage for future use by other departments. These assets will be removed from the inventory record.

## **D. MISSING ASSETS**

Assets not inventoried for two consecutive annual inventories will be classified as missing and will be removed from the inventory record upon formal notification to the Chief Financial Officer. These assets will no longer be searched for in regular annual inventories. However, if a missing asset is located at a future date, it will be reactivated and reentered into inventory cataloging. A list of missing assets by department will be presented to the City of Rio Communities Department of Finance and Office of the City Manager.

In the event of theft, loss of property or misappropriation immediate revelation must be made to the Chief Financial Officer or City Manager (via telephone, fax, or email); this is to be followed by a detailed letter of full disclosure which shall be filed with the appropriate law enforcement agency detailing all suspected losses and accompanying particulars.

## **VIII. SURPLUS EQUIPMENT**

Departments may determine surplus equipment. Surplus inventory is to be reported to the Chief Finance Officer. Surplus lists shall then be presented to the Asset Administration Committee or Governing Body. City employees are prohibited from personally taking possession of any items declared to be surplus (with the exception of those purchased through a sealed procurement process or public auction).

Inventory for which no bids are received or their salvage value is determined to be less than the cost of handling/advertising, and which have potential to harbor negative cash flow, may be destroyed or sold as scrap per recommendations by the Asset Administration Committee or Governing Body, should one be imposed. A list of all such inventories must be provided to the Chief Financial Officer before items are removed from the catalogue of inventory.

## **IX. ASSET ADMINISTRATION COMMITTEE**

An Asset Administration Committee, if imposed, shall consist of at least three officials and meet before the disposal of any asset to determine official disposal findings and methods. The findings of the Committee should include, at minimum, the reason for and method of disposal, current asset value, and the condition of the asset. Official findings shall be provided to the Chief Finance Officer.

## X. CAPITALIZATION AND DEPRECIATION

The following items will be capitalized accordingly:

ASSET CLASS	MINIMUM VALUE	DEPRECIABLE?
Building Improvements	\$5,000	Yes
Buildings/Structures	\$5,000	Yes
Depreciable Land Improvements	\$5,000	Yes
Easements/Right-of-Ways	\$5,000	Yes
Equipment	\$5,000	Yes
Infrastructure	\$5,000	Yes
Land	\$1.00	No
Lease Purchase Assets	\$5,000	Yes
Leasehold Improvements	\$5,000	Yes
Patents, Copyrights and Trademarks	\$5,000	Yes
Progressive Construction	\$1.00	No
Software	\$5,000	Yes

