



City of Montclair

Fixed Asset Capitalization and Inventory Control Policy

Objectives

The objectives of the City of Montclair's fixed asset policy are as follows:

- Accounting and Financial Reporting Objective - To accurately account for, and report, fixed assets in financial reports issued to external reporting agencies, granting agencies and the public.
- Safeguarding of Assets Objective - To establish systems and procedures to protect assets from loss or theft.
- The Fixed Asset Capitalization and Inventory Control Policy provides specific guidance in determining which fixed assets are subject to capitalization (separate accounting and reporting), and which are subject to the inventory control (safeguarding) policies.

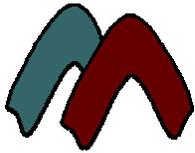
The Finance Department is responsible for, and has established, systems and procedures through which both objectives are met. These systems and procedures are used to identify, process, control, track, and report the City's fixed assets.

Capitalization Policy

Fixed assets will be divided into two categories. The first will include items such as equipment, vehicles, office furniture, items with an inherently lower value than the items in category two. The items in category one will have a capitalization limit of \$5,000. The items in category two, which includes items such as land/easements, land improvements, buildings, building improvements, and infrastructure will have a capitalization limit of \$50,000.

This capitalization limit refers to the original cost of the asset. Infrastructure and improvement capitalized costs must substantially increase the life of the asset or significantly increase the value (thus repairs and maintenance costs are not excluded). All costs associated with the purchase or construction are considered, including ancillary costs, such as freight, site preparation, professional fees, installation, and legal claims directly attributable to asset acquisition.

The capitalization threshold is applied to individual units of fixed assets. The threshold will generally not be applied to components of an asset, unless large equipment is



MONTCLAIR

installed as part of a larger capital project. Repairs to existing fixed assets will generally not be subject to capitalization, unless they extend the useful life of the asset, and exceed the threshold amount. Generally, improvements to existing fixed assets will be subject to capitalization if they exceed the threshold amount.

Capital projects will be capitalized as "construction in progress" until completed. Costs are reclassified from construction in progress to infrastructure, or another relevant description, the date the completion of the project is accepted by the City Council. Direct costs, ancillary costs, and construction period interest are included in the capitalized amount.

Inventory Control Policy

Department heads are responsible for safeguarding fixed assets under their control. However, the Finance Department is responsible for establishing and maintaining systems and procedures that enable the Department Heads to properly safeguard assets.

In general, inventory control is applied only to movable fixed assets. The City has implemented a policy to maintain inventory records of computer equipment with a cost between \$1,000 and \$5,000, and other movable assets with a cost between \$2,500 and \$5,000. This is in addition to movable assets with a cost greater than \$5,000, which is discussed under the Capitalization Policy section of this document.

Disposal of Fixed Assets

Any City asset, which is no longer required for use by the City, and thus surplus, with a residual value over \$5,000, shall be sold or disposed of as directed, by the City Council. Any surplus asset with a residual value under \$5,000 shall be sold or disposed of by the direction of the City Manager.

Depreciation/Amortization of Fixed Assets

Depreciation is the systematic and rational allocation of the estimated or actual historical cost, or fair value at date of donation (of donated assets) over the asset's estimated useful service life. Amortization is the allocation of the cost of intangible assets over their estimated useful life.

Estimated useful lives are based upon Governmental Accounting Standards Board recommendations unless a different life is determined by the City Manager, or his designee, based upon the facts and circumstances applicable to that asset or class of assets.



Infrastructure Assets

The purchase or construction of infrastructure assets is approved by the City Council. In addition, the donation of infrastructure assets is approved by Council. It is the responsibility of the City departments involved in the purchase, construction or acceptance of donated infrastructure assets to identify and inventory them on a regular basis. It is the responsibility of the Finance Department to account for the infrastructure assets by class and fund. It is the responsibility of the Department Heads to ensure that proper budgeting and purchasing guidelines are followed, and that infrastructure assets are adequately controlled and used for appropriate City purposes.

All costs associated with the purchase or construction of an infrastructure asset will be included in the capitalized cost, including: design, permits, management, overhead, engineers' salary, capitalize interest. Fair value at the date of donation will be capitalized for donated infrastructure assets.

The value of infrastructure assets, which are no longer in existence or service, will be estimated annually by the project engineers, and treated as infrastructure disposals.

Intangible Assets

Land easements will be recorded with land and not depreciated. Right of ways will be recorded separately and depreciated over useful life. Only easements and right of ways with a cost greater than \$5,000 will be capitalized.

Transfer of Assets Between Funds

Transfers of assets between proprietary accounting funds will be recorded as a loss on disposal, in the amount of the net book value, in the transferring fund, and other revenue, in the amount of the net book value, in the recipient fund.

Transfers of assets between governmental funds or departments will be done on the fixed assets schedule only. No entry will be made to the general ledger as these are only reported at the government-wide level in the City's financial statements.

Transfers of assets between proprietary funds and governmental funds will be recorded as contributions to/from City/proprietary funds.

Transfers of assets purchased with grant funds will be recorded as a sale between funds, including a transfer of cash.

Leased Assets

The City policy will be to enter into only operating leases on leased equipment.