



**SACRAMENTO
HOUSING AND REDEVELOPMENT
AGENCY**



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May 16, 1988

CITY MANAGER'S OFFICE
RECEIVED
MAY 16 1988

Redevelopment Agency and
Housing Authority of the
City of Sacramento
Sacramento, California

Honorable Members in Session:

SUBJECT: Fixed Asset Capitalization Policy

SUMMARY

The staff of the Agency has prepared for your review and approval the attached policy guidelines for the definition, valuation and recordation of Fixed Assets acquired by the Agency. These guidelines are in compliance with the California State Controller's Manual on accounting for Counties and Special Districts and Generally Accepted Accounting Principles applicable to governments.

BACKGROUND

The Agency adopted a uniform set of guidelines for the acquisition, deletion and transfer of fixed assets in February of 1983. Prior to that fixed assets were defined, recorded and valued in accordance with each program's funding agency guidelines. This practice led to inconsistent application of capitalizing Agency assets. The 1983 policy ensured consistent treatment as to the valuing and recording of fixed assets. The policy stands as adopted in 1983, with the addition of assets not to be capitalized but tagged and identified to provide a tracking mechanism.

FINANCIAL DATA

The policy establishes the following minimum dollar amount in order for the item to be capitalized:

- Land - all no dollar minimum
- Structures & Improvements - \$5,000
- Equipment - \$300

Other grant defined non-expendable items will not be capitalized but shall be inventoried for accountability.

APPROVED
MAY 24 1988
SACRAMENTO REDEVELOPMENT AGENCY
CITY OF SACRAMENTO

APPROVED
MAY 24 1988
MAILING ADDRESS: P.O. Box 1834, Sacramento, CA 95812-1834
OFFICE: 1500 Broadway Street, Sacramento, CA 95814 (916) 444-9210
CITY OF SACRAMENTO

5-24-88
All District(s)

SACRAMENTO HOUSING AND REDEVELOPMENT AGENCY

Redevelopment Agency and
Housing Authority of the
City of Sacramento
May 16, 1988
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VOTE AND RECOMMENDATION OF COMMISSION


At its regular meeting of May 16, 1988 the Sacramento Housing and Redevelopment Commission adopted a motion recommending approval of the attached Fixed Asset Capitalization Policy. The votes were as follows:

- AYES: Amundson, Sheldon, Simon, Simpson, Wooley,
Yew, Moose
- NOES: None
- NOT PRESENT TO VOTE: Wiggins
- ABSENT:

RECOMMENDATION

The Agency staff recommends approval of the attached Fixed Asset Capitalization Policy.

Respectfully submitted,


WILLIAM H. EDGAR
Executive Director

TRANSMITTAL TO COUNCIL


for: WALTER J. SLIPE
City Manager

RESOLUTION NO. 88-043

ADOPTED BY THE REDEVELOPMENT AGENCY OF THE CITY OF SACRAMENTO
ON DATE OF

May 24, 1988

APPROVING FIXED ASSET CAPITALIZATION POLICY

BE IT RESOLVED BY THE REDEVELOPMENT AGENCY OF THE CITY OF SACRAMENTO:

Section 1. The amended Fixed Asset Capitalization Policy attached to this resolution is hereby approved and shall take effect immediately.

CHAIR

ATTEST:

SECRETARY



RESOLUTION NO. 88-022

ADOPTED BY THE HOUSING AUTHORITY OF THE CITY OF SACRAMENTO
ON DATE OF

May 24, 1988

APPROVING FIXED ASSET CAPITALIZATION POLICY

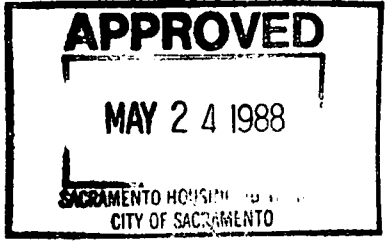
BE IT RESOLVED BY THE HOUSING AUTHORITY OF THE CITY OF SACRAMENTO:

Section 1. The amended Fixed Asset Capitalization Policy attached to this resolution is hereby approved and shall take effect immediately.

CHAIR

ATTEST:

SECRETARY



ACCOUNTING FOR FIXED ASSETS
PART I

*****Definitions*****

PURPOSE OF POLICY:

- 1) To safeguard a sizeable investment.
- 2) To establish accountability for the custody of equipment.
- 3) To help in the formulation of acquisition and retirement policies through accumulation of data regarding prices, sources of supply and useful life.
- 4) To provide data for financial reporting.

DEFINITION OF FIXED ASSETS:

Fixed assets are tangible assets of significant value having a utility which extends beyond the current year and owned by the Agency.

FIXED ASSETS INCLUDED:

Land - includes the investment, held in fee title, in real estate other than structures and improvements. All land shall be capitalized without regard for significance of cost.

Structures and improvements - are physical property of a permanent nature, examples of which are building, structural attachments, and parking areas. Sidewalks trees and drives in connection with other structures will also be capitalized. Structures and improvements of \$5,000 and over shall be capitalized.

Equipment - equipment includes moveable personal property of a relatively permanent nature and of significant value, such as furniture, machines, tools and vehicles. "Relatively permanent" is defined as useful life of three years and longer. "Significant Value" is defined as \$300 and over.

TREATMENT OF COSTS SUBSEQUENT TO ACQUISITION:

Expenditures on fixed assets which are incurred after their original acquisition are defined and recorded as follows:

Maintenance - is defined as expenditures which neither materially add to the value of property nor appreciably prolong its life, but merely keep it in an ordinary efficient operating condition. Maintenance costs shall not be capitalized.

Betterments - consists of the replacement of a unit of an existing asset by an improved or superior unit, usually resulting in a more productive, efficient or longer lived property. When a structure undergoes major or extraordinary renovation through a construction or reconstruction contract, the entire cost of the project is a significant betterment. Significant betterments are considered as fixed assets and are added to the value of the property improved.

The decision as to whether a betterment has been effected shall be made by an evaluation of engineering, physical, or other relevant factors apart from cost. Replacement of a part of an existing asset by another of like quality is not a betterment, even though the useful life of the asset is maintained or extended.

If a betterment exists, the amount of betterment is measured by the difference between the cost of the new assets and that of the asset replaced. In cases where the original cost of a replaced asset is not readily available, the best estimate of such cost may be used.

With respect to structures and improvements, a significant betterment is one which results in an improvement of at least \$5,000 or 20% of the recorded value of the asset, whichever is lower. Betterments to equipment of \$300 and more are regarded as significant.

Additions - are new and separate units, or extensions of existing units, and are considered to be fixed assets.

Alterations - are changes in the physical structure or arrangement of fixed assets, the cost of which does not qualify as an increase in fixed assets under the definitions of betterments and additions. Alterations shall not be capitalized.

Unit of Accountability - It is essential to the application of capitalization policy that the unit of accountability be established. A fixed asset may be a small, integrated item such as a desk or adding machine, or it may be a complex aggregation of components, such as a building. The classification of an expenditure between capital outlay and operating expense will be determined by its relationship to some existing unit.

Classification Independent of Financing Source - The decision whether or not to capitalize an expenditure must be based on the definitions and rules given herein. The source of financing has no bearing upon classification.

ACCOUNTING FOR FIXED ASSETS
Part II
*****Valuation*****

REASONS FOR ASSIGNING VALUE:

A dollar-value needs to be assigned to each fixed asset item for the following reasons:

- 1) Values serve as a control device; they are an important aspect of a particular item or group of items.
- 2) Values make it possible to present to the public the Agency's investment in fixed assets.
- 3) Values provide a check on the adequacy of the agency's insurance coverage.
- 4) Values on individual items provide information for cost accounting and depreciation for proprietary fixed assets.

VALUATION BASIS:

Generally the Agency's fixed assets need to be recorded at historical cost. The objective is to account for the investment not to present market or replacement values.

Historical costs for fixed assets probably will be impossible to obtain in certain situations. At least two situations would justify the use of a different valuation:

- 1) When costs cannot be found, or when it would be extremely time-consuming to search old records for them.
- 2) When historical cost is misleading, as would be the case in some surplus property acquisitions.

In these cases an estimated value as of the date of recordation should be placed on each item. As the fixed asset system ages and the older assets are retired, recorded value will tend to approach historical cost.

LAND COST:

The cost of land includes all expenditures in connection with its acquisition, such as:

- | | |
|------------------------------|-----------------------------------|
| Purchase Price | Condemnation Cost |
| Appraisal & Negotiation Fees | Clearing Land for Use |
| Title Search Fees | Demolishing or removing buildings |
| Surveying Fees | Filing Cost |
| Cost of Consents | |

The cost needs to be reduced for: sale of salvage from materials charged against the construction; discounts allowances and rebates secured; amounts recovered through surrender of liability and casualty insurance.

Rentals of property during the construction period need to be credited to revenue unless otherwise restricted. Interest paid during the construction period on money borrowed for that purpose needs to be capitalized.

In establishing the fixed asset system, the assessor and insurance carrier may be consulted concerning information about structures and improvements owned.

EQUIPMENT:

The cost of equipment includes:

- Purchase price on construction cost freight or other carriage charges sales, use or transportation taxes installation costs.

In establishing the fixed asset system information on equipment may be obtained from inventories on file, insurance carries and from special physical inventories.

CONSTRUCTION BY FORCE ACCOUNT:

Fixed assets constructed by the Agency are recorded in the same manner as those acquired by purchase or construction contract.

DONATED ASSETS:

Fixed assets donated to the Agency need to be entered in the accounts at their fair market value as of the date of the gift.

Surplus property purchases at nominal prices far below actual value are in part donations and need to be so valued.

ASSETS ACQUIRED UNDER LEASE - PURCHASE AGREEMENTS:

Under an ordinary lease contract one party (the lessor) conveys property to another (the lessee) for a specified period for a specified rent. The lessor acquires no interest in the property beyond the right of usage during the term of the lease. Lessees in this situation use the "Operating Method" of accounting under which periodic payments are charged as expenditures.

A lease purchase agreement, frequently used by governmental agencies to acquire assets, conveys not only the right of usage but also property and other rights in the form of:

- 1) Outright ownership upon completion of the schedule of periodic payments, and/or
- 2) An option to acquire title during the term of the lease by a terminal payment which at the time made is usually less than the fair market value of the property.

Noncancellable lease purchase agreements are accounted for under the "Financing Method". The governmental agency lessee capitalizes the asset at the total of the payments to be made, less the amount of interest included. If the lessor has not segregated interest, it needs to be imputed.

A liability in the amount of the total principal payments is recorded under the "financing method". Periodic payments are then accounted for as long-term debt principal and as interest expense; as principal is paid long-term debt is correspondingly reduced.

If the lease-purchase agreement is cancellable the "operating method" applies. Periodic payments are charged to an appropriate expenditure account. If title is eventually acquired, the asset needs to be recorded at its fair market value.

ACCOUNTING FOR FIXED ASSETS
PART III

****Accounts and Procedures****

ACCOUNTING FOR FIXED ASSETS:

A clear distinction needs to be made between fund fixed assets and general fixed assets. Fixed assets related to specific proprietary funds or trust funds need to be accounted for through those funds. All other fixed assets need to be accounted for through the general fixed assets account group.

DEPRECIATION OF FIXED ASSETS:

Depreciation of general fixed assets need not be recorded in the accounts of governmental funds. Depreciation of general fixed assets may be recorded in cost accounting systems or calculated for cost finding analysis; and; accumulated depreciation may be recorded in the general fixed asset account group.

Depreciation of fixed assets accounted for in a proprietary fund need to be recorded in the accounts of that fund. Depreciation is also recognized in those trust funds where expenses, net income, and/or capital maintenance are measured.

Depreciation will be based on the following life ranges:

Equipment	1-10 years
Structure & Improvements	1-30 years

ACCOUNTS USED:

The asset accounts to be used are as follows:

- Land
- Structures and Improvements
- Equipment
- Construction in Progress

The above represent the minimum broad categories. Subcategories such as equipment - vehicles etc., may be established if required for grant purposes.

EQUITY IN GENERAL FIXED ASSETS:

The equity of the Agency's general fixed assets is shown as an investment in fixed assets.

These accounts are posted simultaneously with, but independently of, the related transactions recorded in the operating funds. On an all funds balance sheet the several investment accounts could be combined into one amount if a condensed presentation were desired.

CONSTRUCTION IN PROGRESS:

At the close of the year the recorded expenditures for fixed assets not yet completed need to be recognized in the asset account "Construction in Progress."

INVENTORY OF FIXED ASSETS:

At least once a year the Finance Director will provide the Agency's Department/Division Heads with a report of the fixed assets charged to their responsibility. It will be the Agency's Department/Division Heads' responsibility to certify as to the accuracy of the fixed assets charged to them as required by their funding sources.

At least once every 3 years a complete physical inventory of the Agency's fixed assets will be performed. The Chief of Central Services will see that the inventory is performed. The inventory performed will be compared to accountability records, with all difference being investigated and corrections made to bring the accountability records in agreement with items on hand.

RELIEF OF ACCOUNTABILITY:

Fixed assets indicated on accountability records but not on hand shall be written-off by having the responsible Department/Division head requesting relief of accountability. Requests for relief of accountability over \$20,000 shall be processed and approved through the governing bodies. Requests for relief of accountability under \$20,000 shall be processed and approved by the Executive Director. At year end a report shall be prepared by the Chief of Central Services to the governing bodies indicating the total amount of fixed assets lost during the year. Said report will indicate each items description, dollar-value and responsible Agency Department/Division.

IDENTIFICATION OF FIXED ASSETS - EQUIPMENT:

It will be the responsibility of the Chief of Central Services to establish procedures to insure that all items of equipment as defined by capitalization policy are properly identified by a "Fixed Asset Tag Number". It will also be the Chief of Central Services responsibility to establish procedures to account for the movement of equipment within the Agency. The Chief of Central Services will notify the Finance Division of the additions, deletions, and transfers of equipment within the Agency. Such notification shall be within a reasonable time to afford proper accountability.