

# City of Palos Verdes Estates

## CAPITAL ASSET POLICY

### Purpose

The purpose of this document is to set forth the policies governing the capitalization of assets. In addition, this document contains how to collect and maintain accurate capital asset information required for preparation of financial statements in accordance with GAAP (generally accepted accounting principles).

### Policy Statement

It is the policy of the City of Palos Verdes Estates that fixed assets be used appropriately and be properly accounted for. The value of the asset must meet the City’s capitalization threshold of \$5,000 to be recorded as a capital asset. It is the responsibility of the Finance Department to ensure fixed assets will be inventoried periodically and accounted for by asset type. It is the responsibility of the Department Heads to ensure that proper budgeting and purchasing guidelines are followed and that fixed assets are adequately secured.

### Procedures and Guidelines

The City has established minimum capitalization thresholds to determine whether or not an asset should be capitalized. All asset types, their useful life, and their minimum thresholds for capitalization are listed in the table below.

Asset Type	Useful Life	Threshold
<b>General Capital Assets:</b>		
Building and improvements:	7 to 35 years	\$5,000
Machinery, vehicles, and equipment:	2 to 18 years	\$5,000
Furniture and fixtures:	3 to 13 years	\$5,000
<b>Infrastructure:</b>		
	15 to 100 years	
Sewer Pipes		\$20,000
Pavement		\$50,000
Sidewalks		\$10,000
Storm drain pipes		\$50,000
Storm drain outlet structures		\$10,000

The City maintains two major asset types:

### General Capital Assets

Building and Improvements and all other general (non-infrastructure) capital assets such as Machinery, vehicles, equipment, furniture and fixtures.

## **Infrastructure Assets**

As defined by GASB Statement No. 34, these are “long-lived capital assets that normally are stationary in nature and normally can be preserved for a significantly greater number of years than most capital assets.” Note: Buildings are not considered infrastructure assets.

- A. When selecting the appropriate capitalization threshold to determine whether or not an asset should be qualified, the asset type and its dollar cost must be determined.
  - a. The Asset type may be chosen from the examples in the table above.
  - b. The cost of the asset is its original purchase price. In the absence of this information, the asset’s estimated original purchase price may be used.
    - i. Improvements to capital assets will be presumed to extend the useful life of the related asset and, therefore, may be subject to capitalization. Improvements are capitalized only if the cost of the improvement causes the original asset to meet or exceed the capitalization threshold.
    - ii. Repairs, different from improvements, are rarely capitalized. They usually simply keep the asset operational and do not extend the useful life of the asset.
- B. Impairment is a significant and unexpected decrease in the service utility of a capital asset that will continue to be used in operations. Indicators of impairment are physical damage; changes in laws, regulations or other environmental factors; technological developments; change in the manner or duration of use; or stoppage of construction or development. Impairment is not temporary.
  - a. The method used to record the impairment should follow GAAP and be in line with the cause of impairment. For example, the restoration cost approach should be used when impairment is due to physical damage.
- C. Periodically, a physical inventory should be performed to ensure the existence and proper valuation of all recorded capital assets.

### **City of Palos Verdes Estates Glossary of Capital Asset Policy Terms**

**Capital Asset:** Generally, assets with an original cost of \$5,000 or more and a useful life of at least three years. Capital assets are classified as Land, Construction in Progress (CIP), Structures and Improvements, Equipment, and Infrastructure. Capital assets include all infrastructure assets acquired prior to the implementation of GASB 34 are reported in the government-wide financial statements. Capital assets are valued at historical costs or estimated historical cost if purchased or constructed. Donated capital assets are valued at their acquisition value on the date donated.

**General Capital Assets:** Building and Improvements and all other general (non-infrastructure) capital assets such as Machinery, vehicles, equipment, furniture and fixtures.

**Infrastructure Assets:** As defined by GASB Statement No. 34, these are “long-lived capital assets that normally are stationary in nature and normally can be preserved for a significantly greater number of years than most capital assets.” Note: Buildings are not considered infrastructure assets.

**Capitalization Threshold:** The minimum cost which an asset must exceed in order to be capitalized

**Depreciation:** Method of allocating the cost of a tangible asset over its useful life and is used to account for declines in value over time. Depreciation has been provided over the estimated useful lives using the straight-line method over the estimated useful lives.

**Useful Life:** The estimated lifespan of a depreciated fixed asset, during which it can benefit company operation.