

Town of Meredith - Administrative Regulation

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Regulation No: 23

Revision Date:

Supersedes:

Approved By: Phillip L. Warren, Jr.

SUBJECT: FIXED ASSETS POLICY

I. PURPOSE

This Administrative Regulations sets forth the policy and procedure pertaining to Fixed Assets and in accordance with GASB 34.

II. POLICY

A. Controlling Fixed Assets:

All fixed assets as outlined in the Fixed Asset policy should be appropriately marked and numbered by a permanent method of identification. Authorized personnel will be required to conduct a periodic inventory as specified by the Administrative Services Director.

B. Fixed Assets Inventory:

Failure to install and maintain a fixed asset management system may result in a qualification in the independent auditor's report on the Town. This occurs when the auditor is unable to establish that the Town's accounting records properly summarize fixed asset expenditure transactions, that physical safeguards over assets are absent or fall short of controlling such assets or that records are absent or fall short of controlling such assets or that records are absent to substantiate that assets used by the Town are actually owned.

C. Procedure:

The maintenance of the Town's fixed asset system will be achieved with the use of one form, the Fixed "Asset Data Sheet". This form covers additions, disposals and transfers between departments and funds. (See Exhibit I) Copies of invoices, appraisals or bill of sale(s) must be attached to the Asset Data Sheet by the Department Head when turned in to the Administrative Services Department as back up documentation. Each Asset Data Sheet must be signed off by the Department Head as the best estimate value, with a description of the item valued, the item's serial number, if available, where and for what department the item will be used, the estimated life cycle of the asset and the estimate value at the end of its life cycle, if applicable.

PURCHASES: When a purchase order is issued for an item that has a specified cost in an amount of \$10,000 or more, the Department Head will attach a Data Sheet for each qualifying item for said purchase order. Upon receipt of the goods the originating

department will complete the Data Sheet(s), attach copies of backup documentation, and forward it to the Administrative Services Department. The Administrative Services Department will verify the data, adjust the fixed assets schedule and issue an Equipment Tag to attached to the asset, if applicable.

DONATIONS: The Board of Selectmen may accept any item(s) equaling or exceeding the \$10,000 as a donation to the Town. Once accepted by the Selectmen, the department receiving the donated item(s), e.g., land, buildings, works of art, vehicles, etc., having an estimated fair market value exceeding the capitalization threshold of \$10,000, will complete the Data Sheet(s) upon the receipt of these items, attach back up documentation, and forward it to the Administrative Services Department. Any problems occurring with establishing a fair market value should be referred to the Administrative Services Director. The Administrative Services Department will verify the data, adjust the fixed asset schedule and issue an Equipment Tag to attached to the asset, if applicable.

VEHICLES AND MOTORIZED EQUIPMENT: The responsibility for maintenance of all new and donated vehicles and equipment is the purchasing department. The item will be received by the department involved in order for the department to complete required inspections and procedures before placing equipment in operation. Any additions/modifications that are necessary to place the vehicle or equipment in service that add to its asset cost/value such as body installation, mounting of a crane, etc., will be done at the direction of each department. The receiving department will fill out an Asset Data Sheet for each qualifying item attaching it to a copy of the purchase order(s), along with back up documentation, and forward to the Administrative Services Department. The Administrative Services Department will verify the data and adjust the fixed asset schedule.

OTHER EQUIPMENT: Upon receipt of the equipment (not before), the receiving department will complete the Data Sheet(s) identifying qualifying additions/modifications, attach a copy of back up documentation, and forward it to the Administrative Services Department. The Administrative Services Department will verify the data, adjust the fixed asset schedule and issue an Equipment Tag to attached to the asset, if applicable. Additions/modifications include any equipment that may be attached to or placed in the Asset.

INVENTORY NUMBER: In all cases, the Administrative Services Department will assign an inventory number to assets.

1. Leases

- a) Fixed assets do not always have to be constructed or purchased outright in order to be of benefit to a local government. Fixed assets may be temporarily utilized through a rental agreement, known as an *operating lease*. In other situations, the utilization of leased fixed assets may be such that the unit has in effect purchased the asset by virtue of the length of its use of the asset, or the amount of payments it has made to use the asset. This type of lease is known as *capital lease*.

- b) A lease is an *operating lease* if it does not transfer the benefits, ownership and risk of ownership to the Town. Operating lease payments are recognized as expenses/expenditures to the Town when they become payable. The fixed assets leased through operating leases are not capitalized; however, they may be inventoried and/or tagged for control purposes. According to Governmental Accounting Standards Statement 13, lease payments will generally be recognized as expenses/expenditures as specified in the lease contract unless the lease terms are designed so that the lessor is subsidizing the lessee and part of the lease payments are actually interest charges. A sample of this type of lease could be a parking lease, where the land is owned by another entity and the Town is essentially renting the parking spaces.
- c) A lease is a *capital lease* if at the inception of the lease it meets any one of the following criteria:
 - 1. The lease transfers ownership of the property to the Town by the end of the lease term.
 - 2. The lease contains a bargain purchase option (an option extending to the lease right to purchase the leased property at a price so favorable that the exercise of option appears, at the inception of the lease, to be reasonably assured).
- d) For leases involving land, either condition (a) or (b) must be met. If title to the land will not be transferred to the lessee at some point, the lease is not a capital lease.
- e) Once a lease has been determined to be a capital lease, the Administrative Services Department should record the asset acquired.

2. Transfers

- a) From time to time, the responsibility for a fixed asset will be transferred from one department to another. The transferring department must initiate the preparation of a Data Sheet(s) in this type of transaction. The Transferring department must identify the asset; indicate the receiving department and forward a Data Sheet with back up documentation if any, to the Administrative Services Department with the estimated value upon the date of transfer. The Administrative Services Department will verify the receipt of the asset with the receiving department and make the required changes

in the fixed asset schedule. Both departments may verify the asset has been changed on their department's inventory.

- b) When a vehicle or motorized piece of equipment is to be transferred, the transferring department will deliver the vehicle to the receiving department. The receiving department will verify the transaction, adjust its records, and prepare a Data Sheet(s) describing the details of the transfer and attach back up documentation. The completed Data Sheet will be forwarded to the Administrative Services Department.

3. Removals: Fixed Assets will be removed from a department's fixed asset inventory as follows:

- a) **SURPLUS ITEMS:** Items that have been replaced, are not worth repairing, or are obsolete and identified as having no further use or value are surplus. These items will be disposed of under the direction of the Administrative Services Director. The responsibility for surplus items other than those following will remain with the department until they are sold or otherwise disposed of. Department heads will identify an item as surplus on a copy of the Data Sheet(s), along with current estimated value and submit it to the Administrative Services Director for action. The Administrative Services Director file the copy of the Data Sheet(s) once the item has been disposed of. The Administrative Services Department will make the necessary adjustments to the fixed asset schedule.
- b) **EXCESS ITEMS:** Some items may be considered for re-use and transferred to another department for further service. Other than those items listed below, this may be done directly by using the procedure in Section (3) above. Otherwise, the department will identify any excess item as re-usable on a copy of the Data Sheet(s) and submit it to the Administrative Services Department. Periodically, a list of re-usable excess items will be circulated to department heads for their consideration. The responsibility for these items will be the same as with surplus items until transferred or otherwise disposed. The Administrative Services Department will make the necessary adjustments to the fixed asset schedule.
- c) **LOST OR STOLEN ITEMS:** When theft of an item is suspected, the incident must be reported to the Police Department as soon as possible. A copy of the Police Report must be attached to the Data Sheet(s) and forwarded to the Administrative Services Department to make the necessary adjustments to the fixed asset schedule.

- d) **TRADE-INS:** The department head will be responsible for handling any trade-in arrangements that result from the purchase of new equipment or vehicles. The new asset will be added and the old asset will be removed according to governmental accounting procedures. A copy of back up documentation must be attached to the Data Sheet(s) and forwarded to the Administrative Services Department to make the necessary adjustments to the fixed asset schedule.
4. **Inventory:** The existence, location, and condition of all fixed assets should be verified by taking an annual inventory. Each department head has the responsibility to complete an annual year-end physical inventory of its assigned fixed assets. A Fixed Asset Schedule by department reporting the current status of the department's inventory will be distributed to appropriate department heads in the fourth quarter of the fiscal year.
- This Inventory should be coordinated with the Administrative Services Department and performed prior to fiscal year end. All discrepancies should be reported to the Administrative Services Director as soon as possible.
- All inventories will be subject to unannounced audits by the Administrative Services Department. Periodically, the Administrative Services Department will actively participate in each department's physical inventory on a random basis.
5. **Reports:** Year-end reports will be processed and maintained by the Administrative Services Department. The Administrative Services Department should be notified of any discrepancies found in these reports without delay.
6. **Items not Considered Fixed Assets:** In order to clarify the question of asset classification, the following list of specific examples is provided.
- a) **COMPUTER SOFTWARE:** Computer software, regardless of cost, is not regarded as a fixed asset because it is not a tangible item. Most of the purchase price of software consists of a one-time license fee to use the product only.
 - b) **MAINTENANCE AND REPAIR REPLACEMENTS:** The replacement costs of component part(s) of a fixed asset, not the entire asset itself, during maintenance and repair operation which also enhances the performance or life of the asset are not generally considered to be capital asset additions or modifications. For example, replacing an original disk drive with a higher capacity disk drive in a microcomputer or a more powerful engine in a leaf vacuum machine is considered maintenance and repair expense.

- c) **SUPPLIES:** Any supply, regardless of costs, that is not permanent and will be consumed within a year is not considered a fixed asset.
- d) **AGGREGATE PURCHASES:** A purchase of items in quantity with an extended cost equal to, or more than the fixed asset limit of \$10,000, are not considered fixed assets-example, 100 chairs at \$100 each purchased on a single purchase order for a total of \$10,000 would not be listed. Even though the total is at the policy limit, the chairs are not considered as fixed assets since the individual cost does not qualify.
7. **Recommended Life Cycle of Fixed Assets:** The following are recommended life cycles of named fixed assets stated in years. Where necessary other criteria are listed as additional criteria to determine the life of certain fixed assets. The Administrative Services Director will assign life cycles other than described below. All Life Cycles will be written on the Data Sheet and any adjustments will be noted with comments addressing the modification.

III. Other:

<i>Description</i>	<i>Useful Life</i>
Land	Unlimited
Buildings	30
Improvements	20
Sewer Collection System	25
Sewer Capital Project	25
Works of Art, Historical Artifacts, etc.	Unlimited

*Other criteria may be determined at a later date in order to accumulate historical information to provide accurate figures.

IV. Vehicles – License Tags and Titles Required:

Vehicles are those items classified as requiring a license to use the roads. Titling does not necessarily classify an item as a vehicle. Only licensed vehicles should appear in these categories.

<i>Description</i>	<i>Useful Life</i>	<i>Other Criteria*</i>
Trailers	10	
Refuse Collectors	7	
Auto (Sedans-Administrative-Other than Police)	10	Or Miles
Auto (Sedans-Police Cruisers)	5	Or Miles

Sports Vehicle – 2WD	5	Or Miles
Sports Vehicle - 4WD	7	Or Miles
Trucks – Pickups	7	Or Miles
Trucks – Utility 2WD	5	Or Miles
Trucks – Utility 4WD	7	Or Miles
Trucks – Dump	7	Or Miles
Trucks – Packer	7	Or Miles
Trucks – Recycle	7	Or Miles
Trucks – Fire Engines	15	Or Hours
Trucks – Special Equipment, includes cranes, sewer-jets, street sweepers, flushers, tractor-trailer	15	Or Hours
Vans	5	Or Miles
All other vehicles	7	Or Miles

V. Heavy Equipment

Mobile motorized equipment that may travel the public streets that is either rider operated, self-propelled, and not licensed as a motor vehicle; or is trailer mounted. Generally described as contractor's equipment.

<i>Description</i>	<i>Useful Life</i>	<i>Other Criteria*</i>
Backhoes/Front Loaders	8	Or Hours
Excavators	10	Or Hours
Loaders/Fork Lifts	8	Or Hours
Tractors/Bush Hogs/Tillers	8	Or Hours
Riding Mowers/Tractors w/ mowers-tillers	7	Or Hours
Rollers	8	Or Hours
Other Rider Operated, Self-Propelled Equipment	5	Or Hours
Other Equipment	Various	Or Hours

Operating & Maintenance Equipment, Computer Communications Equipment, Office Furniture & Equipment, and Protective Equipment: As assigned by the Administrative Services Director.

Phillip L. Warren, Jr.
Town Manager