
CITY OF LONG BEACH

CAPITAL ASSET POLICY

I. SCOPE

In order to provide all required services to the public, the City of Long Beach (the “City”) has made material investments in its physical assets such as streets, buildings, parks and recreational facilities, sewer facilities, water facilities, vehicles and other equipment. Local Governments are required to depreciate their exhaustible capital assets, including infrastructure.

II. PURPOSE

This policy is to establish the principles related to the accounting treatment of the City’s capital assets.

III. CAPITAL ASSET DEFINITION AND OVERVIEW

Definition. Capital assets primarily include land, improvements to land, buildings, building improvements, vehicles, machinery, equipment, infrastructure, and other tangible assets that are used in operations and have initial useful lives extending beyond a single reporting period.

Infrastructure assets are long-lived capital assets that normally are stationary in nature and can be preserved for a significantly greater number of years than most capital assets. Examples of infrastructure assets include roads, bridges, tunnels, drainage systems, water and sewer systems, and lighting systems.

Overview. Capital assets are reported in the statement of net assets at historical cost. The cost of a capital asset should include capitalized interest and ancillary charges (i.e., freight and transportation charges) necessary to place the assets into use. Donated capital assets should be reported at their estimated fair market value at the time of donation, plus ancillary charges, if any.

Capital assets should be depreciated over their estimated useful lives unless they are either in-exhaustible (assets in which service potential is used up so slowly that the estimated useful life is extraordinary long, such as land and land improvements) or are infrastructure assets reported using the modified approach. In no event shall the useful life of an asset be less than the period of probable usefulness established for the purpose of debt issuance as found in Section 11 of the New York State Local Finance Law.

Depreciable assets are reported net of accumulated depreciation in the Statement of Net Assets. Accumulated depreciation may be reported on the face of the statement or disclosed in the Notes to Financial Statements. Capital assets that are not being depreciated, such as land or infrastructure assets reported using the modified approach, should be reported separately.

CAPITALIZATION THRESHOLD

The Capitalization threshold is the cost established by the City Comptroller that must be met or exceeded if the asset is to be recorded and depreciated as a capital asset. As of the date of this Policy, the City has established a threshold of \$5,000.

The threshold will be based on the cost of a single asset. All assets irrespective of the capitalization upon acquisition are recorded as expenditures or expenses in governmental funds. Assets that meet the capitalization threshold will be capitalized on the government – wide financial statements. Other costs incurred for repairs and maintenance are expensed as incurred.

INVENTORY TRACKING

Municipal asset management is the process of inventory, valuation, use, strategic portfolio reviews, reporting and auditing of municipal assets and, in some cases, state properties as part of the decision-making process of local governments. For the purpose of property control (insurance, security, etc.), the City Comptroller, in conjunction with the applicable department head, will seek to develop and maintain an appropriate record keeping system(s) to account for assets which do not meet the capitalization threshold.

Many governments have installed "perpetual" inventory systems to maintain effective control over their tangible capital assets. Perpetual inventory systems are constantly updated to reflect additions and deletions of tangible capital assets, thus providing managers with direct access throughout the year to reliable information on current balances in tangible capital asset accounts. As of the date of this Policy the City was in the process of investigating various “perpetual” inventory tracking systems. Until a formalized inventory system is instituted by the City, it will be the responsibility of the applicable Department Head to tag and maintain all capital assets in excess of \$1,000. At a minimum, the records maintained by the Department Head responsible for managing the asset should include, but be limited to:

1. Description of the Capital Asset
2. If appropriate, physical dimensions
3. Location
4. Documentation of warranty information
5. Condition rating and report
6. Maintenance history and repair costs, if available
7. Operation costs, if applicable
8. Usage statistics
9. Date placed in service
10. Original value
11. Estimated useful life
12. Impairments

The City Comptroller may elect at his or her option to conduct random quality control checks with Department Heads to ensure such records are being maintained.

DEPRECIATION AND CAPITALIZATION - ASSETS EXCEEDING THE THRESHOLD

Capital assets purchased with budgeted operating, capital or grant funds are recorded as expenditures in the governmental fund financial statements and are capitalized at cost on the government-wide statement of net position.

Classification. All reported capital assets, except land and construction in progress, are depreciated. The following class of asset categories and useful lives are used for the City:

| Asset Class | Life (In Years) |
|-------------------------|--------------------------|
| Land | Not Depreciated |
| Works of Art | See Below ⁽¹⁾ |
| Land Improvements | 15-50 |
| Buildings | 15-50 |
| Building Improvements | 15-50 |
| Machinery and Equipment | 5-30 |
| Infrastructure | 5-50 |
| Vehicles | 3-10 |
| Small Equipment | 3-10 |

(1) Depreciation is not required for Works of Art and Historical Treasures that are inexhaustible. If collection/items are exhaustible, then depreciate over estimated useful life.

Depreciation. Capital assets shall be depreciated over their estimated useful lives in accordance with this Policy, unless they are deemed inexhaustible.

The straight-line depreciation method (historical cost less estimated residual value, divided by useful life) is the method that shall be used by the City for depreciating capital assets. Depreciation shall be calculated on an annual basis. A full year of depreciation shall be included in the year of completion or acquisition of the asset. Depreciation expense shall not be included in the year of disposition. *Exception:* Due to the material amount involved, depreciation expense for depreciable capital assets costing more than \$1 million dollars shall be recorded in the first and last years based on number of months such asset was in service. Accumulated depreciation will be summarized and posted to the accounting general ledger for both the utility enterprise funds and the entity-wide financial statements.

DEPRECIATION AND CAPITALIZATION - ASSETS BELOW THE THRESHOLD

Assets below the capitalization threshold will be recorded in a separate section of the capital assets ledger but not capitalized or depreciated in the government-wide statement of net position.

Although not capitalized, these assets will be properly monitored maintained and safeguarded. The aggregate value of these assets will be included in the City's property insurance coverage.

Assets above \$1,000 but below the capitalization threshold will be inventoried by the City. It will be the responsibility of the Department Head who is managing that asset to maintain such records in accordance with this Policy.

CAPITAL ASSET DONATIONS

Donations are defined as voluntary contributions of resources to a governmental entity by a non-governmental entity. In the case of donations, such capital assets are capitalized on the government-wide statement of net position at the donor's acquisition value at the time of acquisition, plus ancillary charges, if any. Acquisition value is the price that would be paid to acquire an asset of equivalent service potential in an orderly market transaction at the date. The City may also records donations as a revenue and expense in the governmental funds.

ASSETS PROVIDED TO CITY EMPLOYEES

Certain City assets may be issued to individual employees for their exclusive use in the conduct of their work for the City. This includes, but is not limited to, items such as laptops, tablets, cellular phones, handguns and other types of department specific small equipment. Separated employees are responsible to return all City owned assets regardless of value.

LEASED EQUIPMENT OR ASSETS

Equipment shall be capitalized if the lease agreement meets any one of the following criteria:

1. The lease transfers ownership of the property to the lessee by the end of the lease term.
2. The lease contains a bargain purchase option.
3. The lease term is equal to 5% or more of the estimated economic life of the leased property.
4. The present value of the minimum lease payments at the inception of the lease, excluding executory costs, equals at least 90 percent of the fair market value of the leased property.

Leases that do not meet any of the above requirements shall be recorded as an operating lease and reported in the Notes to Financial Statements, if deemed material.

RESIDUAL VALUE

Residual value is the estimated fair market value of a capital asset or infrastructure remaining at the end of its useful life. In order to calculate depreciation for an asset, the estimated residual value must be established before depreciation can be calculated. The use of historical sales information is a valuable method for determining the estimated residual value. Proceeds from sale of assets shall be netted against residual value in computing net gain or loss from sale.

The City generally purchases assets with the intent to use such assets until its usefulness is exhausted. Therefore, unless otherwise applicable, the City policy shall generally be to estimate residual value as zero for all capital assets.

DISPOSITION OF CAPITAL ASSETS

When an asset is sold, a gain or loss shall be recognized when:

1. Cash is exchanged and the amount paid does not equal the net book value of the asset.
2. Cash is not exchanged, and the asset is fully depreciated or has a residual value.

When an asset is sold, a gain or loss shall not be reported when:

1. Cash exchanged equals the net book value, and the asset does not have a residual value.
2. Cash is not exchanged, and the asset is fully depreciated and has no residual value.

To compute a gain or loss from sale of capital assets, proceeds received shall be subtracted from the asset's net book value.

Declaration of Surplus. Unneeded City personal property sought to be disposed of must be declared surplus by the City Council prior to the disposition of such property.

Sealed Bidding or Public Auction. The procedure for determining whether the disposition of unneeded personal property should be subject to competitive bidding or public auction is to obtain from the Department Head of the department seeking to dispose of the property the estimated dollar value of the item(s) to be disposed of. If the estimate is \$5,000 or more, the item(s) to be disposed of should be advertised for competitive bid sale or public auction. The estimate obtained, indicating the source, date and amount, will be documented as part of the disposition record.

Method of Sale. The method chosen for sale is within the sound discretion of the City Manager, subject to the approval of the City Council. However, in order to fulfill a fiduciary duty, the method of sale adopted should be one which is thought to bring the best price or maximum benefits and may include sale by auction, private negotiation, or competitive bidding.

The methods of disposition to be used by the City are as follows:

1. For dispositions with an estimated value up to \$5,000.00 dollars, the decision will be left to the discretion of the City Manager.
2. For dispositions with an estimated value greater than \$5,000, there shall be required a written offer for sale and a written offer to purchase from three (3) offerors. A good faith effort shall be made to obtain the required number of offers to purchase. If the City is unable to obtain the required number of offers to purchase, the attempts made shall be

documented and become part of the disposition record. In no event will the inability to obtain the required number of offers to purchase be a bar to the disposition.

3. The above notwithstanding, the City Manager, at his/her discretion, may require standards which exceed those presented in this policy.

Documentation. Documentation of actions taken in connection with each method of disposition is required, as follows, and will be maintained as part of the disposition record.

1. Where a written offer for sale is required or made, a copy of that written offer for sale, and any written offer for purchase, submitted by offerors in response to that request.
2. Where a verbal offer for sale is required or made, a listing of the offerors contacted and the response, if any, that each offeror made.
3. Any memoranda, forms, notations, or other documentation used in establishing the basis of the disposition decision.
4. No documentation other than the independent estimate itself by the Department Head of the department seeking disposition is required when the disposition is left to the discretion of the City Manager.

Awards to Other than Highest Responsible Dollar Offeror. Whenever any disposition is awarded to other than the highest responsible dollar offeror, the reasons such an award furthers the purpose of the City as set forth herein above shall be documented by the City's Purchasing Agent and be maintained as part of the disposition record.

Items Exempted From Disposition Policies and Procedures. The City Council will set forth, by resolution, circumstances when, or types of dispositions for which, in the sole discretion of the City Council, the solicitation of alternative offers to purchase will not be in the best interest of the City. Such resolution will state the reasons for such conclusion and will become an attachment to the disposition record.

ANNUAL REVIEW & AMENDMENTS

On an annual basis, or as deemed necessary, the City Council shall review the Capital Asset Policy and shall approve policy revisions, if any, by formal resolution.

ADOPTED: OCTOBER 29, 2020