

City of New Berlin General Financial Policy	TITLE: Fixed Asset Policy
AUTHORIZATION DATE: 10/13/15	LAST UPDATE: 10/13/15
POLICY SOURCE: Finance Committee	SCOPE: City Governmental Funds
Reviewed by City Attorney N/A	Board/Commission Approval: Finance Committee: 07/15/15, 12/13/18 Common Council: 10/13/15, 1/8/19

Policy

- 1) Tangible capital-type items will be capitalized only if they have an estimated useful life of at least two years following the date of acquisition
- 2) Capitalization thresholds will be applied to individual items rather than to groups of similar items (e.g. chairs and radios)
- 3) Infrastructure assets will be treated separately from other capital assets for purposes of establishing capitalization thresholds.
- 4) Capitalization threshold will be \$5,000.
- 5) Assets will be recorded at historical cost (estimated where actual is not available). Donated and contributed assets will be recorded at fair market value at the time of receipt. Constructed assets will include all costs including design expenses. The City will not capitalize interest on assets that are built over a period of time.
- 6) The City will maintain control over its non-capitalized tangible capital-type items by establishing and maintaining adequate control procedures at the department level.
- 7) Policy covers governmental funds, enterprise funds – Water, Sewer, Water Resource Management – are excluded

HISTORICAL COST

Historical cost is the original acquisition cost of an asset, including all ancillary costs involved in putting that asset into its intended use. Historical cost or estimated historical cost will be used as the total asset cost whenever it is directly known. All costs needed to get the asset to the point of acceptance as an asset should be included as part of historic cost. These costs include, but are not limited to, freight, transportation, installation and professional fees.

USEFUL LIFE

The useful life of an asset will be assigned depending on the asset type. Useful life estimations are developed from various sources. They may be changed at any time based on experience. Level of maintenance and outside factors such as amount of use and weather can affect an assets life. The useful lives of the various asset categories will be reviewed periodically and adjusted based on experience.

Useful life is vital, as it forms the divisor in the calculation of depreciation. Depreciation is the mechanism to allocate the cost of an asset, not its life. It is an estimate.

Depreciation will be calculated on the straight-line basis, with a half-year convention (In other words, a one-half year of depreciation will take place in the year of acquisition and one-half in the final year of its useful life.) All assets are assumed to have no salvage value. Land and construction in progress will not be depreciated. The following table lists the assets useful lives and depreciation rates:

ASSET CATEGORY	YEARS	YEARLY RATE
Buildings:	50	2%
Building Improvements:	25	4%
Equipment:	10	10%
Vehicles:		
Police Cruisers	2	50%
Ambulance	7	14.29%
General Purpose	10	10%
Highway Trucks	12	8.33%
Fire/Rescue Vehicles	15	6.67%
Office Furnishings:	10	10%
Computer		
Equipment	4	25%
Software	7	14.29%

For Infrastructure, useful lives

Roads:		
Concrete	40	2.50%
Asphalt	40	2.50%
Sidepaths/Bikepaths:		
Concrete	30	3.33%
Asphalt	15	6.67%
Sewer Utility		
Lift Station	33	3%
Plant, Mains	100	1%
Storm sewer		
Concrete – culverts, storm sewer	75	1.33%
Metal – culverts, storm sewer	40	2.50%
Ponds	20	5%
Ornamental Street Lights		
	35	2.86%
Land Improvements:		
	25	4%

These useful lives will be subject to change based on actual experience

LEASES

All lease arrangements will be evaluated by the Finance Department to determine whether it is a capital or operating lease. There are four characteristics of a capital lease. Any ONE of these criterion will trigger capitalization. The criteria are:

- 1) Transfer of ownership
- 2) Bargain purchase option
- 3) Lease term at least 75% of the asset's useful life
- 4) The present value of the lease payments equal at least 90% of fair market value

Assets that are acquired through a lease purchase shall be recorded at the lower of the present value of the minimum lease payments or the fair market value of the leased property.

CAPITAL vs. REPAIR/MAINTENANCE

Maintenance costs are to be expensed rather than capitalized. The Finance department will need to analyze material expenditures as incurred as to whether they meet the tests for capitalization versus being expensed as repairs and maintenance. While not setting specific tests, the guidelines are purposely broad and allow for professional judgment, while setting some limitations overall. The following criteria are the basis for distinguishing costs as either capital or repair and maintenance:

With respect to asset improvements, costs should be capitalized if:

- 1) The estimated life of the asset is extended by more than 25% or
- 2) The cost results in an increase in the capacity of the asset, or
- 3) The efficiency of the asset is increased by more than 20%, or
- 4) Significantly changes the character of the asset, or
- 5) In the case of streets and roads – if the work done impacts the "base" structure.

This policy was reviewed and approved by the Finance Committee and Common Council and signed by Mayor David Ament on the 15th day of Jan, 2019, as evidenced by his signature hereon. Three signed originals of this policy have been generated. One original is maintained in the City Clerk's office, the second original is maintained in the Finance Department, and the third original is maintained in the Mayor's Office. This policy may only be modified by the Finance Committee with Common Council approval.



David A. Ament, Mayor