City of Crossville, TN

Capital Assets Policy

1. GENERAL POLICY

The purpose of this policy is to provide guidance regarding capital assets:

1) tracking from acquisition to disposal, and
2) reporting in the financial statements in accordance with standards established by the Governmental Accounting Standards Board (GASB). Capital assets represent the most significant amounts on the balance sheet in the City's Comprehensive Annual Financial Report.

2. Capital Assets Tracking from Acquisition to Disposal

2A. *Capital Assets Defined*

The City has various assets. To be a capital asset, three (3) criteria must be met:

1) Either a tangible asset owned by the City or an intangible asset in which the City has rights but not ownership.
2) An asset with an initial, individual cost or more than the capital asset threshold for the asset type, and
3) An asset with an estimated useful life of three (3) or more years.

2B. *Capital Asset Thresholds*

Assets purchased, constructed or received through capital lease or donation must be uniformly grouped into capital asset types. The following table summarizes the capitalization thresholds for the City's capital asset types. Amounts are capitalized when the cost or value equals or exceeds the applicable threshold amount. The threshold normally is applied to individual items in a group of similar items, rather than to the group as a whole. (Ex. fire hydrants, etc.)

TYPE	Threshold Amount
Land	Purchase Price
Buildings	$40,000
Improvements	$40,000
Infrastructure	$40,000
Machinery and Equipment	$5,000
Furniture and Fixtures	$5,000
Vehicles	$10,000

For assets funded with federal grants, the federal thresholds will be used in place of the above amounts to determine capitalization.

2C. ***Capital Assets Responsibilities***

To ensure best practices, the following capital assets responsibilities are in place:

1) **Capital Investment Planning**. Departments should include estimates by asset type of capital investment projects.

2) **Budgeting.** Departments should strive to itemize capital asset acquisitions in their budgets by asset type.

3) **Acquisitions.** Acquisitions should strive to be shown by each asset (if 10 vehicles meeting the capital asset criteria are purchased, there should be 10 transactions with each having an asset identifier).

4) **Disposals.** Report of any assets deemed to be surplus and unneeded by the department so that the proper transfer or disposal can proceed. Theft or loss of property should be reported immediately. A police report should be obtained on all losses suspected of being stolen.

2D. ***Capital Asset Categories***

1) **Land.** Land is the surface on earth, which may be used to support structures. Land improvements consist of betterments, site preparation and site improvements (other than buildings) or a permanent nature that ready the land for its intended use. The costs associated with improvements to land are added to the cost of the land. Land and land improvements are inexhaustible assets and do not depreciate over time.

2) **Buildings.** A structure that is permanently attached to the land and is not intended to be transportable or moveable. Building improvements are capital events that materially extend the useful life of a building, increase the value of the building or both. A building improvement should be capitalized and recorded as an increase to the value of the existing building if the cost of the improvement meets or exceeds the capitalization threshold and increases the estimated useful life.

3) **Improvements other than buildings.** Include depreciable improvements and betterments made to land of a permanent nature, other than buildings that add value to the land, but do not have an indefinite useful life.

4) **Machinery and Equipment.** An apparatus, tool or conglomeration of pieces to from a tool, or purchased equipment, used in operations. These items can be fixed or movable tangible assets. They will stand alone and not become a part of basic structure or building.

5) **Furniture and Fixtures.** Represents items that are not permanently affixed to a building and are easily moveable.

6) **Vehicles.** Vehicles for which title and license must be obtained such as cars, trucks, boats, road-going trailers, etc.

7) **Infrastructure.** Long-lived capital assets that normally can be preserved for a significantly greater number of years than most capital assets. Infrastructure assets include drainage, water distribution and sewer collection system rehabilitation, streets and parking lots, curb and gutter, streetscape enhancement, bridges and tunnels, sidewalks, traffic signals and streetlights.

8) **Construction in Progress.** Represents the temporary accumulation of costs, such as labor, materials, equipment and any ancillary charges directly attributable to the construction of the project. The accumulation of costs continues in the CIP account until the project is complete. Once the asset is complete and placed into service, the costs are transferred from CIP to the appropriate capital asset category.

2E. ***Capital Asset Costs***

Capital assets are stated at historical cost or, in some instances, estimated historical costs. Donated capital assets and any capital asserts received in service concession arrangements are reported at acquisition value. The cost of normal maintenance and repairs that do not add to the value of an asset or materially extend the asset's life is not capitalized.

Capital assets, except for land, land improvements or intangible assets with an indefinite useful life are depreciated over their estimated useful lives.

1) **Land.** Costs to include as land include:
   - Original purchase price or estimated acquisition value at time of donation.
   - Professional fees (closing costs, title searches, architect, legal, engineering, appraisal, surveying, environmental assessments, etc.)
   - Land excavation, fill, grading, drainage and clearing
   - Demolition of existing buildings and improvements (less salvage)
   - Removal, relocation or reconstruction of property of others (railroad, telephone and power lines)
   - Water wells (including the initial cost for drilling, the pump and its casing)
   - Accrued and unpaid taxes at date of acquisition

2) **Buildings Acquired.** Costs to include for buildings acquired include:
   - Original purchase price
   - Expenses for remodeling, reconditioning or altering the structure of a purchased building to make it ready to use for the purpose for which it was acquired (including internal payroll and payroll-related costs of employees directly involved in the activity.
   - Environmental compliance costs (i.e., asbestos abatement)

- Professional fees (legal, architect, inspections, title searches, etc.)
- Payment of unpaid or accrued taxes on the building to date of purchase
- Cancellation or buyout costs of existing leases
- Other costs required to place the asset into operation

3) **Buildings Designed and Constructed**. Costs to be capitalized for buildings designed and constructed include:
    - Completed structure costs
    - Expenses incurred for the preparation of plans, specifications, blueprints, etc.
    - Costs of building permits
    - Professional fees (architectural, engineering, legal, management fees for design and supervision, etc.)
    - Cost of permanently attached fixtures or machinery that cannot removed without impairing the use of the building

4) **Building Improvements**. Costs to be capitalized for building improvements include:
    - Similar costs included above in constructed buildings but rather associated with additions to buildings (expansions, extensions or enlargements)
    - Conversion of areas including attics, basements, etc., to usable space
    - Structures attached to the building such as covered patios, sunrooms, garages, carports, enclosed stairwells, etc.
    - Installation or upgrade of heating or cooling systems
    - Installation/upgrade of wall or ceiling covering such as carpeting, tiles, paneling, or parquet
    - Structural changes such as reinforcement of floors or walls, installation or replacement of all beams, rafters, joists, steel grids, or other interior framing.
    - Installation or upgrade of window or door frames, upgrading of windows or doors, built-in closet or cabinets
    - Interior renovation associated with casings, baseboards, light fixtures, ceiling trim, etc.
    - Installation or upgrade of plumbing and electrical wiring
    - Installation or upgrade of phone or closed-circuit television systems, networks, fiber optic cable or wiring required in the installation of equipment (that will remain in the building)

5) **Improvements.** Costs to be capitalized as improvements include:
    - Park buildings
    - Park fencing and gates, parking lots, driveways, parking barriers (would not include restriping or resurfacing of existing lots and driveways)
    - Outside sprinkler systems
    - Recreation areas and athletic fields (including bleachers)
    - Paths and trails

- Water and wastewater lines
- Lift stations, booster stations, water tanks, treatment facilities
- Fountains

6) **Equipment.** Costs to be included as equipment include:
   - Acquisition cost, which is the net invoice price of the equipment including the cost of modifications, site preparation, assembly, attachments accessories or auxiliary apparatus necessary to make the equipment operable
   - Separately invoiced associated charges such as the cost of installation transportation, or protective in-transit insurance, must also be included in determining the acquisition cost
   - If a group of smaller items is acquired, and all items are needed to make the equipment operational for its intended purpose, all must be included when determining whether the purchase is classified as a capital asset or not.
   - A reduction for any trade-in value of a prior owned asset

2F. ***Non-Capital Assets Costs***

The costs of normal maintenance and repairs that do not add value or materially extend the useful life of the asset are not capitalized. Repairs or replacements that are merely costs to retain an asset in its normal capacity are not to be capitalized. Repairs or replacements that have an effect on a capital asset's functionality (effectiveness or efficiency) or materially extends a capital asset's expected useful life should be capitalized.

Costs that are not included in capital assets:

- Assets the City does not own or have rights
- Assets not meeting the asset type threshold amount
- Assets not having and estimated useful life of three (3) years or more
- Adding, removing and/or moving walls in conjunction with renovation projects that are not considered major rehabilitation projects and that do not increase the value of the building
- Improvement projects of minimal or no added life expectancy and/or to the building
- Plumbing and electrical repairs
- Cleaning, pest extermination, or other periodic maintenance
- Interior decoration, such as draperies, blinds, curtain rods, wallpaper
- Exterior decoration, such as detachable awnings, uncovered porches, decorative fences, etc.
- Maintenance-type interior renovation, such as repainting, touch-up, plastering, replacement of carpet, tile, or panel sections, sink and fixture refinishing, etc.
- Replacement of a part or component of a building with a new part of the same type and performance capabilities, such as replacement of an old boiler with a new one of the same type and performance capabilities.

- Any other maintenance related expenditure which does not increase the value of useful life of the building
- Repairs and maintenance retain value rather than provide additional value to an asset. The cost of normal maintenance and repairs that does not add to the value of an asset or materially extend the asset's life is not capitalized.
- Replacement machinery and equipment – must be evaluated as a stand-alone purchase using the capital asset criteria
- Modification and upgrades of existing machinery and equipment should be evaluated on a case-by-case basis. Equipment modification and upgrade costs will be capitalized when they materially extend the useful life, increase the capacity, or improve the efficiency of the original asset and meet, or exceed the city's capitalization threshold. The asset value and useful life of the original piece of equipment are not modified.
- Costs of extended warranties and/or maintenance agreements, which can be separately identified from the cost of the equipment, should not be capitalized.
- Training costs, which can be separately identified from the costs of the equipment, should not be capitalized.
- Items required for resale
- Feasibility studies
- Capitalized interest, which is interest incurred on debt during the construction period of a capital asset.

3. Capital Assets Reporting in the Financial Statements

3A. *Depreciation*

Depreciation is the systematic and rational allocation of net costs (cost less estimated residual value) over the depreciable asset's estimated useful life. Depreciation is calculated on a straight-line basis over the estimated useful life. Depreciation begins in the first month of use for a full month, or if the starting month is not known, depreciation is assumed for half of the fiscal year of implementation.

Residual value is the estimate of what an asset may be sold for at the end of its service life. The City utilizes capital assets until they are deemed worthless, so a residual value of zero (0) is assigned to all capital assets.

3B. *Estimated Life of Capital Assets*

The useful life of an asset is that period during which the asset provides benefits. Estimates of useful life consider factors such as physical wear and tear and technological changes that bear on the economic usefulness of the asset. They typically have a useful life of more than two years. The city uses straight-line depreciation over the estimated useful life of the capital asset. Listed below is the schedule used for its capital assets.

Capital Asset Type	Estimated Life (years)
Land	
Land Acquired	Not Depreciated
Easements Acquired	Not Depreciated
Buildings	
Buildings Acquired	50
Building Design & Construction	50
Building Improvements	25
Improvements	
Parks and Recreational Facilities	10-50
Distribution Systems	10-50
Infrastructure	
Drainage	Not Depreciated
Streets	50
Curb & Gutter	40
Gateway Enhancement & Streetscape	20
Bridges & Tunnels (road bridges)	40
Bridges & Tunnels (pedestrian bridges	30
Sidewalks	30
Traffic Signals	20
Streetlights	20
Equipment	
Furniture, Fixtures	3-10
Vehicles*	5-10 yrs (based on warranty)
Machinery & Equipment	3-10 yrs (based on warranty)
Computer Hardware	3-10
Computer Software	3-10

*Fire Apparatus Expected life is up to 15 years

3C. ***Other Capital Asset Considerations***

1) **Intangible Assets.** An asset that possesses lack of physical substance, nonfinancial nature, and initial useful life extending beyond three (3) or more years. Computer software is the most commonly known type of intangible. Other items could include easements, land use rights, patents, trademarks, etc. For example, the City may receive rights to use land that another government has ownership.

2) **Trade-Ins.** When the purchase of a new capital asset includes the trade-in of a similar old asset, the expenditure is the amount paid. For CAFR reporting, the book value of the old asset is added to the amount paid to reflect the acquisition cost of the new asset. No gain or loss is recorded. (For example, if a copier costs $25,000 with a $3,000 trade-in allowance for an old copier that has book value of $8,000, the asset cost of the new copier is $30,000. This is the book value of the old asset $8,000 + the cost paid for the new copier $22,000.)

3) **Installment Purchases.** Some capital assets are acquired and owned by the City but the full acquisition price may not be immediately paid in full. The payments may occur over multiple years. For these types of purchases, each payment will be expensed. Then, for financial reporting, the capital asset will be reported at its total value along with a deferred outflow for the outstanding payments due.

4) **Construction in Progress.** Construction in Progress (CIP) is an asset account that represents the temporary accumulation of costs, such as labor, materials, equipment and any ancillary charges directly attributable to the construction of the project. The accumulation of costs continues in the CIP account until the project is complete. Once the asset is complete and placed into service, the costs are transferred from CIP to the appropriate capital asset category. This concept would be the same for buildings, infrastructure or internally generated assets.

5) **Impairments.** A capital asset is impaired when its service utility has permanently declined significantly and unexpectedly. Events or changes in circumstances that may be indicative of impairment include evidence of physical damage, changes in legal or environmental factors, technological changes or evidence of obsolescence, changes in the manner or duration of use of capital asset, and construction stoppage.

   Generally, an asset would be considered impaired if both:

   1. The expenses associated with the potentially impaired asset (i.e., continued operation and maintenance, including depreciation, or cost associated with restoration) are significant compared to its useable capacity.

   2. The event or change in circumstances was outside the normal life cycle of the asset.

   When a department learns of a capital asset impairment, or other typer of loss (other than from sale) it should contact HR Risk Management and the Finance Department.

   In the event a capital asset is impaired, there are two options for reporting the impairment:

   1. If the asset will no longer be used then the book value of the asset should be written down to the lower of carrying value or fair market value.

   2. If the asset will continue to be used then the book value of the asset should be adjusted by the net of the impairment loss and restoration costs.

   Estimated impairment losses will be evaluated and recorded based on the above considerations. Losses should be recorded as a direct expense to the business function that owned the asset.

3D. ***Capital Asset Reductions***

Capital Assets no longer owned or in possession of the City shall be removed from the capital asset records.

1) **Sold and/or Retired.** These assets will be removed from the capital asset records upon formal notification from the responsible party of such disposition. City policy regarding the sale/disposal of surplus equipment will be followed.

2) **Transferred Assets.** Assets that are transferred to proprietary (business-type) funds will be accounted for separately from the governmental activities of the City and will be removed from the capital asset records (in relation to governmental activities) upon transfer to a proprietary fund (i.e. the asset will be accounted for in the proprietary fund).

3) **Missing.** Assets not seen for two consecutive annual periods will be classified as missing and will be removed from the capital asset records upon formal notification to the Finance Department. These assets no longer will be searched for in regular annual inventories. However, if an asset is located at some time in the future, it will be reactivated in the system.

4. Long-Term Multi-Year Capital Improvement Policy

It is the goal of the City to maintain a comprehensive five-year capital improvement plan ("CIP"). It shall consider organizational characteristics, services provided and environmental factors. Capital planning should provide a process for determination of funding structure, terms, and timing to ensure project financing and rate setting measures are instituted in accordance with applicable provisions of the law.

5. Exceptions to Policy/Reporting of Exceptions

If a capital asset situation arises that is not covered within this policy, the City Manager may authorize the method of handling. The exception will be reported at the next available audit meeting with the City Council.

6. Review of Capital Asset Management Policy

This policy shall be reviewed at least every two years by the Finance Department and any recommendations shall be submitted to the governing body for approval.

ADOPTED AND APPROVED, THIS ______TH DAY OF _________, 2025

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Mayor,

ATTEST:

____
City Clerk,

____
SEAL OF THE CITY