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**City of Conway, Arkansas  
Ordinance No. O-11-48**

**AN ORDINANCE ADOPTING CERTAIN ACCOUNTING POLICIES UTILIZED BY THE CITY OF  
CONWAY, AND FOR OTHER PURPOSES:**

**WHEREAS**, the City Council has adopted pursuant to Ordinance No. O-99-106, a capitalization policy for the assets of the City of Conway; and

**WHEREAS**, further distinction is deemed necessary to clarify the capitalization policies to be followed in acquiring assets and in disposal of assets;

**NOW THEREFORE BE IT ORDAINED BY THE CITY COUNCIL OF THE CITY OF CONWAY, ARKANSAS, THAT:**

**SECTION 1.** The City of Conway shall adopt the attached Asset Management Policy – Capitalization and Asset Management Policy – Capitalization.

**SECTION 2.** That all ordinances in conflict herewith are repealed to the extent of the conflict.

**PASSED** this 14<sup>th</sup> day of June, 2011.

**Approved:**

*[Signature]*  
**Mayor Tab Townsell**

**Attest:**

*[Signature]*  
**Michael O. Garrett  
City Clerk/Treasurer**

# City of Conway, Arkansas

## Policy and Procedure

**Subject:**

**Asset Management Policy – Capitalization**

### Purpose

The purpose of this document is to document the minimum value of capital assets to be reported on our financial reports and to establish policy and procedures for the capitalization and depreciation of City capital assets. The Finance Department maintains a central record of assets. A record of assets and their values is required to:

- Provide information to Departments as to the assets under their control.
- Provide information for management decision-making purposes.
- Provide information for external reporting purposes.
- Enable the City to calculate annual depreciation and losses/gains on the sale of assets to allow us to comply with accounting reporting requirement

### Policy

Capital assets are items that have a useful life of at least two years. In making the decision to acquire an asset, the following fundamental principles should be carefully considered:

- The purpose for which the fixed asset is required is in keeping with the objectives of the City and will provide significant, direct and tangible benefit to it.
- The purpose is absolutely necessary as there is no alternative City asset that could be upgraded or adapted.
- The fixed asset is appropriate to the task or requirement and is cost effective over the life of the asset.
- The fixed asset is compatible with existing equipment and will not result in unwarranted additional expenditure on other assets or resources.
- Space and other necessary facilities to accommodate the asset are in place.
- The most suitable and appropriate type, brand and model, etc. has been selected and received appropriate authorization.

Criteria – All items with a useful life of at least two years will be tracked in the asset management system, based on the following thresholds and classified as either Accountable Assets (to be expensed in the year of acquisition) or Depreciable Assets:

|                        | Accountable Assets                        |
|------------------------|---|
| Small Tools            | Greater than \$250, but less than \$750   |
| Equipment              | Greater than \$250, but less than \$750   |
| Furniture and fixtures | Greater than \$250, but less than \$750   |
| Vehicles               | Greater than \$500, but less than \$2,500 |

|                            |  |
|----------------------------|--|
| Fire equipment             | Greater than \$500, but less than \$2,500    |
| Heavy equipment            | Greater than \$500, but less than \$2,500    |
| Buildings and improvements | Greater than \$1,000, but less than \$10,000 |
| Infrastructure             | Greater than \$1,000, but less than \$10,000 |

Accountable assets will be assigned an inventory tag number by the Finance Department, entered into the fixed asset records of the City and will be tracked for inventory purposes. Costs associated with the assets will be expensed in the year of acquisition.

Fixed assets in excess of the thresholds stated above will be capitalized—that is the cost will be accounted for as an addition to the City’s capital assets and the asset will be depreciated over its useful life. Those categories are as follow:

|  | <u>Capital Assets</u>             | <u>Useful Life</u> |
|--|-----------------------------------|--------------------|
| Small Tools                            | Equal to or greater than \$750    | 3 years            |
| Equipment                              | Equal to or greater than \$750    | 3-5 years          |
| Furniture and fixtures                 | Equal to or greater than \$750    | 3-5 years          |
| Vehicles                               | Equal to or greater than \$2,500  | 5 years            |
| Fire equipment                         | Equal to or greater than \$2,500  | 12 years           |
| Heavy equipment                        | Equal to or greater than \$2,500  | 5-15years          |
| Buildings and improvements             | Equal to or greater than \$10,000 | 10-50 years        |
| Infrastructure<br>(Asphalt & Concrete) | Equal to or greater than \$10,000 | 10-40 years        |

The useful life is to be determined based on the nature of the asset, anticipated usage and following the guidance attached.

Weapons are not subject to a minimum threshold, but will be tracked in the asset management system and will be accounted for as either accountable assets (with a cost range of \$0 to \$750) or capital assets (all weapons with a cost in excess of \$750) and depreciated over 3 years.

Any acquisition or donation of land will be accounted for as an addition to the City’s capital assets, but, in accordance with generally accepted accounting principles, will not be depreciated. The cost of land includes all expenditures in connection with its acquisition or acceptance, such as purchase price, professional fees (i.e., title searches), clearing land, demolishing or removing prior structures (less salvage), accrued and unpaid taxes at the date of acquisition, and land excavation, fill grading and drainage.

Any donated asset will be evaluated under the criteria outlined above for determination of if the asset is accounted for as an Accountable Asset or a Capital Asset, but also carries with the donation the requirement to have the City officially accept the donation through the passage of an ordinance by City Council. Donations of assets should be communicated to the Finance Department as soon as the department receives notification of a potential donation to ensure that the required authorization is received to accept the asset. Department heads and employees do not have the authority to accept any donated items on behalf of the City without Council authorization.

Assets must be recorded at actual cost. Normally the cost recorded is the purchase price or construction cost of the asset. Donated or contributed assets should be recorded, after acceptance by City Council, at their fair market value on the date donated. Any other reasonable or necessary costs incurred to place the asset in its intended location and intended uses are also included.

Maintenance is defined as expenditures, which do not normally add to the value of property or appreciably prolong its life, but merely keep the asset in ordinary efficient operating condition. Maintenance costs are not capitalized.

Betterments consist of the replacement of a unit of an existing asset by an improved or superior unit, usually resulting in a more productive, efficient or longer-lived asset. Betterments are evaluated under the criteria specified above and may be accounted for as accountable assets or capital assets, depending on the cost.

Department heads are responsible for the security of assets under their control. This includes ensuring that assets are only used by authorized employees, safeguarded against theft and damage and only removed from City premises with approval. All employees are responsible for the care and protection of City assets. Every employee who utilizes the property of the City should do so with utmost care and consideration and in a manner that ensures that the property will be subjected to the minimum wear and tear or damage.

Abuse of the Asset Management Policy – Capitalization may result in disciplinary action, including termination.

## **Procedures**

Assets acquired through the City's purchasing policies will be assigned an inventory tag by the Finance Department. The Finance Department will also notify the insurance carrier of the addition and will enter the acquisition into the fixed asset system for tracking. Assets received through donation should be reported to the Finance Department to coordinate obtaining Council consideration and approval of accepting the donation. This action will trigger the asset being recorded in the accounting records, insured as appropriate and assigned an inventory tag number.

Assets constructed by the City are recorded in the same manner as those acquired by purchase or construction contract. The costs may include direct labor, materials and equipment usage charges.

Annually, the Finance Department will provide each department with a listing of the assets which are "assigned" to that department. It is the department head's responsibility to ensure that an accurate and thorough inventory of all fixed assets takes place at least annually and any changes (additions and deletions) are communicated to the Finance Department. Additionally, the Finance Department will periodically perform random inventory procedures and conduct full verification of the inventory listing.

The Asset Management Policy on Disposals should be followed for any deletions to the inventory listing.