

**COUNCIL POLICY
CITY OF CHULA VISTA**

**SUBJECT: FIXED ASSETS INVENTORY &
CONTROLS POLICY**

**POLICY
NUMBER**

**EFFECTIVE
DATE**

PAGE

June xx, 2016

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ADOPTED BY: (Resolution No.)

DATED: 6/xx/2016

AMENDED BY: Resolution No. (date of resolution)

- I. PURPOSE:** The purpose of this policy is to establish procedures with regard to inventory of all City owned assets and property that meet a minimum threshold value.

II. POLICY

- A. BACKGROUND:** Fixed Assets are specific items of property that: (1) are tangible in nature; (2) have a life longer than one year; and (3) have a value of \$10,000 or greater, per single unit.

Maintaining a complete and accurate accounting for Fixed Assets with significant value is important for several reasons. Adequate accounting procedures and records for Fixed Assets are essential to effective property management and control. The stewardship responsibility involved in safeguarding such a large public investment is of the utmost importance to sound financial administration.

- B. BENEFITS OF A GOOD FIXED ASSETS ACCOUNTING POLICY:** Per City Charter Sec. 504(i) the Director of Finance/Treasurer, shall have power and be required to supervise the keeping of current inventories of all property of the City by all City departments, offices, and agencies. A good system over Fixed Assets facilitates overall control and custody of the City's property; assigns direct responsibility for custody and proper use of specific Fixed Assets to the City's Department Heads; and provides data essential to the proper management of Fixed Assets, including repairs/maintenance management and acquisition of adequate insurance coverage. Accounting over Fixed Assets is required for preparation of a satisfactory, and complete annual financial report. To meet the test of full disclosure, an annual financial report of the City of Chula Vista must include complete Fixed Assets information.

C. DEFINITIONS

- **Capitalization Policy:** In general, all Fixed Assets, including Land and Improvements, Buildings, Equipment and Machinery, with an original cost of \$10,000 or more per unit, will be subject to accounting and reporting (capitalization).
- **Fixed Assets:** Fixed Assets are specific items of property that: (1) are tangible in nature; (2) have a life longer than one year; and (3) have a

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value of \$10,000 or greater, per single unit.

- **Land and Improvements:** Purchased Land will be carried at acquired cost. All cost for legal services incidental to the acquisition and other charges incurred in preparing the Land for use shall be included in the cost. In order for improvements to be capitalized, the improvement should be considered permanent and should add value or improve the use of the Land. Examples of improvements are fences, retaining walls, landscaping, drainage systems, etc.
- **Buildings:** All Buildings will be valued at purchase price or construction cost. Cost should include all charges applicable to the building acquisition including fees for brokers, appraisers, engineering consultants, and architects.
- **Equipment and Machinery:** All items of tangible personal property not permanently affixed to real property (i.e. Land and Improvements, and Buildings), which are needed in carrying out the operations of the City. Installation, outfitting expenses, freight charges & sale tax costs should be included in the capitalized amount. Examples are machinery, heavy equipment, computer servers, etc. with a value of \$10,000 or more per unit.
- **Vehicles:** All Equipment valued at \$10,000 or more that must be titled by the Department of Motor Vehicles and bear a license tag.
- **Work In Progress (WIP):** This is primarily used in conjunction with Capital Projects. Capital Project costs are accumulated until completion, when cumulative costs are transferred to the appropriate fixed asset account. All personal property items not permanently affixed to real property should be included in the Equipment and Machinery category separate from WIP. The Capitalization Policy for WIP does not apply in these cases.
- **Capital Improvement Project (CIP):** Defined as a multi-year capital investment with a value of \$50,000 or more and a minimum useful life of 5 years at a fixed location. For further detail regarding CIP, please refer to the Capital Improvement Program budget adopted by City Council.
- **Additions and Modifications to Existing Assets:** Costs are often incurred in connection with Fixed Assets after the original acquisition cost has been established. In general, any expenditure which is

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identified as an Addition to a fixed asset, or an integral part of it, that significantly increases the value of, enhances the performance of or changes its useful life, should be classified as a capital expenditure (i.e. fixed asset) and the original acquisition cost adjusted. Example: the Addition of an air conditioning system to a building that is permanently affixed to a building and cannot be removed becomes part of the Building. If the unit can be removed, and used at a different location it is a stand-alone Fixed Asset and should be tagged appropriately. When Modifications, which enhance the performance or life of an asset, are made, the value of the asset should be increased by the cost of the Modification. Examples may include Equipment to outfit a new fire truck or a dump body to a truck chassis where none existed before.

- **Depreciation** – Depreciation is the systematic and rational allocation of the cost of a capital asset over its estimated useful life. The straight-line method is used for proprietary and governmental fund types. The estimated useful lives are as follows:
 - Buildings and building improvements – 50 years
 - Infrastructure – 30 to 75 years
 - Equipment, Vehicles and Machinery – 5 to 15 years
 - Computer Software – 5 to 15 years

D. PROCEDURES

The maintenance of the City of Chula Vista Fixed Asset program will be achieved with the use of a clear and detailed process that must be adhered to by all City personnel. This written process addresses the steps to be taken for Additions, disposals and transfers between departments/divisions and/or funds. This process is written with Continuous Improvement (CI) in-mind. Although the process is subject to change due to CI, at no point can responsibility and fiduciary duties be removed from Department Heads. Department Heads can designate an inventory control clerk for their respective departments. But the ultimate responsibility for custody, maintenance, and reasonable security for all assets purchased for, or assigned to department, will remain at the Department Head level.

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1. Additions

PURCHASES: When a purchase order is written against a capital outlay account(s) over the Fixed Assets threshold of \$10,000, the Purchasing Division of the Finance Department (Purchasing) will issue a fixed asset number & the appropriate tag for each qualifying item. Purchasing will attach the tag to a fixed asset card (see attachment 1) to the originating department's copy of the purchase order. Upon receipt of the goods (not before) the originating department will complete the fixed asset card(s) and return it to Purchasing. Purchasing will verify the data and adjust the fixed asset purchase order with any relevant information and receive the asset in the Purchasing system, as required by section 2.56.120(A) of the Chula Vista Municipal Code. After the fixed asset card is completely filled out and verified by Purchasing, it will be given to the Fixed Asset Clerk in the Comptroller's division of the Finance Department.

AGGREGATE PURCHASES: A single purchase which includes multiple items with a total cost equal to or greater than the fixed asset threshold of \$10,000, does not necessarily qualify as a fixed asset. For example, five Computers at \$2,000.00 each were purchased on a single purchase order for a total of \$10,000. Even though the total is at the policy limit, the Computers are not considered as a fixed asset since the individual cost does not qualify. However, if one of the computers purchased within the aggregate purchase was \$10,000 or greater, then that individual computer would be considered a fixed asset.

DONATIONS: The City Council may accept any item(s) proposed to be donated to the City of Chula Vista regardless of value. After acceptance by the Council, the department receiving the donated item(s), e.g., Land, Buildings, works of art, Vehicles, etc., must complete a fixed asset card(s) upon receipt of these items and forward it to Purchasing if the estimated fair market value meets the capitalization threshold of \$10,000. Purchasing will assign a Fixed Asset tag & card to the receiving department. Any problems occurring with establishing a fair market value should be referred to the Finance Director/Treasurer. Purchasing will verify the data and collect any additional data needed before the information is given to the Fixed Asset Clerk in the Comptroller's division of the Finance Department.

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LEASES: 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 City 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 a *capital lease*.

A lease is an *operating lease* if it does not transfer the benefits and risk of ownership to the City of Chula Vista. Operating lease payments are recognized as expenses of the City when they become payable. The Fixed Assets leased through operating leases are not capitalized.

A lease is a *capital lease* if at the inception of the lease it meets any one of the following criteria:

- The lease transfers ownership of the property to the City of Chula Vista by the end of the lease term.
- The lease contains a bargain purchase option (an option extending to the lessee the right to purchase the leased property at a price so favorable that the exercise of the option appears, at the inception of the lease, to be reasonably assured).
- The lease term is 75% or more of the estimated economic life of the leased property.
- The present value, at the beginning of the lease term, of the minimum lease payments is at least 90% of the fair market value of the leased property to the lessor.

TAGGING: Upon receipt of a purchased, donated, or leased fixed asset(s) and verification of the data on the completed fixed asset card(s) for the Additions, the receiving Department will affix the fixed asset tag somewhere visible on the asset, but not to obscure the normal operation and use of the asset. Certain asset tags will be affixed to an asset on a non-removable external surface that is easily seen as listed on Section F of this policy.

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2. Transfers between City Departments

From time to time, the responsibility for a fixed asset will be transferred from one department (*or division/location, if needed*) to another. The transferring department must initiate the preparation of a Property Transfer Disposal Request Form F-211 (see attachment 2) in this type of transaction. The transferring department will fully identify the asset, will indicate the receiving department, and will forward the Form F-211 to the receiving department. The receiving department will acknowledge receipt of the asset on the Form F-211 before forwarding to Purchasing. Purchasing will verify the receipt of the asset with the receiving department and will make the required changes in the inventories, as required by section 2.56.120(A) of the Chula Vista Municipal Code. Purchasing will verify the data and collect any additional data needed before the Form F-211 is given to the Fixed Asset Clerk in the Comptroller's division of the Finance Department. It is the transferring department's responsibility to confirm that the asset has been removed from its inventory.

3. Removals & Disposals

Fixed Assets will be removed from a department's and/or division's fixed asset inventory as follows:

SURPLUS ITEMS: Items that have been replaced, are not worth repairing, or are obsolete and identified as having no further use are considered surplus. Surplus items may be disposed of only after the approval of Purchasing, regardless of their value and whether or not they are identified as a fixed asset. The responsibility for surplus items other than the exception noted below will remain with the department until they are sold or otherwise disposed of. Form F-211 is to be filled out for Surplus Items with a value of \$10,000 or more. Departments will identify an item as surplus in the "Remarks" section of Form F-211 and submit the completed form to Purchasing for final action.

EXCESS ITEMS: Although excess to one operation, some items may be considered fit for re-use and may be transferred to another operation for further service. Other than the exception listed below, this may be done

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directly by using the procedure in (2) "Transfers between City Departments" above. Otherwise, departments will identify any excess item as re-usable in the "Remarks" section of Form F-211 and submit the completed Form F-211 to Purchasing. Periodically, a list of usable excess items will be circulated to department directors for their consideration, as required by sections 2.56.020(I) and 2.56.120(A) of the Chula Vista Municipal Code. The responsibility for these items will be the same as with surplus items until transferred or otherwise disposed.

Exception to the above will be:

Computer equipment will be identified as surplus by the Information Technology Services (ITS) Department. Computer equipment will not be moved from its existing location without the specific approval of the ITS Department. Completion of Form F-211 as described above is still required. Form F-211 must be forwarded to ITS for approval before it is sent to Purchasing.

NOTE: Surplus/Excess Property will not be sold or given to City Staff under any circumstance. If this occurs, any employee involved will be subject to disciplinary action.

LOST OR STOLEN ITEMS: When theft of an item is suspected, the incident must be reported to the Police Department as soon as possible. The department will complete the missing property form, Form F-248 (see attachment 3) & attach a copy of the police report or other documentation, if applicable, and forward it to Purchasing for action. Purchasing will report any abuse of this procedure to the Finance Director/Treasurer for disciplinary action.

TRADE-INS: Purchasing will be responsible for handling any trade-in arrangements that result from the purchase of new Equipment/Vehicles, as indicated by section 2.56.120(A) of the Chula Vista Municipal Code. The new asset will be added and the old asset will be removed according to governmental accounting procedures. Purchasing will verify the data and collect any additional data needed before Form F-211 and/or Form F248 is given to the Fixed Asset Clerk in the Comptroller's division of the

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Finance Department.

4. **SALE OF CAPITAL ASSETS:** The proceeds from the sale of capital assets should be reported as an “other financing source” rather than revenue. Material gains should be treated as part of general revenues. Material losses should be included as part of general government expenses. Immaterial gains and losses may be handled as an adjustment to Depreciation expense.

E. INVENTORY

The existence, location, and condition of all Fixed Assets should be verified by taking an annual inventory. Each department has the responsibility to complete an annual year-end physical inventory of its assigned Fixed Assets. A Fixed Asset Listing by department/division's inventory will be distributed to appropriate departmental personnel in the fourth quarter of the fiscal year.

This inventory should be coordinated with the Finance Department (Comptroller's Division) and performed prior to fiscal year end (June 30), per the City Charter Article V section 504(i). All discrepancies should be reported to the Finance Department as soon as possible.

On a three year rotating cycle, the Finance Department will actively participate in each department's physical inventory. All inventories will be subject to scheduled audits by the Finance Department.

As Department Heads change, departments merge or un-merge, it is required that each Department Head verify his or her department's inventory before the transition. This process shall be initiated by the Finance Department. The outgoing Department Head will verify the assets under stewardship by signing and dating the Departmental Inventory report. The incoming Department Head will also sign and date the same inventory report acknowledging and accepting stewardship of the department's assets.

REPORTS: Year-end reports will be processed and maintained by the Finance Department Comptroller's Division. Departmental inventory reports will be made available upon request. Finance should be notified of any discrepancies found in these reports without delay.

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F. PROPERTY TAG LOCATION/PLACEMENT

Location of Fixed Asset Tag:

The tag should be affixed to a non-removable external surface that is easily seen.

RELATED POLICIES

REFERENCES

City Charter Article V section 504 Director of Finance, Powers and Duties
Chula Vista Municipal Code Chapter 2.56 Purchasing System

FORMS

Attachment 1: Fixed Asset Card
Attachment 2: F-211 Property Transfer or Disposal Request
Attachment 3: F-248 Missing City Property