RESOLUTION NO. 2015-41

A RESOLUTION OF THE MAYOR AND COUNCIL OF THE TOWN OF FOUNTAIN HILLS, ARIZONA, ADOPTING THE TOWN OF FOUNTAIN HILLS CAPITAL ASSET POLICY.

WHEREAS, the Mayor and Council of the Town of Fountain Hills (the "Town Council") has determined that it is in the best interests of the citizens of the Town of Fountain Hills, Arizona (the "Town") to establish written policies and procedures addressing the internal recording and safeguarding of the Town's capital assets; and

WHEREAS, the Town Council desires to adopt the Town of Fountain Hills Capital Asset Policy (the "Capital Asset Policy").

NOW, THEREFORE, BE IT RESOLVED BY THE MAYOR AND COUNCIL OF THE TOWN OF FOUNTAIN HILLS, ARIZONA, as follows:

SECTION 1. The recitals above are hereby incorporated as if fully set forth herein.

SECTION 2. The Capital Asset Policy is hereby adopted in substantially the form and substance attached hereto as Exhibit A.

SECTION 3. If any section, subsection, sentence, clause, phrase or portion of this Resolution or any part of the Capital Asset Policy adopted herein by reference is for any reason to be held invalid or unconstitutional by the decision of any court of competent jurisdiction, such decision shall not affect the validity of the remaining portions thereof.

SECTION 4. The Mayor, the Town Manager, the Town Clerk and the Town Attorney are hereby authorized and directed to take all steps and to execute all documents necessary to carry out the purpose and intent of this Resolution.

PASSED AND ADOPTED BY the Mayor and Council of the Town of Fountain Hills, Arizona, August 6, 2015.

FOR THE TOWN OF FOUNTAIN HILLS:

Linda M. Kavanagh

Linda M. Kavanagh, Mayor

ATTESTED TO:

Bevelyn J. Bender

Bevelyn J. Bender, Town Clerk

REVIEWED BY:

Grady E. Miller

Grady E. Miller, Town Manager

APPROVED AS TO FORM:

Andrew J. McGuire, Town Attorney

2427093.1

EXHIBIT A
TO
RESOLUTION NO. 2015-41

[Capital Asset Policy]

See following pages.

TOWN OF FOUNTAIN HILLS
CAPITAL ASSET POLICY

I. INTRODUCTION

The purpose of this Capital Asset Policy (this "Policy") is to establish policies and procedures for the Town of Fountain Hills, Arizona (the "Town") regarding the treatment of all long-lived tangible resources, whether capitalized or expensed. This Policy enumerates specific types of long-lived resources and particular activities that may affect—or may be required for—all types of long-lived tangible resources. This Policy attempts to reconcile modern, professional accounting standards with practical fiscal management considerations.

The release of GASB Statement No. 34 in June 1999 marked the beginning of a new era in State and local government accounting. The changes instituted by that publication relevant to accounting involve the recording and reporting of "fixed assets." The provisions of GASB Statement No. 34 are included in this Policy due to its wide applicability.

II. DEFINITIONS. These definitions are used for general purposes in this Policy. Different terminology may apply when dealing with grants, appropriations, etc.

<u>Acquisition</u> - The act of obtaining an asset by purchase, trade-in, capital lease, donation or escheat.

<u>Amortization</u> - When applied to a capital asset, the allocation of its cost over the period of its economic benefit. Amortization is calculated by expensing a prorated portion of the capital asset's cost each year of its estimated useful life. Amortization is computed with respect to an asset's period of legal benefit. For most purposes in this Policy, the term "depreciation," in any grammatical form, is deemed to include "amortization," in any corresponding grammatical form.

<u>Ancillary Costs</u> - Costs required to bring a capital asset into use. Such costs include delivery, installation, sales taxes, legal fees, documentation charges, etc.

<u>Asset Identification Number</u> - Property number, property tag number, serial number, parcel number or other number uniquely and specifically identifying the capital asset. May also be referred to as "Asset Number."

<u>Bargain Purchase Option</u> - A provision of a lease agreement that allows the lessee to purchase (typically at the end of the initial lease term) the leased asset at a price that is so low (generally substantially lower than the estimated fair market value) as to make its exercise relatively certain.

<u>Betterment</u> - An addition made to, or change made in, a tangible capital asset, which is expected to prolong its useful life, to alter its original functionality, or to increase its efficiency or level of service over and above the effects arising from repairs and maintenance. The cost of a tangible betterment that meets or exceeds the Town's capitalization threshold is therefore added to the book value of the original tangible capital asset to or into which the tangible betterment is added, affixed or installed. The term "betterment" is <u>not</u> deemed to include building improvements, land improvements or leasehold improvements.

<u>Book Value</u> - The cost of an asset less its accumulated depreciation or amortization.

<u>Building Improvements</u> - Fixtures, machinery and other items attached to or installed in Town-owned buildings in such a way that they cannot be removed without causing damage to themselves or the buildings to which they are affixed.

<u>Buildings</u> - Structures, generally roofed and walled, including constructed buildings and manufactured buildings, or the cost to purchase, erect or install such structures.

<u>Business-type Activities</u> - Activities of government that operate similarly to private businesses. Such activities are most often substantially financed by fees, subscriptions, service charges and licenses charged

to users or licensees. Business-type activities are typically accounted for in proprietary (i.e., enterprise and internal service) funds.

Cannibalization - The act of using one object (such as a computer) as a source of spare parts for other objects.

Capital Asset - A long-lived tangible asset that meets its capitalization threshold, is reported on the balance sheet, and the cost of which is to be recovered over several fiscal years. Examples of tangible capital assets include buildings, land and equipment. Capital assets include depreciable and amortizable assets, inexhaustible capital assets, and infrastructure assets. In the past, tangible capital assets were often referred to as "fixed assets." The term "fixed asset" is used interchangeably with "capital asset" in this Policy.

Capital Lease - A fixed-term and generally non-cancelable lease that, during the term of the lease, results in a substantive transfer of the rights and risks of ownership of a capital asset from the lessor to the lessee. At the end of a capital lease, title to the underlying property is transferred from the lessor to the lessee at a bargain price. Reflecting its substance rather than its form, the transaction is treated as a purchase by the lessee and a sale by the lessor.

Capitalization - The method used to record the Town's long-lived assets in such a way that they appear on the balance sheet and their costs are recovered over several fiscal years. The cost recovery related to tangible assets is, in most circumstances, called depreciation. Capitalization requires the proper selection of an object code listed in the Capital Expenditures section of the Chart of Accounts (see character code 80, objects 8001 through 8099) to match the item acquired.

Capitalization Threshold - The cost at or above which a long-lived resource should be capitalized. The Town's current capitalization threshold for tangible resources is $10,000. Amounts spent to acquire long-lived resources with a cost falling below the capitalization threshold should be expensed.

Capitalize - To record a long-lived tangible resource in such a way that it appears on the balance sheet as an asset; the cost of an asset is recovered over several fiscal years by way of depreciation or amortization.

Computer Hardware - All the equipment that can be considered a component of, is typically attached to, or communicates with an information system, including without limitation, processing units, memory apparatus, input and output devices, storage devices and connectivity equipment.

Computer Software - The non-equipment components—operating systems and applications—of an information system, including without limitation, websites.

Constructed Building - A roofed and walled structure, of a permanent and immobile nature, principally erected upon the site it occupies.

Construction in Progress - The costs incurred for uncompleted capital projects involving the construction or installation of buildings, improvements, roadways, bridges, etc. The term also extends to other tangible capital assets, such as large computer or telecommunications systems, including the software components of such systems, which have been undertaken but not brought into service by the end of a reporting period.

Cost - The price paid, to be paid or deemed to have been paid to acquire an asset.

Depreciation - The recognition of a tangible capital asset's deterioration or devaluation over the period of its projected physical utility. Depreciation is calculated by expensing a prorated portion of an asset's cost in each year of its estimated useful life. For most purposes in this Policy, the term "depreciation," in any grammatical form, is deemed to include "amortization," in any corresponding grammatical form.

Escheat - The reversion of property to the State of Arizona brought about by the death of an owner without legal heirs or by the owner's abandonment of the property.

Executory Costs - Expenses or expenditures incurred and/or paid during the life of a lease, such as insurance, maintenance and property taxes with respect to the leased property.

Expense - To recognize a current period's outlay or a portion of a prior period's outlay as a current period cost or operating expenditure; an outlay recognized as a current period cost or operating expenditure. When applied to tangible resources, this term indicates that a given resource's entire cost or an asset's residual value is to be treated as an operating expenditure of a single fiscal year rather than being depreciated or amortized over its estimated remaining useful, contractual or legal life.

Expensed Tangible - A tangible that, because of its nature and relatively low monetary value, is expensed rather than capitalized.

Fair Market Value - The amount at which an asset could normally be exchanged between willing parties. Fair market value at the time of acquisition can be estimated by reference to: manufacturers' catalogs or price quotes in advertisements; contemporaneous sales of comparable assets or publications that specialize in listing prices of particular kinds of assets (e.g., the *Kelley Blue Book* of used car prices). Fair market value can also be established by using the services of an industry expert or appraiser.

Fixed Asset - An accounting term that historically referred to tangible capital assets. The term "fixed asset" is used interchangeably with the terms "capital asset" and "tangible asset" in this Policy.

Furniture, Vehicles and Equipment - All tangible personal property including office furniture, automobiles, copiers, computer hardware, etc.

GASB - Governmental Accounting Standards Board; the body authorized to establish accounting standards for State and local governments.

GASB Statement No. 34 - A pronouncement issued by the GASB in June 1999, entitled *Basic Financial Statements–and Management's Discussion and Analysis–for State and Local Governments.*

Governmental Funds - The type of fund used to record governmental-type activities, including without limitation, the general fund, special revenue funds, debt service funds, capital project funds and permanent funds.

Governmental-type Activities - Non-business, general activities of government, usually financed by taxes and grants. Governmental-type activities involve the provision of social goods and services, such as public health, welfare, education and safety as well as the administration of government as a whole. Governmental-type activities are typically accounted for in governmental (i.e., general, special revenue, capital projects, permanent and debt service) funds.

GVWR - Gross Vehicle Weight Rating; the maximum allowable total weight of a road vehicle or trailer when loaded, including the weight of the vehicle itself plus fuel, passengers, cargo, etc. The GVWR is the basis for commercial truck classification in the United States.

Improvements other than Buildings - This includes the cost of land improvements, leasehold improvements and other improvements except buildings. These improvements include the cost of landscaping, retaining walls, fences and parking lots.

Indefinite - When applied to the lives of long-lived resources, this term means indeterminable or without a precise limit. The time span implied by this term is generally lengthy, but not infinite.

Inexhaustible Capital Asset - An asset whose economic benefit or service potential expires so slowly that its estimated useful life is incalculable or, at least, extraordinarily long such as land and often public art.

Infrastructure Asset - A stationary capital asset with a long useful life. Examples of infrastructure assets include roads, bridges, tunnels, water and sewer systems, street lighting and traffic control systems, dams, etc. Infrastructure assets are frequently components of infrastructure networks or subsystems.

Infrastructure Networks and Subsystems - An infrastructure network is composed of all assets that provide a particular type of service. An infrastructure subsystem is composed of all assets that make up a portion or segment of a network. For example, a highway system could be considered a network. Roadbeds, pavement, guard rails, signage and lights could be considered subsystems of that network.

Installment Purchase Agreement - A contract used to finance the acquisition of capital assets. Under the terms of such an agreement, the buyer pays the seller the full purchase price by making a series of partial payments over time. The payments include stated or imputed interest. The buyer takes title to the property at the inception of the agreement. The seller retains a security interest in the property until all of the specified payments have been made.

Land - Real estate acquired by purchase, capital lease, condemnation, gift, grant, escheat or other lawful means.

Land Improvement - The cost of enhancements—other than buildings, building improvements, building betterments or leasehold improvements—to raw land, including without limitation, the non-maintenance aspects of landscaping, blacktopping, etc.

Leasehold Improvement - Permanently attached fixtures, machinery and other items, such as carpeting, that cannot be removed without cutting into walls, ceilings, floors or otherwise damaging the leased property or the items to be removed.

Long-lived - Providing economic benefits for more than a single fiscal year.

Long-lived Resource - A term incorporating all tangible resources, whether capitalized or expensed, with an economic benefit that extends beyond a single fiscal year. Includes without limitation, land, improvements to land, rights of way, infrastructure assets, buildings, building improvements, improvements other than buildings, construction in progress, leasehold improvements, vehicles and other transportation equipment, machinery, equipment of any description, furniture, fixtures, betterments, public art, software, and any or all other tangible resources that have initial useful lives extending beyond a single reporting period.

Maintenance - Expenditures, periodic in nature, designed to prevent a building or other capital asset from deteriorating in its basic capacity to perform the functions it was designed to perform over its expected useful life. Maintenance can include painting, replacing worn parts, cleaning, lubricating, etc.

Manufactured Building - A roofed and walled structure, often mobile in nature, installed at the site it occupies, but primarily fabricated elsewhere.

Modular Furniture System - A modular furniture system is comprised of all the interrelated components that make one or more workstations or cubicles. A modular furniture system includes the panels, work surfaces, storage units and hardware that make up the cubicles or workstations.

Munis - The Town-wide system of computer programs used to record financial and other activity for the Town.

Munis – Fixed Asset Subsystem - The subsystem of Munis, maintained by the Finance Department of the Town, that records tangibles that are to be capitalized as well as tangibles that, while expensed, are to be tracked to fulfill a fiduciary duty. Munis computes the depreciation or amortization of capitalized tangibles.

OMB - Office of Management and Budget. A unit within the executive branch of the Federal Government that, among its other duties, promulgates accounting policies to be employed in the administration of Federal funds.

Operating Lease - A lease that does not result in a substantive transfer of the rights and risks of ownership from the lessor to the lessee.

Present Value - An amount determined by discounting a stream of future payments at a stated or imputed rate of interest.

Public Art - The work of a visual artist located in a publicly accessible space, including without limitation, paintings, murals, statues, stained glass, fiber art, relief or other sculpture, fountains, arches and other structures intended for ornament or commemoration, carvings, frescos, mosaics, mobiles, photographs, drawings, collages, prints, landscape art and crafts, both decorative and utilitarian. Public art may also be referred to as works of art or historical treasures.

Repairs - Expenditures, non-periodic in nature, focused on recovering from damage done to an asset. The goal of repairs is to return the asset to the same status that existed before it became damaged. Repairs can include replacing broken windows or damaged locks, fixing the results of accidents, storm damage or vandalism, and similar expenditures.

Residual Value - Book value; the cost of an asset less its accumulated depreciation claimed to date.

Resource - A property, possession, right or other item of value. A resource, based upon its nature and value, may be capitalized, in which case it is referred to as a capital asset, or expensed. Some resources, even when expensed, must be inventoried and protected; such resources are referred to as stewardship resources.

Salvage Value - The presumed or estimated value of a capital asset at the end of its useful life.

Software - The collection of programmatic instructions employed to direct or manage the operation of a computer and the data collected, retained or manipulated by such instructions.

Stewardship Resource - A tangible resource, either capitalized or expensed, that because of its nature (e.g., a handgun kept by a law enforcement unit), intrinsic value (e.g., exceeding the capitalization threshold for a tangible asset) or its relatively high value compared to its transportability and concealability (e.g., a laptop computer) that should, to the extent practicable, be inventoried, tracked and protected from damage or loss.

Straight-line Method - A way of computing depreciation or amortization. The straight-line method recognizes the reduction of a capital asset's value equally over all the months of its useful life.

Tangible - Possessing physicality; perceivable to the sense of touch.

Tangible Asset - A tangible resource that, because of its nature and value, is capitalized.

Tangible Betterment - A betterment made to a tangible capital asset.

Tangible Resource - A tangible resource is a resource that has a physical substance and has a useful life that extends beyond a single fiscal year. Depending upon its nature and value, a tangible resource is treated, for accounting purposes, either as an expensed tangible or as a tangible asset.

Town - The Town of Fountain Hills, Arizona.

Useful Life - The estimated period during which a capital asset will be of economic benefit. In the case of most tangible assets, that useful life is indirectly related to the physical deterioration or obsolescence of the underlying asset; in the case of certain tangible assets, e.g., leasehold improvements, that useful life is either directly related to the legal period of its economic benefit or indirectly related to the underlying asset's obsolescence. Renewal periods can be included as part of the useful life if the contract is likely to be extended and the extension will maintain requisite service levels. The consent and intent of the third party need to be considered when contemplating the extension of a useful life beyond the initial contract term.

Website - A group of programs, graphics, screens, documents and data maintained on the World Wide Web for a particular purpose and regarded as a single entity. For purposes of capitalization, amortization and financial reporting, websites are to be accounted for as software.

Whole-month Convention - In computing depreciation and amortization, the practice of treating an asset as having been in service for an entire month, irrespective of which day of the month the asset is actually placed in service.

III. POLICIES AND PROCEDURES

A. General Policies. The investment of public funds in land, improvements to land, rights of way, infrastructure assets, buildings, building improvements, improvements other than buildings, construction in progress, leasehold improvements, vehicles and other transportation equipment, machinery, equipment of any description, furniture, fixtures, betterments, public art, infrastructure and any or all other tangible resources, whether capitalized or expensed, must be adequately safeguarded. Physical and accounting control procedures established by the Town Manager must be followed by each Department Director. Consistent with this, each Department Director must implement the following internal control and accounting policies as they relate to long-lived resources, whether capitalized or expensed:

1. Recording Generally.

a. Stewardship resources that do not meet the Town's capitalization threshold may be entered into Munis for identification and tracking purposes.

b. The Finance Department, typically with the cooperation and assistance of the controlling Department, is required to account for capital assets and tangible stewardship resources (i.e., those items that are not capitalized but are considered to be at relatively high risk of loss or theft, such as weapons, computer hardware, smart phones, cameras, projectors, etc.). Although not required to do so, to facilitate recordkeeping, a Department may record other items.

2. Capitalization Guidelines. All Departments must use the capitalization guidelines established herein. See Subsection III.B - General Capitalization Policies.

3. Acquisition and Disposal. All acquisition and disposal of capital assets and stewardship resources must be properly authorized by the Department Director or the Department Director's designee.

4. Stewardship.

a. The Finance Department must maintain a capital asset listing of tangible assets, recording, at a minimum, the asset identification number, description and location of the asset, date of acquisition, date of disposal and cost, as well as the method of acquisition, funding source and purchase document number when available. A listing of all stewardship resources, even if not capitalized, should also be retained. See Subsection III.H - Stewardship.

b. All tangible assets and stewardship resources must, to the extent practicable, be tagged or otherwise identified as Town property. The assigned asset identification number must be recorded on the capital asset listing.

c. All capital assets must be included on the Town's capital asset listing.

d. Purchases of capital assets and stewardship resources should be added to the Town's capital asset listing within one month from the date the check paying for the capital asset is issued or, in the case of internally constructed assets, processed utilizing construction in progress projects, within one month of being placed into service.

e. Capital assets and stewardship resources that have been disposed of should be recorded as disposed within one month of the disposal date. See Subsection III.P - Disposals.

5. Physical Inventory.

a. Except with an exception granted by the Finance Director, a physical inventory of capital assets must be taken no less than once every three years. To compile the capital asset listing, all additions and/or deletions must be properly recorded as of June 30 of each fiscal year.

b. A physical inventory of stewardship resources should also be taken no less frequently than once every three years.

6. Lost, Stolen or Destroyed Capital Assets or Stewardship Resources. All Departments must report lost, stolen or destroyed non-expendable material (accompanied by police reports, if applicable) to the Finance Director, allowing adequate time for the report to reach the Finance Director within ten days after discovery of the loss. Such losses are also to be reported to the Risk Management Department.

7. Document Retention. The Finance Department must maintain all documentation relating to the acquisition and disposal of a capital asset and a stewardship resource throughout the life of the capital asset or stewardship resource, as applicable, and for a limited time after disposal. See Subsection III.J - Document Retention.

8. Classification of Expenditures.

a. If an expenditure maintains the original condition of an asset, it should be classified as maintenance expenditure. (Character code 62, object codes 6210 through 6290, as appropriate.)

b. An expenditure that returns an asset to the condition it enjoyed before having been damaged should be classified as a repair. (Character code 62, object code 6210 through 6290, as appropriate.)

c. An expenditure that extends the useful life, increases the value, augments the functionality or enhances the level of service or efficiency of an underlying capital asset should, if it meets capitalization thresholds and other requirements appropriate to the asset, be treated as a betterment.

B. General Capitalization Policies. Certain types of assets have specific provisions contained in Subsection III.C - Capitalization Policies for Specific Types of Assets. Moreover, certain activities that may affect any type of long-lived resource are discussed in Subsections III.D through III.T. Unless otherwise provided, the following policies may be applied to all long-lived resources owned by the Town.

1. Except as may otherwise be specifically provided herein, if a tangible resource costs $10,000 or more, it must be capitalized and depreciated or amortized over its useful life.

2. Capital assets must be recorded using character code 80, object codes 8000 through 8098 when entering a claim on Munis.

3. Tangible resources that are to be expensed must be recorded using character code 66, object codes 6601 through 6685 when entering a claim on Munis.

4. Tangible resources that are not to be capitalized should be expensed. In spite of this treatment, such assets are of value to the Town and may impose a custodial obligation upon those in possession of them. See Subsection III.H - Stewardship.

5. Improvements other than buildings are to be capitalized if (a) the total project cost is $10,000 or more and (b) the capital improvement increases the utility of the asset or significantly extends its useful life.

6. Furniture, vehicles and equipment must be capitalized if the unit cost of such an asset is $10,000 or more and the useful life of the asset is greater than one year. A tangible resource with a unit cost of less than $10,000 is properly classified as an expensed tangible. Expensed tangibles, such as equipment that costs less than $10,000, must be recorded using character code 66, object codes 6601-6685 when processing a claim on Munis.

7. A tangible resource with a cost of $10,000 or more that is acquired under the terms of a capital lease is to be capitalized. See Subsection III.K - Capital Leases for discussion of capital leases.

8. A tangible betterment must be capitalized if its cost is $10,000 or more. The cost of a tangible betterment may be added to the book value of the underlying or original asset, or may be entered as a separate asset. Tangible betterments do not include building improvements (categorized as Buildings), land improvements or leasehold improvements. A tangible betterment that costs less than $10,000 should be classified as an expense item.

9. A tangible resource with a unit cost of less than $10,000 but more than a threshold cost established by the Town will typically be identified as equipment. This equipment may be tagged with an asset identification number and for stewardship reasons may be kept on a supplementary list.

10. The Town should use the straight-line method of depreciation or amortization.

11. The Town should use the whole-month convention in computing depreciation or amortization.

12. Inexhaustible assets should not be depreciated. Examples of items included in this category are public art and land.

13. Ancillary costs associated with acquiring a capital asset that span multiple fiscal years should be accumulated as deferred charges until the acquisition is accomplished or abandoned. If the asset is acquired, the ancillary costs should be added to the cost of the asset. If the asset is ultimately not acquired, the ancillary costs should be expensed at the time the acquisition is abandoned.

C. Capitalization Policies for Specific Types of Assets. In case of conflict, the policies set forth for specific types of asset prevail over the general policy provisions.

1. Land.

a. All land must be capitalized, irrespective of cost.

b. Land is an inexhaustible asset and is not depreciated.

2. Land Improvements.

a. Land improvements should be depreciated.

3. Buildings and Their Improvements.

a. All buildings and additions or improvements to buildings where the cost exceeds $10,000 must be capitalized.

b. Buildings and capitalized additions or improvements to buildings should be depreciated.

c. If a building improvement extends the useful life of the building onto which it is affixed, then the useful life of the building should be extended to reflect its new life. If so treated, the useful life of the improvement will be equal to the extended useful life of the building.

d. If a building improvement does not extend the useful life of the building onto which it is affixed, the useful life of the improvement is the shorter of:

1) The estimated useful life of the improvement itself, or

2) The remaining useful life of the building onto which it is affixed.

4. Leasehold Improvements. For purposes of this subsection, a leasehold improvement is one which is acquired, installed or constructed at the direct cost of the Town as lessee in a facility that is not owned by the Town. Direct cost here means that the improvements are paid for separately rather than being remitted by way of an increase in the periodic lease rate.

a. Leasehold improvements are to be amortized over the shorter of the asset's useful life or the remaining term of the lease. The remaining term of the lease includes the balance of the original term plus any quantified renewal periods. A quantified renewal period is one in which the lessee has an explicit option to renew for a finite amount of time at a definite and stated price that the lessee intends to exercise. If the leasehold and, hence, the leasehold improvements are abandoned before the expiration of the originally estimated useful life, the unamortized balance of the leasehold improvements should be expensed in the period when the abandonment occurs.

> Example: A department, with funds appropriated to it for the purpose, has had several offices constructed at its own expense in a building it leases from a non-governmental entity. The total cost of construction was $40,000. The construction is estimated to have a useful life of 40 years. The original term of the lease, which commenced one year ago, is five years; the lease contains a three-year option to renew, which the department intends to exercise.
>
> *In the preceding example, the remaining term of the lease is* 84 *months* (60 – 12 + 36); *the estimated useful life of the construction is* 480 *months. The construction should be amortized over* <u>*84 months*</u>.

b. Buildings or improvements made or constructed under the terms of a special use permit on lands not owned by the Town should be treated as leasehold improvements.

5. <u>Computer and Telecommunications Equipment</u>.

a. Whether it must be capitalized or not, computer and telecommunications equipment must be safeguarded. In addition to a fiduciary duty to protect computer equipment, there is a responsibility to report inventories of computer equipment.

b. A computer hardware system or subsystem, or a computer component with a single-unit cost of $10,000 or more, should be recorded using the appropriate character code 80, object codes in the range of 8030 through 8040.

If the hardware extends the useful life or expands the capacity of the asset to which it is added, it should be treated as a betterment. It should be recorded using character code 80, object code and the tag number of the previously recorded asset to which it is added.

> Example 1: A department purchased a new, high volume, duplex, full color scanner at a cost of $12,500. This asset must be <u>capitalized</u>.
>
> Example 2: A $120,000 high-speed storage device is added to a two-year-old mainframe computer that cost $3,000,000. The storage device will increase the speed and value of the computer and will extend its useful life by a year. At the time the storage device is added, the computer's net book value was $1,800,000 ($3,000,000 - ($3,000,000/60 x 24)). Monthly depreciation expense for the remainder of the computer's useful life is $52,500 (($1,800,000 + $120,000) / (60 - 24 + 12)).

c. A computer hardware system or subsystem, or a computer component with a single unit cost of less than $10,000 should be recorded using character code 62, object codes in the range of 6230 through 6260 or character code 65, object codes in the range of 6501 through 6509, depending on the purchase.

The use of an object code in the prescribed range will result in the asset being expensed, but the asset may be treated as an inventory asset (i.e., expensed but identified for purposes of stewardship).

Example 1: A department purchased 20 new laser printers in a single acquisition of $12,000. Though the aggregate purchase price exceeded $10,000, the single-unit cost was only $600 ($12,000/20), so the printers should not be capitalized.

Example 2: A department purchased, for a total cost of $15,000, 120 memory chips to upgrade all of its personal computers. Though the aggregate purchase price exceeded $10,000, and though the memory chips extend the useful lives of the computers into which they are installed, the cost of these chips should be expensed, not capitalized. The single-unit price of the components was only $125.

d. Because a computer is an aggregation of potentially interchangeable, reusable and independently operable components, the determination of whether its cost meets the capitalization threshold is not always clear. In general, a unitary approach should be adopted. If a computer, though an assemblage of separate components, is intended to be used as a unit, it should, for capitalization purposes, be treated as a single asset.

The unitary approach should be extended to computers, file servers, web servers and similar devices. It should not be extended to the peripheral devices (workstations and printers) attached to local or wide area networks (LANs or WANs), since each workstation or printer, though attached to and communicating with the network, can and is intended to be operated independently.

6. Modular Furniture Systems.

a. Modular furniture systems (i.e., cubicles and their components)—including desktops, shelves, partitions, storage drawer pedestals, stanchions, etc.—are considered independently functioning tangible resources and, therefore, are not collectively evaluated for capitalization.

b. If an individual component of a modular furniture system costs $10,000 or more, it should be treated as an individual capital asset.

7. Public Art.

a. Unless a written exception is granted by the Finance Director, public art in the possession of the Town is to be treated as capitalized assets. Public art is subject to all the following provisions:

1) The item is to be held for public exhibition, education or research in furtherance of public service, rather than for financial gain; and

2) The item is to be protected, cared for and preserved; and

3) All public art must be acquired, maintained and disposed of following existing policy related to the handling of these items. See the Public Art Master Plan.

b. All public art is considered inexhaustible. Inexhaustible individual items need not be depreciated.

D. Determination of Cost.

1. Most of the Town's capital assets should be initially recorded at historical cost; assets acquired by donation or escheat are recorded at fair market value at the date of acquisition. Cost is generally defined as "consideration given or consideration received, whichever is more clearly determinable." Cost includes all normal and necessary expenses incurred to make the asset ready for its intended use. These ancillary costs include without limitation:

a. Title search fees, recording fees and other closing costs.

b. Grading, filling and clearing of land.

c. Assumption of liens.

d. Attorneys' and architects' fees.

e. Building permit fees.

f. Freight charges.

g. Taxes and the assumption of delinquent taxes.

h. Installation, assembly and testing charges.

i. In the case of business-type activities, construction loan interest and the costs of interim financing.

NOTE: Interest costs associated with long-term obligations (such as contracts or lease- purchase agreements) are not ancillary costs and should be accounted for separately, not capitalized as part of the asset.

2. Capital assets acquired by outright purchase should be reported at historical cost. Except for interest expense, the cost of a capital asset generally includes incidental costs required to ready the asset for use.

3. The cost of capital assets used in governmental-type activities should not include capitalized interest. The cost of capital assets used in business-type activities should include capitalized interest.

4. Capital assets acquired through donation, escheat or discovery (i.e., the asset was found) should be reported at fair market value at the date of acquisition.

5. The cost of a capital asset acquired by means of a capital lease is the present value of future lease payments. The present value is computed as of the inception of the lease.

6. The cost of a capital asset acquired in whole or in part by trading in another asset is determined as described in Subsection III.R - Trade-Ins and Warranty Replacements of Capital Assets or Stewardship Resources. The cost of capital assets transferred between Departments is the net book value of the asset at the time of the transfer.

E. Computation of Depreciation or Amortization.

1. Depreciation (and amortization, in the case of certain assets) is the allocation of the cost of the capital asset over its economic useful life. An asset will be depreciated if the following two conditions are met:

a. The in-service date falls before the end of the month for which depreciation is to be calculated, and

b. The asset's cost less its accumulated depreciation is greater than its salvage value.

2. Character code 85, object codes 8510 through 8540 are used to record the depreciation or amortization expense on Munis.

3. The amount of depreciation that will be computed in any given month will be the asset's depreciable value (cost less salvage value) divided by the number of months of its useful life (the straight-line method). The number of months used in computing an asset's depreciation will, by default, be the useful life of the asset. Or if, for some reason, the useful life of the asset should be other than that normally associated with an asset, then the number of months normally assigned will be used to compute the asset's depreciation. See the following formulas and examples for demonstration.

4. Calculation of Monthly Depreciation Expense:

The amount of depreciation expense to record each month is calculated by applying the following formula:

$$\frac{\text{Cost of Asset — Salvage Value (if known)}}{\text{Number of Months of Useful Life}} = \text{Monthly Depreciation Expense}$$

Example: A light-duty, general-purpose truck with no known salvage value is purchased on July 1, 2010, for \$30,000. What is the amount of monthly depreciation expense to be recorded?

$$\frac{\$30{,}000}{60 \text{ months}} = \$500 \text{ per month}$$

5. There is no need for Departments to manually enter the depreciation expense each month.

The journal entry generated to record the depreciation expense for the example above would be, excluding the organization code:

Object code 8540 Depreciation Expense - Vehicles 500.00
Object code 1545 Accumulated Depreciation - Vehicles, Machinery & Equipment 500.00

F. Calculation of Salvage Values. In the absence of an alternative, established, consistently applied method for determining salvage value, the salvage value to be used for assets held in governmental funds should be zero (0).

G. Useful Lives and Object Codes. The following table shows the appropriate useful lives and object codes which should be used for various tangible resources:

Tangible Resources			
Asset Type	**Useful Life**	**Object Code Purchased Asset**	**Object Code Leased Asset**
Land	N/A	1500	1500
Public Art	N/A	1550	1550
Buildings	50 Years	1510	1510

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Tangible Resources (continued)			
Asset Type	**Useful Life**	**Object Code Purchased Asset**	**Object Code Leased Asset**
Building Improvements	20 Years	1510	1510
Improvements Other Than Buildings	20 Years	1530	1530
Infrastructure Assets	15-50 Years	1520	1520
Aerial Lift Platforms	12 Years	1540	1540
Audio Visual Equipment	5 Years	1540	1540
Computer Hardware	5 Years	1540	1540
Computer Software	5 Years	1540	1540
Heavy Duty Trucks*	15 Years	1540	1540
Ladder Trucks	15 Years	1540	1540
Light Duty Trucks*	10 Years	1540	1540
Medium Duty Trucks*	12 Years	1540	1540
Misc. Machinery/Equipment	10 Years	1540	1540
Office Equipment	5 Years	1540	1540
Office Furniture	5 Years	1540	1540
Pumper Trucks	15 Years	1540	1540
Safety Equipment	5 Years	1540	1540
Sedans	10 Years	1540	1540
Small Utility Equipment	7 Years	1540	1540
Sport Utility Vehicles (SUVs)	10 Years	1540	1540
Street Sweeper	8 Years	1540	1540
Telecommunications Equipment	5 Years	1540	1540
Tractors/Loaders	20 Years	1540	1540
Trailers	10 Years	1540	1540

*Truck classification is determined based on the vehicle's gross vehicle weight rating (GVWR). The Department of Transportation's Federal Highway Administration (FHWA) groups classes 1–3 (0-14,000 lb GVWR) as light duty, classes 4–6 (14,001 – 26,000 lb GVWR) as medium duty, and classes 7–8 (over 26,000 GVWR) as heavy duty.

To determine the useful life of a type of asset not represented in the table or to use a useful life different from one set forth in the table, please contact the Finance Director.

H. Stewardship. Capital assets and stewardship resources represent a significant investment by the Town. Care must be taken in safeguarding and accounting for all capital assets and stewardship resources. The following are specific minimum requirements for the establishment and maintenance of a capital asset and stewardship accounting or inventory system.

1. A list of all tangible capital assets and stewardship resources, including without limitation, land, buildings, infrastructure, improvements other than land, furniture, vehicles, software and equipment, must be maintained and include:

a. Asset Identification Numbers (property tag number or other number specifically identifying the item).

b. Description (model number, serial number, license number, size, color, version, component type, program title, etc.).

c. Location (address, building, floor, room, parcel number, cabinet, etc.).

d. Acquisition Date (month and year acquired or, in the case of internally generated construction in progress projects, the date placed into service).

e. Cost (as applicable, actual or estimated historical cost, development or construction cost, or fair market value).

f. Method of acquisition (optional, if available).

g. Funding source (optional, if available).

h. Purchase document number (optional, if available).

2. The Town's list of capital assets and stewardship resources should generally be maintained and updated. With the approval of the Finance Director, another comprehensive system of managing capital assets and stewardship resources may be used. Such a system must be capable of recording and reporting upon the required information.

3. Purchases of capital assets and stewardship resources should be added to the Town's capital asset listing within one month from the date of issuing the check for payment of the capital asset or, in the case of internally generated construction in progress projects, within one month of being placed into service.

4. Capital assets and stewardship resources that have been disposed of should be recorded as disposed of within one month from the date of disposal.

5. After the completion of a physical inventory of all capital assets and stewardship resources, the inventory must be reconciled to the Munis capital asset listings.

6. All cost documentation, such as vendor invoices, claims, requisitions, purchase orders, packing slips and receiving reports that support the information on the capital asset listing must be retained in a method consistent with those outlined in Section III.J - Document Retention. This can be accomplished by the use of a separate capital asset file or by any other consistently applied method that furnishes an audit trail that can readily be followed.

7. At the end of the fiscal year, the Finance Department must reconcile the total cost of capital asset acquisitions made during the year to the total capital expenditures recorded in Munis for the year. The required reconciliation must be completed as of June 30 each year.

8. Individual items within a group of assets may not need to be capitalized. See Subsection III.L - Groups of Assets. However, such items may individually or collectively represent a significant investment of Town resources. Departments are to employ measures to safeguard items within a group of assets commensurate with the value of the assets and the risk of loss.

I. Physical Inventory. The Town must perform a physical inventory of its capital assets at least every three years to ensure that adequate care is being used in the control and accountability of Town resources. The physical inventory must be carefully planned and supervised by the Finance Director for reliable results. Presented below are the procedures that must be incorporated into the overall scope of each physical inventory.

1. Unless approval is granted by the Finance Director, the physical inventory should be taken every third year between March 30 and June 30. If the inventory is taken before June 30, a reconciliation of additions and deletions from the date of the inventory through June 30 must be made.

2. If an accurate count is to be obtained, the movement of capital assets and stewardship resources during the inventory-taking period should be limited as much as possible. Movable equipment should be retained at the location established at the beginning of the inventory process whenever possible. All new acquisitions should be retained and accounted for in an easily identified area until counted.

3. A current capital asset listing must be obtained prior to the start of the inventory.

4. The Finance Director or designee may subdivide the capital asset listing into smaller, more manageable groups. The Finance Director may create a control log to record the distribution and receipt of the capital asset listings.

5. The Finance Director should assign personnel the task of comparing the Department's capital assets and stewardship resources to the capital asset listing. The task of comparing capital assets and stewardship resources to the capital asset listing should not be assigned to personnel who have custodial responsibility for those capital assets or stewardship resources.

6. All capital assets or stewardship resources located by physical inspection should be indicated by initialing or otherwise marking next to the asset or resource item on the capital asset listing. Any capital assets or stewardship resources located but not found on the capital asset listing should be added to the capital asset listing. Capital assets or stewardship resources identified on the capital asset listing but not physically located should be documented in writing on the capital asset listing next to the asset or resource.

7. As soon as an updated capital asset listing has been completed, it should be forwarded to the Finance Director designee for review. The Finance Director designee will sign and date the listing after he/she is confident with the findings and submit it to the Finance Director.

8. The Finance Director should check submitted capital asset listings against the control log to verify that all listings have been received.

9. A responsible employee should review all updated capital asset listings for accuracy and completeness.

10. The Finance Director should then perform a random sample test of capital assets within the listings to determine the overall accuracy of the physical inventory. After testing has been completed, the Finance Director will sign and date the capital asset listing.

11. After the inventory is completed and reviewed, an employee not involved in preparing or reviewing the capital asset listings and not having custody of the capital assets or stewardship resources should reconcile the physical inventory listings to the capital asset listing.

12. All additions, deletions or changes determined as a result of the physical inventory must be recorded in Munis.

13. The Finance Director should retain all documentation supporting the physical inventory.

J. Document Retention.

1. Documents relating to the acquisition and disposal of capital assets and stewardship resources are to be retained as specified by the Arizona State Library, Archives and Public Records, Records Management Division, Records Retention and Disposition for Arizona Municipalities. Typically, the required retention is throughout the life of the capital asset and for the following periods after disposal:

a. For purchases made with Town funds, the longest of whichever of the following is applicable:

1) Three fiscal years after the end of the fiscal year in which the asset was disposed.

2) Six fiscal years after the fiscal year in which title was transferred under the terms of a capital lease.

3) Three fiscal years after the related invoices, checks, etc., were issued.

b. With respect to purchases made with Federal Grant funds, the document retention requirements for capital assets are contained in OMB Circular A-102 (10/7/94, amended 8/29/97) and the A-102 Common Rule. All financial records, supporting documentation, statistical records and all other records pertinent to a grant shall be retained for a period of three years from the date of submission of the final expenditure report or, for grants that are renewed annually, from the date of the submission of the annual financial status report.

2. Documents required to be retained include all records supporting the cost, acquisition date, description of the capital asset and disposal including vendor invoices, claims, requisitions, purchase orders, packing slips, receiving reports, property disposal request and certificate of disposal.

K. Capital Leases. Leases are classified as either capital leases or operating leases. If the cost of an asset acquired under the terms of a capital lease is $10,000 or more, both the asset and the indebtedness to be recognized with respect to the lease must be recorded on the balance sheet.

1. A lease is a capital lease if any one of the following four criteria is met:

a. Title to or ownership of the asset is transferred to the Town at the end of the lease.

b. The lease contains a bargain purchase option.

c. The lease term is equal to seventy-five percent (75%) or more of the estimated useful life of the leased property.

d. The present value of the minimum lease payments at the inception of the lease, excluding executory costs, equals at least ninety percent (90%) of the fair market value of the leased property.

Note: Criteria c. and d. above are not used for classification if the beginning of the lease term falls within the last twenty-five percent (25%) of the total useful life of the capital asset, including earlier years of use.

2. Leases that do not satisfy any of the four criteria set forth above are operating leases.

a. With an operating lease, the Town does not obtain title to or ownership of—but merely the temporary possession and use of—the asset to which the lease pertains. No asset should be recorded on the general ledger.

b. An asset possessed by the Town under the terms of an operating lease should be identified and tracked to ensure it is properly safeguarded.

3. The cost of an asset acquired under the terms of a capital lease equals the sum of the ancillary costs added to the present value of the minimum lease payments (except for executory costs included in the lease payments) plus any prepayments or down payments that apply. When recognized—as is true when the asset is acquired by a proprietary fund—the initial indebtedness incurred under a capital lease is equal to the cost of the leased asset.

4. Any Department entering into a capital lease must send a copy of the lease agreement—complete with payment and amortization schedules—to the Finance Director at the time the first payment is made.

5. The Finance Department is required to record all of the Town's capital lease agreements for capital assets that cost $10,000 or more. The Finance Department is responsible to ensure that any lease data is accurate and that the lease-related account balances on the general ledger are properly recorded. The Finance Director will provide whatever assistance is necessary to help compute and book the appropriate transactions.

a. The following steps briefly describe the process of recording an asset acquired under the terms of a capital lease:

1) At the time the first lease payment is made, the leased asset's cost should be recorded.

2) A leased asset's cost is the present value of future lease payments. An asset's cost can often be discerned by referring to the amortization schedule that accompanies the lease agreement.

b. In order to properly reflect lease balances and interest costs, the Town should make the appropriate adjustments to reflect the principal and interest components of all capital lease payments made during the reporting period.

1) These adjustments should be made no less frequently than annually as part of the fiscal year end closing procedures.

2) The Town may divide each periodic payment into its principal and interest components at the time the payment is made.

L. Groups of Assets or Resources.

1. Groups of assets or resources that may be purchased together or that are identical in nature, such as groups of desks, groups of chairs, etc., should be treated as individual resources or assets.

2. A software acquisition consisting of a number of licenses for or units of potentially independent or stand-alone applications—such as word processors or electronic spreadsheets—is to be considered a group of resources. Each unit or each user license is to be treated as an individual tangible resource and capitalized or expensed accordingly. However, an integrated or centralized system to which multiple users have access—such as Munis—is considered a single item rather than a group of resources or assets.

3. Items that are part of a group and individually cost $10,000 or more should be capitalized.

4. Groups of resources or assets do not include collections of public art. See Subsection III.C.7 - Public Art.

5. A unit assembled from component parts (e.g., a computer) is not a group of assets.

6. Groups of assets do not include modular furniture systems or their components. See Subsection III.C.6 - Modular Furniture Systems.

7. Even when individual items within a group of assets need not be capitalized, they may individually or collectively represent a significant investment of Town resources. Departments are to employ measures to safeguard items within a group of assets commensurate with the value of the assets and the risk of loss.

M. Gifts, Donations, Confiscated or Court-Awarded Capital Assets.

1. A capital asset received by the Town as a result of a donation, confiscation, court-award, escheat or other non-purchase means should be recorded at the time of its acquisition. The Department must determine and document the estimated fair market value of the capital asset for internal accounting purposes.

a. If the fair market value is $10,000 or more, the capital asset must be assigned an asset identification number and be recorded. It is important to remember that the object code used should match the type of capital asset received.

b. If the fair market value is less than $10,000, the Department can record and maintain the asset on an internal listing.

2. The ancillary costs of bringing a donated, confiscated or court-awarded capital asset into service should be treated as betterments.

N. Betterments. Betterments may increase the useful life, value or efficiency of the tangible assets to which they are added. Betterments are the result of expenditures made with respect to a given asset outside of normal maintenance activities or required repairs.

1. If a betterment increases the useful life of the underlying tangible asset, or increases the useful life in addition to increasing the value, functionality or efficiency of the

underlying asset, then the useful life may be adjusted and the newly estimated remaining useful life should be used to compute the depreciation of both the underlying asset and the betterment.

> Example: A $120,000 high-speed storage device is added to a two-year-old mainframe computer that cost $3,000,000. The storage device will increase the speed and value of the computer and will extend its useful life by a year. At the time the storage device is added, the computer's net book value was $1,800,000 ($3,000,000-($3,000,000/60 x 24)). Monthly depreciation expense for the remainder of the computer's useful life is $52,500 (($1,800,000 + $120,000) / (60 - 24 + 12)).

2. If a betterment increases the value or functionality or efficiency of the underlying tangible asset, but does not increase its estimated remaining useful life, then the betterment should be depreciated over the remaining useful life of the underlying asset.

> Example: A department purchased four high-speed fiber channels at a total cost of $65,000 for its three-year-old $2,000,000 mainframe computer. While these channels will significantly enhance the computer's throughput, they will not extend its useful life. When the channels were added, the computer's net book value was $800,000 ($2,000,000 - ($2,000,000 / 60 x 36)). Monthly depreciation expense for the first three years of the computer's life had been $33,333.33 ($2,000,000 / 60). Monthly depreciation expense for the remainder of the computer's life will be $36,041.67 (($800,000 + 65,000) / 24).

3. A betterment should be recorded using the object of the previously recorded asset to which it is added. A betterment may also use the asset identification number of the asset to which it is added. The use of a suffix will properly identify the new acquisition as a betterment of the asset originally identified by the asset identification number.

O. Construction in Progress. Construction in progress refers to resources that will, upon completion, be converted into tangible assets. Construction in progress can be used to accumulate costs for buildings, equipment and other incipient tangible assets.

Depreciation should not be computed for construction in progress. In all such cases, the asset's useful life and, hence, depreciation begins on the first day of the month in which the asset is placed into service, at which point the accumulated costs should be transferred from construction progress account to the appropriate asset account.

Questions concerning the transfer of construction in progress to the appropriate asset account should be directed to the Finance Director.

P. Disposals. Except as otherwise provided by law, the Finance Director is responsible for the disposal of all excess and surplus property, including capital assets and stewardship resources. Refer to the Finance Director for the procedures dealing with the disposal of capital assets and stewardship resources. After approval or acknowledgment by the appropriate Department Director or designee regarding the disposal of a capital asset or stewardship resource has been received and the disposal of the capital asset or stewardship resource has been accomplished, the Finance Department should record the capital asset or stewardship resource as disposed of on any internal listing within one month of the date of disposal.

In the case of titled assets, such as vehicles, the Finance Director may assist Departments in locating and properly executing title documents for proper transfer or abandonment of title of disposed assets.

Q. Transfer of Capital Assets or Stewardship Resources between Departments. Departments may occasionally transfer capital assets or stewardship resources between themselves, such as when a new Department is formed from or consolidated with an existing Department.

Transfers between Departments typically do not involve the receiving Department remitting cash or other resources to the losing Department.

The procedures for the most common type of transfer—that is to say, a transfer that does not involve cash or other forms of payment—are outlined below. For other types of transfers, please contact the Finance Director for guidance and assistance.

1. Procedures for Transferring Capital Assets or Stewardship Resources between Departments

a. Department losing capital assets or stewardship resources.

1) After receiving approval, remove the capital assets or stewardship resources.

2) Notify the Finance Department of the transfer. After the transfer is completed, the Finance Department will reassign the asset from the transferring Department to the receiving Department within Munis.

3) Transfer capital assets and stewardship resources and copies of the relevant documentation to the receiving Department.

4) Retain original documentation in accordance with the policies outlined in Subsection III.J - Document Retention.

b. Department gaining capital assets or stewardship resources.

1) After obtaining approval and authorization from the losing Department, receive capital assets or stewardship resources from Department transferring assets.

2) Assign asset identification numbers to the capital assets and stewardship resources received.

3) Notify the Finance Department of the completion of the transfer, after which the Finance Department will reassign the asset from the transferring Department to the receiving Department within Munis.

4) Record in Munis the capital assets or stewardship resources. The procedures to follow are similar to those used for a gift.

R. Trade-Ins and Warranty Replacements of Capital Assets or Stewardship Resources.

1. Before capital assets or stewardship resources are disposed of by trade-in to a vendor towards credit on a purchase, the Finance Director must approve this method of disposal. After approval has been obtained, the capital asset or stewardship resource traded in must be removed from any internal listing. The new asset or resource should be recorded.

2. The cost of a capital asset acquired by trade-in is equal to the cash paid for the new asset, plus the original cost of the asset surrendered as a trade-in, less the accumulated depreciation

related to the surrendered asset. The useful life of the capital asset acquired by trade-in is the same as it would have been had no trade-in been involved.

3. In the event an asset is acquired as a replacement for some other asset under a warranty or guarantee arrangement, the new asset is, generally, to be assigned the cost and accumulated depreciation of the asset it replaces; any additional ancillary costs, however, must be added to the new asset's cost and a new monthly depreciation amount must be calculated reflecting the updated cost. The useful life of the new asset is equal to the remaining useful life of the asset it replaces.

S. Lost, Stolen or Destroyed Capital Assets or Stewardship Resources.

1. The theft or malicious destruction of any capital asset or stewardship resource shall be immediately reported to the appropriate law enforcement department.

2. Items that have been lost, stolen or destroyed must be reported to the Finance Director, within ten days of discovery. The reporting Department will notify the person in charge of loss control, which typically resides with Human Resources, with a copy of the required incident report detailing circumstances and results of investigation.

T. Cannibalization of Capital Assets and Stewardship Resources. Departments must obtain approval from the Finance Director prior to cannibalizing any capital assets or stewardship resources, such as computer equipment.