



Capital Assets Policy

I. Authority

The Fort Worth City Council is responsible for legislation, policy formulation, and setting the overall direction of government. This includes the approval of financial policies which establish and direct the operations of the City of Fort Worth (“City”). The City Manager is responsible for carrying out the policy directives of the City Council and managing the day-to-day operations of the executive departments, including the Financial Management Services Department (“FMS”). This policy shall be administered on behalf of the City Manager by the Chief Financial Officer/Director of FMS (“CFO”).

II. Purpose

This policy defines and provides the guiding principles with respect to the financial management of capital asset for the City of Fort Worth (“the City”). The objectives of this policy are to ensure consistent capital asset practices in accordance with Generally Accepted Accounting Principles (GAAP) and applicable regulatory agencies and to safeguard against loss, unauthorized use, or misappropriation of assets. Controls are created to establish, maintain, and enforce a sound system of operational procedures in accordance with industry best practices and internal control objectives. These controls address the decentralized nature of the processes associated with capital assets while also providing standards and minimally acceptable practices for these activities.

III. Applicability and Scope

All employees of the City, including uniformed employees in positions who are responsible for performing fiscal operations described herein, shall apply the principles of this policy. This may include, but not be limited to, staff who purchase, receive, monitor or dispose of capital assets. Further, this policy shall cover all funds and capital assets under the control of the Mayor and City Council.

IV. Glossary

See definitions related to this policy provided in the Glossary for Financial Management Policy Statements.

V. General Information

The Governmental Accounting Standards Board (GASB) provides the following authoritative definition of capital assets for state and local governments:



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The term capital assets include land, improvements to land, easements, buildings, building improvements, vehicles, machinery, equipment, works of art and historical treasures, infrastructure, and all other tangible or intangible assets that are used in operations and that have initial useful lives extending beyond a single reporting period.

Capital assets should be recorded at original cost or, if the cost is not readily determined, at estimated original cost. Cost shall include applicable ancillary costs necessary to place the asset in its intended location and condition for use. All costs should be documented, including methods and sources used to establish any estimated costs.

The City acquires capital assets in one of the following ways:

1. Purchased assets – The recording of purchased assets should be made on the basis of actual costs, excluding some ancillary costs*, based on vendor invoice or other supporting documentation. *See Section VII-A for further explanation.
2. Constructed assets – Direct costs (including labor) associated with the construction project should be included in determining the asset valuation. For Community Facilities Agreements, City of Fort Worth inspection costs are no longer capitalized as part of the project effective 06-01-2019 associated with fund 30114 (CFA Developer).
3. Donated assets – Capital assets acquired by donation should be valued based on the acquisition value at the time of receipt and capitalized in accordance with the threshold value for each asset category. Please refer to the City of Fort Worth's Donations Policy for guidance on acceptance of donations.

VI. Responsibility / Authority

City-wide Department responsibilities:

- A. Serve as custodians of capital assets including land, land improvements, vehicles, machinery and equipment (including rolling stock), that are assigned to their departments.
- B. Ensure full departmental compliance with the established capital asset policy in order to maintain adequate records of the City's capital assets.



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- C. Each department head must appoint a Capital Assets Coordinator that has knowledge and experience in capital purchasing and management of project expenditures. Department Capital Assets Coordinator responsibilities include but are not limited to:
- Attend the required AM100 training provided by the City of Fort Worth.
 - Perform a monthly review of the department's purchased, donated, and constructed assets added into PeopleSoft Asset Management (PSAM) and communicate with the Capital Assets Team regarding any discrepancies.
 - Identify capital asset transfers, impairments, and disposals, and provide the Capital Assets Team documentation within 30 days of the occurrence.
 - Identify all constructed assets in use, and provide the Capital Assets Team documentation within six months or before the current fiscal year ends, whichever comes first for capitalization (Refer to Section XIV).
 - Review and update the department's non-financial asset information in the PSAM system.
 - Coordinate the department's review of the current capital asset register and complete the Annual Physical Inventory for Capital Assets.

FMS responsibilities:

- A. The Capital Asset Team, Financial Services Manager, and Assistant Finance Director over Accounting shall ensure that all capital assets belonging to the City are properly identified and recorded in the PeopleSoft General Ledger module and that the PSAM module is reconciled, at least monthly, to general ledger balances.
- B. The Capital Asset Team is responsible for maintaining a current listing of Capital Assets Coordinators from all City departments.
- C. The Capital Asset Team must oversee the review of all transactions related to capital assets at least monthly and update the PSAM system, as required, upon validation of the transactions or corrections.
- D. The Capital Asset Team, Financial Services Manager, and Assistant Finance Director over Accounting are responsible for ensuring that journal entries and



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monthly depreciation expense are properly recorded in the general ledger and financial changes noted by the Capital Assets Coordinators are recorded in the PSAM system.

- E. FMS is responsible to provide department representatives with the necessary support in capital asset management to effectively fulfill their duties and responsibilities under this policy.

VII. Asset Classification

The City categorizes capital assets into the following:

A. Land

Land includes all land parcels purchased or otherwise acquired by the City for building sites, streets, right of way, permanent easement, recreation, future use, etc. This does not include land held for resale, which is accounted for as inventory.

Land is frequently associated with some other asset (e.g., land under a building or road). Land should always be treated and accounted for separately. The cost of the land should include not only the acquisition price, but also the cost of initially preparing land for its intended purpose, provided these preparations have an indefinite useful life, like the land itself. The recorded cost of land includes (1) the contract purchase price; (2) the costs of closing the transaction and obtaining title, including commissions, options, legal fees, title search, insurance, and past due or current taxes; And (3) the cost of preparing the land for its particular use such as clearing and grading. If the land is purchased for the purpose of constructing a building, all costs incurred up to the excavation for the new building should be considered land costs. Removal of an old building, clearing, grading and filling are considered land costs because they are necessary to get the land in condition for its intended purpose. Any proceeds obtained in the process of getting the land ready for its intended use, such as salvage receipts on the demolition of the old building or the sale of cleared timber, are treated as reductions in the price of the land. Capitalization of land costs may include, but are not limited to, the following:

- Original contract price
- Brokers' commissions
- Legal fees for examining and recording title



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- Cost of title guarantee insurance policies
- Cost of excavation, grading or filling of land and razing of an old building
- Payment of noncurrent taxes accrued on the land at date of purchase, if payable by purchaser

*Excluded costs may include payroll charges, advertising, process services, appraisal fees, and surveys, as they typically are not able to be accurately and timely associated with the land purchase at closing.

Improvements other than buildings (land improvements) are used for permanent (i.e., non-moveable) improvements, other than buildings, that add value to the land, but do not have an indefinite useful life. Examples include, fences, retaining walls and parking lots.

B. Buildings

All permanent structures are included in the classification of buildings. The costs of an improvement (or betterment) are normally added to the cost of the related structure, rather than being treated as a separate asset. The same is true of restoration costs following a capital asset impairment. Capitalization of costs related to buildings include, but are not limited to, the following:

- Original contract price of the asset acquired or cost of design and construction
- Expenses incurred in remodeling, reconditioning, or altering a purchased building to make it available for the purpose for which it was acquired.
- Expenses incurred for the preparation of plans, specifications, blueprints, etc.
- Cost of building permits
- Payment of noncurrent taxes accrued on the building at date of purchase, if payable by purchaser
- Architects' and engineers' fees for design and supervision
- Costs of temporary facilities used during the construction period



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C. Infrastructure

Infrastructure assets are long-lived capital assets that normally are stationary in nature and normally can be preserved for a significantly greater number of years than most capital assets. Examples include roads, bridges, tunnels, drainage systems, water and sewer systems, dams and lighting systems.

D. Machinery and equipment

This classification includes construction and maintenance equipment, office equipment and furnishings, etc. above the capitalization threshold. Capitalization of equipment costs may include, but are not limited to, the following:

- Original contract or invoice cost
- Freight, acquisition fees, import duties, handling and storage costs
- Specific in-transit insurance charges
- Installation charges

E. Vehicles

A motor vehicle is a self-propelled road vehicle that is used for the transportation of passengers, or passengers and property. The capitalization amount includes the total purchase price less any applicable discounts and any ancillary payments required to place the asset in its intended state of operation.

F. Intangible Assets

Intangible assets are those that lack physical substance, are non-financial in nature and have an initial useful life extending beyond a single reporting period. Intangible assets must be identifiable, meaning they are either capable of being separated by means of sale, transfer, license or rent, or that they arise from contractual or other legal rights.

Intangible assets acquired or developed by the City could include customized software, internally generated software, works of art and historical treasures. Other examples of intangible assets the City may own include water rights, timber rights, patents and trademarks.



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G. Construction Work in Progress (CWIP)

Construction work in progress represents capitalized costs related to a capital asset that is not yet substantially ready to be placed in service. For construction work in progress assets, no depreciation is recorded until the asset is placed in service. When the asset is placed in service, the asset is reclassified to the correct category and depreciation begins.

VIII. Capitalization

A. Capitalization Thresholds

1. Land must be capitalized regardless of the value or cost.
2. Buildings must be capitalized regardless of the cost.
3. Infrastructure must be capitalized when the useful life is 3 years or greater and the cost is \$100,000 or more.
4. Betterments and Improvements qualifying as a capital asset is defined as a single item with a useful life of 2 years or greater with an acquisition cost of:
 - a. Building Improvements at \$100,000 or more
 - b. Infrastructure Improvements at \$100,000 or more
 - c. Machinery and Equipment Improvements at \$25,000 or more
5. Machinery and Equipment qualifying as a capital asset is defined as a single item with an acquisition cost of \$25,000 or more and has a useful life of 2 years or greater. This includes items designed for off road.
6. Vehicles must be capitalized when the useful life is 4 years or greater, the cost is \$5,000 or greater and it meets both of the following criteria:
 - a. Self-propelled
 - b. Primary use is on public streets and the unit is street legal
7. Intangible assets must be capitalized when the useful life is 3 years or greater and the cost is \$100,000 or more with the exception of works of art and historical treasures, which are capitalized regardless of life or cost.
8. Bulk machinery and equipment per lease contract will be capitalized if the total amount is over \$500,000 for the life of the lease.



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B. Contributed or Donated Assets

Contributed or donated assets must be recorded at acquisition value. Refer to the Donations Policy for capitalization thresholds per category. Acquisition value is the price that would be paid to acquire an asset with equivalent service potential in an orderly market transaction at the acquisition date, or the amount at which a liability could be liquidated with the counterparty at the acquisition date. With regard to donated land, an appraisal must be no older than five (5) years in order to be used to determine a value for the land. If an appraisal is greater than five (5) years old or an appraisal does not exist, then appropriate effort must be made to determine a reasonable per acre value of the land in question. Work with Accounting to establish the appropriate value.

IX. **Betterments, Improvements and Repair and Maintenance**

A. Betterments

A betterment materially renovates or enhances a previously capitalized asset without introduction of a completely new unit. Alterations that change the physical structure of assets (e.g., cutting new entry and exit openings or closing old ones; erecting new walls, windows and partitions or removing old ones) but neither materially add value to the asset nor prolong its useful expected life should be charged to maintenance expense. Examples of betterments include:

- Enhancement of an old shingle roof through the addition of modern, fireproof tiles
- “Major catch-up” repair to or rehabilitation of an existing neglected asset that extends the useful life or substantially increases the value of the asset.

A betterment that meets the capitalization threshold in Section VIII should be capitalized.

B. Improvements

Improvements include additions of new components to previously capitalized assets that either increase the assets’ value, extend the useful life, increase the normal rate of output, lower the operating cost, or increase the efficiency of the existing asset. Replacements of components of existing capitalized assets with improved or superior units, such that the value of the assets is increased, are also classified as improvements.

Examples include:



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- Installation of an air condition system where there previously was none
- Installation of a crane on a truck that did not previously have one
- Removal of a major part or component of equipment and the substitution of a new part or component that increases either the value or useful life
- Addition of a new wing on a building
- An improvement that meets the capitalization threshold in Section VIII should be capitalized.

C. Repair and Maintenance

Maintenance and repairs can be distinguished from betterments and improvements in that maintenance and repairs are not intended to alter or change the asset or to increase the useful life of the asset, but rather to sustain the asset in its present condition. A cost will qualify as maintenance if any of the following are true:

- Recurs on an ongoing basis (scheduled maintenance) and keeps the asset in a useable condition.
- Does not add substantially to the value of the asset (i.e., it does not meet the requirements in Section VIII to be capitalized).
- Simply restores a capital asset to its former condition, addressing normal wear and tear associated with the use of an asset.
- Facilitates asset utilization for its original useful life

Examples include:

- Painting and similar activities
- Engine overhaul in a vehicle
- Resurfacing a roof with similar materials
- Remodeling and rearrangement costs

Expenditures attributable to repair and maintenance after the asset has been placed in service will not be capitalized and will instead be charged to maintenance expense.



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X. Depreciation

Depreciation is defined as a reduction in the value of an asset with the passage of time, due in particular to wear and tear. Depreciation will be calculated and recorded monthly for the City's depreciable assets in accordance with GAAP. FMS is responsible to record depreciation on a monthly basis.

The City uses the straight-line method of depreciation and a full month of depreciation is taken in the original month of acquisition or capitalization. To calculate depreciation expense using the straight-line method:

$$\text{Annual Depreciation} = \frac{\text{Cost} - \text{Salvage Value}}{\text{Asset Useful life (in years)}}$$

Salvage value is an estimate of the amount that will be realized at the end of useful life of a depreciable asset. The City may assume that salvage value will be insignificant and therefore, will not use it in the depreciation calculation.

Asset must be depreciated according to the useful life guidelines established by the City. These guidelines are summarized below:

- Buildings: 20 - 50 years
- Infrastructure: 20 - 60 years
- Machinery and Equipment: 2 - 20 years
- Vehicles; 4 –15 years
- Runways and Taxiways: 20 - 30 years
- Water and Sewer Equipment: 5 - 30 years
- Water and Sewer Infrastructure: 25 - 70 years

The following capital assets are not depreciated:

- Land
- Intangible assets with indefinite useful lives
- Construction Work in Progress



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XI. Retirement

All capital assets that are sold, exchanged, traded in, donated, stolen, damaged beyond repair or in any way removed from service and disposed of during the current fiscal period should be recorded as retirements in the PSAM system.

Departments are responsible for coordinating with the Fleet and Auto Pound departments if the asset will be auctioned off through a current City contractor auctioneer. The department will complete the Auction Master Template form which is approved by the Director or an Assistant Director. This form will be forwarded to the Purchasing department coordinator for FID validation and confirmation of wire transfers. Upon confirmation, all relevant information will be sent to the Capital Asset Team for proper accounting treatment.

When retiring an asset, the Department that had custody of the asset must complete and submit a Capital Asset-PMD-Fleet Status Change Request Form to the Capital Assets Team. This electronic form will be routed for proper approval and signatures. This form is located in the Forms Portal under Financial Management Services.

XII. Surplus (Salvage Sales)

Departments are responsible for maintaining a listing of all non-capital assets. Upon determination that, a non-capital asset is either no longer needed or found to be unserviceable, the department will determine the appropriate method of disposal.

Methods of disposal:

- Internal City posting
- Auction

The approved Auction Master Template will then be sent to the Purchasing department coordinator as referenced in the Retirement section.

XIII. Impairment

A capital asset generally should be considered impaired if both (a) the decline in service utility of the capital asset is large in magnitude and (b) the event or change in circumstance is outside the normal life cycle of the capital asset. The Department Capital Assets Coordinator is responsible for determining whether an asset is possibly impaired. The Capital Asset team in FMS is available to assist in the determination.

In order to determine impairment, one or more of the following conditions must apply:



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- Evidence of physical damage (building damaged by fire or flood, restoration efforts are needed to restore service utility)
- Enactment or approval of laws or regulations or other changes in environmental factors
- Technological development resulting in a change of the expected duration of use of a Capital Asset
- A change in the manner or expected duration of use of a Capital Asset
- Construction stoppage (stoppage of construction of a building due to lack of funding)

If the asset is not impaired, Department Capital Assets Coordinator should re-evaluate the remaining useful life and salvage value (if any). All impairment should be analyzed and estimated by the Department Capital Assets Coordinator, and submit to the FMS Department Assistant Director or Director for final review and approval.

XIV. Transfers

When an asset is exchanged between departments, the Capital Asset Team will transfer the asset in the PSAM system. The Capital Asset Transfer Form shall be used to identify an asset transfer between City departments. The transfer must be approved by both the transferor and transferee departments before an asset is transferred.

XV. Placed In Service Assets

When a capital improvement project is substantially completed and an asset is used for its intended purpose, the Capital Assets Coordinator will provide the Capital Asset In-Service form to the Capital Asset Team once the asset is in use. For the Water department only; the Capital Assets Coordinator will provide the Capital Asset In-Service form to the Capital Assets Team within six months or before the current fiscal year ends, whichever comes first. The Capital Asset Team will transfer the cost of the asset from Construction Work in Progress (CWIP) to the appropriate asset category in the PSAM system. When the capital improvement project is closed, the Capital Assets Coordinator will provide the Capital Asset Completion form to the Capital Asset Team, and the Capital Asset Team will transfer any remaining costs to the previously created asset.



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XVI. Physical Inventory

Each department must perform an Annual Asset Physical Inventory. The Capital Assets Coordinator is responsible for verifying the accuracy of the assets recorded in PSAM based on their physical observation of the department's assets. Exclude lands, buildings, and infrastructures.

XVII. Acquisition of Capital Assets

Capital assets shall be acquired by the City of Fort Worth, following all required federal, state, and local purchasing requirements. Assets acquired by the City shall be budgeted and purchased only in capital project funds. No assets are to be acquired from operating funds.

For additional information or questions concerning this policy, please contact the FMS Capital Asset team at (817) 392-2460.