

**RESOLUTION NO. RES 2016-11-05**

**RESOLUTION OF THE BROOKHAVEN CITY COUNCIL REVISING THE  
FINANCIAL MANAGEMENT POLICY REGARDING CAPITAL ASSET  
MANAGEMENT AND CLASSIFICATION PRACTICES**

**WHEREAS:** The City of Brookhaven, Georgia (hereinafter, the “City”) was duly incorporated on December 17, 2012; and

**WHEREAS:** a capital asset management system is comprised of practices and procedures used to manage the government’s capital assets; and

**WHEREAS:** the city has developed a capital asset policy that is in accordance with generally accepted accounting principles (GAAP) and the Governmental Accounting Standard Board (GASB); and

**WHEREAS:** the city has developed a capital asset policy that is in accordance with generally accepted accounting principles (GAAP) and the Governmental Accounting Standard Board (GASB).

**NOW THEREFORE BE IT RESOLVED** that the attached Policy of the City of Brookhaven (Exhibit A) be established as the official financial management policy for capital asset management and accounting.

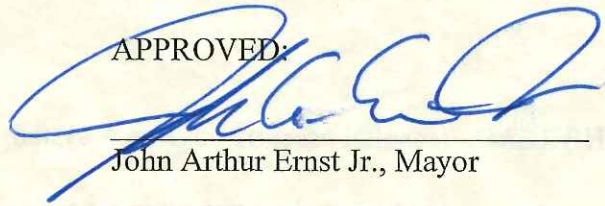
**CITY OF BROOKHAVEN  
COUNTY OF DEKALB, STATE OF GEORGIA**

**RES 2016-11-05**

This Resolution shall be effective immediately upon its adoption.

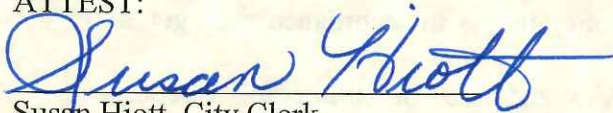
**SO RESOLVED AND EFFECTIVE**, this the 9<sup>th</sup> day of November, 2016.

APPROVED:



John Arthur Ernst Jr., Mayor

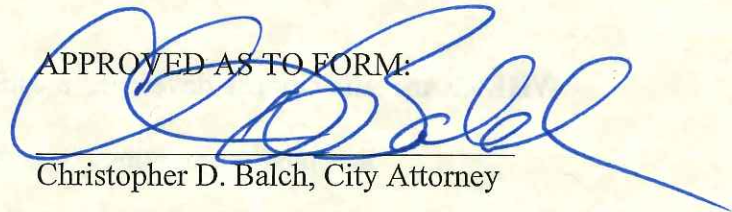
ATTEST:



Susan Hiott, City Clerk

[CITY SEAL]

APPROVED AS TO FORM:



Christopher D. Balch, City Attorney



**EXHIBIT A**

**City of Brookhaven**

Date of Issue: November 9, 2016

Resolution Number RES 2016-11-05

Effective Date: November 9, 2016

Subject: **Capital Asset Policy**

Revised Date: \_\_\_\_\_

Resolution Number \_\_\_\_\_

Approved: \_\_\_\_\_

Mayor – City of Brookhaven

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**PURPOSE**

The City of Brookhaven has established guidelines and procedures to appropriately account for and classify eligible capital asset property in accordance with generally accepted accounting principles (GAAP)

A capital asset must meet all of the following requirements:

1. The asset is tangible or intangible and ready for its intended use.
2. The asset is used in the operation of the City's activities.



3. The asset has a useful life greater than one fiscal year.

4. The asset is of significant value.

Capital assets may be acquired through donation, purchase, capital lease or self-constructed. Capital assets purchased, including capital outlay costs, are recorded as expenditures in the fund financial statements at the time of purchase. On the City-wide financial statements, all purchased capital assets are valued at cost where historical records are available and at estimated historical cost based on appraisals or deflated current replacement cost where no historical records exist. Costs for self-constructed assets may include legal and title fees, closing costs, fees, land costs, demolition costs, relocation costs, architect and accounting fees, and insurance premiums and interest costs during construction. Donated capital assets are recorded at fair market value on the date donated.

The City's assets are classified into four major classes of assets as defined by GAAP. They are land, buildings and improvements, equipment, and intangible assets. The following capitalization thresholds and estimated useful life for depreciation will be used for the different classes of the City's capital assets reported in the City-wide statements:



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	<b>General</b>	<b>Useful</b>
	<b><u>Policy</u></b>	<b><u>Life</u></b>
Land	All	N/A
Buildings and Improvements	All	20 to 50 Years
Equipment	\$5,000	5 to 10 Years
Intangible Assets	\$1,000,000	10 Years

**LAND**

Land acquired by purchase is recorded at cost to include amount paid for the land and all incidental costs. Incidental costs may include, but not be limited to, land preparation cost, land excavation, and grading.

Land acquired by gift or bequest is recorded at the fair market value at the date of the acquisition if appraisal is available. If no appraisal is available, the fair value used will be the amount the person or entity paid before it was gifted to the City.

Land acquired with buildings erected thereon, total cost is allocated between the two in reasonable proportion at the date of acquisition. Land is not a depreciable asset but is capitalized regardless of cost.





**BUILDINGS AND IMPROVEMENTS**

Buildings will be recorded at either their acquisition cost or construction cost. If purchased, the capitalized cost should include the purchase price and other incidental expenses at the time of acquisition.

If a building is constructed, the capitalized cost should include all construction costs and capitalized upon completion of the project when it is deemed ready for its intended use or when certificate of occupancy is received. All major component units such as HVAC, kitchen equipment, plumbing system, sprinkler systems, etc. are included in the cost of the building when the building is originally constructed.

Costs to furnish the building such as furniture and equipment will not be included in the building's capitalized cost.

Building or site improvements are defined as the extension to a pre-existing building. This also includes any major renovations or alterations with an existing building. Site improvements may include items such as site work, sewer systems, parking lots, outdoor lighting, covered walkways, tennis courts, running tracks, grandstands, athletic fields, etc. The costs of the addition will be recorded at their construction cost. Building or site improvements will be capitalized separately and depreciated over their useful life. Site improvements are designed as depreciable or non-depreciable. The non-depreciable improvements (such as drainage improvements and wetlands mitigation) are treated like land and capitalized but not depreciated.



Component units such as HVAC, kitchen equipment, plumbing system, sprinkler systems, etc. that were originally included in the construction cost of the building will not be removed from the property report since it is not a separately valued component. The new component unit will be depreciated over the estimated useful life of the applicable class of property.

**Construction in progress**

This includes all construction project expenses and allocations for building and site improvement construction not completed or ready for intended use by the end of the fiscal year. Construction in Progress is not depreciable. Completed projects will be moved to the applicable fixed asset class when complete.

**EQUIPMENT**

Equipment costing \$5,000 or more per item and having an estimated life of more than one year will be capitalized. Expenditures for items such as furniture and computer equipment purchased in groups costing more than \$5,000 and having an estimated life of more than one year may be capitalized by type as a group. Equipment will be depreciated over its estimated useful life.

**INTANGIBLE ASSETS**

Per Governmental Accounting Standard Board (GASB) Statement 51, an intangible asset possesses all of the following: (1) Lack of physical substance, (2) nonfinancial nature, and (3) initial useful life extending beyond a single reporting period. Internally developed computer software is the most common type of intangible asset the City may have. In order to be classified as



internally developed software the software must be created or produced by the government or an entity contracted by the government or commercially available software that is purchased or licensed and is modified using more than minimal effort.

Only the costs of the internally developed computer software associated with the application development stage are capitalized. These costs include design, coding, installation to hardware, data conversion, and testing. All other costs associated with internally developed software are expensed in the year they are incurred. The capitalization threshold for this type of software is \$1,000,000. Depreciation of this type of asset will begin when the software system is put into service. Until the system is put into service, the City will show the cost in construction in progress.

#### **LEASED ASSETS**

Operating leases will be capitalized if one or more of the following criteria are met and chance of cancelation is low:

- Ownership is transferred by the end of the lease term.
- The lease contains a bargain purchase option.
- The lease term is greater than or equal to 75 percent of the asset's service life.
- The present value of the minimum lease payment is greater than or equal to ninety percent (90%) of the fair market value of the asset at the inception of the lease.



**DONATED ASSETS**

Assets that have been donated to the City are valued at their estimated fair value at the time of donation. If the donated asset is land or a building, the estimated fair value should be the amount listed on an appraisal. If no appraisal is available, the fair value used should be the amount the person or entity paid for the property before it was donated. The value of all other donated assets should be provided by the donor.

**SALE OF CAPITAL ASSETS**

The sale of a capital asset must be to the highest, responsible bidder and must be conducted by sealed bid or by auction. The sale must be approved and publicized in accordance with State law.

**DISPOSAL OF ASSETS**

Disposal of assets are deleted at depreciated recorded cost. The cost of normal maintenance and repairs that do not add to the value of assets or materially extend the useful lives of the assets is not capitalized. Depreciation is computed using the straight-line method. Depreciation is calculated based on the month the asset is placed into service or substantially completed. Depreciation expense is used to allocate the actual or estimated historical cost of all capital assets over estimated useful lives. The asset record, including disposal information, will remain on the master file for three (3) fiscal years, after which time it is purged from the system in accordance with GAAP.





A disposal action is appropriate when certain conditions occur resulting in an asset no longer being in the possession of the City. Assets no longer in use which remain in the possession of the department are considered surplus property and not a disposal.

Capital assets may be disposed of in any one of six (6) ways:

1. Sale or trade-in;
2. Abandonment/retirement;
3. Lost or stolen;
4. Transfer;
5. Cannibalization (taking parts for other uses); and,
6. Casualty loss

Only when the asset is no longer in possession of the City, due to one of the reasons above, is disposal action appropriate.



Assets are “abandoned” or “retired” when there is no longer any use for them in the Department, they are of no use to any other City department, or they cannot be repaired, transferred, cannibalized, sold or traded in.

Stolen items must be reported to the Brookhaven Police Department and a report filed. A copy of this report must accompany the disposal record.

Casualty losses must be documented within 24 hours of loss and reported to the City Manager immediately.

Departmental management is responsible for reviewing disposal reports, evaluating causes and trends leading to disposals, and effectively managing and controlling disposals in which they are responsible.

### **IMPAIRMENT OF ASSETS**

GASB Statement 42 establishes accounting and financial reporting standards for a capital asset that has experienced a significant unexpected decline in its service utility. The City shall evaluate annually prominent events or changes in circumstances affecting assets to determine whether an impairment of a capital asset has occurred. In order to meet the impairment, test a decline in service utility must be both:

- Significant
- Unexpected



**INVENTORY OF CAPITAL ASSETS**

An inventory of capital assets will be conducted under the supervision of the finance director annually and reported in the CAFR.

