



# TOWN OF FAIRFAX

## STAFF REPORT

### August 3, 2016

**TO:** Mayor and Town Council

**FROM:** Michael Vivrette, Finance Director *GV*

**SUBJECT:** Adopt a resolution updating the Town of Fairfax Capitalization Policy to add Specific Useful Lives for Capital Assets

---

#### RECOMMENDATION

Adopt the resolution.

#### DISCUSSION

The Town adopted a Capitalization Policy in Resolution 2319 in May 2004 to “establish criteria for reporting capital assets on financial statements in conformity with Generally Accepted Accounting principles.” In conformance with Governmental Accounting Standards Board Statement 34 (“GASB 34”), the policy increased the capitalization limit for assets from \$500 to \$5,000. The Useful Lives section of the policy states asset lives in broad ranges rather than specific terms.

Our auditors have urged us to update this policy to state more specific useful lives for each category of capital assets, which was unclear in the original policy and could result in similar assets being depreciated at different rates.

The Useful Life section of the Capitalization Policy has been revised to contain a table designating specific lives of assets per the recommendation of the audit report, and authorizes the Finance Director to assign a useful life to assets which do not fall into the classes presented. No other revisions were made to the Capitalization Policy.

#### FISCAL IMPACT

None

#### ATTACHMENT

Resolution

RESOLUTION 16-\_\_

**A RESOLUTION OF THE TOWN COUNCIL OF THE TOWN OF FAIRFAX  
UPDATING THE CAPITALIZATION POLICY TO ADD SPECIFIC USEFUL LIVES  
FOR CAPITAL ASSETS**

**WHEREAS**, the Town adopted a Capitalization Policy by Resolution 2319 in May 2004 establishing depreciation limits in accordance with Governmental Accounting Standards Board Statement 34 ("GASB 34") ; and

**WHEREAS**, the "Useful Lives" section set forth in the Town's Capitalization Policy needs to be revised to reduce the possibility that similar assets be depreciated at different rates; and

**WHEREAS**, the Town's Auditor recommends that the Capitalization Policy be updated to provide specific useful lives for the asset classes used by the Town;

**NOW, THEREFORE, BE IT HEREBY RESOLVED** by the Town Council of the Town of Fairfax that the Capitalization Policy as amended and attached hereto as "Exhibit A" is hereby adopted.

The foregoing Resolution was duly passed and adopted at a Regular Meeting of the Town Council of the Town of Fairfax held in said Town on the 3rd day of August 2016, by the following vote, to wit:

AYES:

NOES:

ABSENT:

\_\_\_\_\_  
Renée Goddard, Mayor

Attest:

\_\_\_\_\_  
Michele Gardner, Town Clerk

**ATTACHMENT**   1

# FINANCIAL POLICIES

## **CAPITALIZATION POLICY**

### Reason for the Policy

To establish for reporting capital assets on the financial statements in conformity with Generally Accepted Accounting Principles.

### Policy

The Capitalization threshold for all capital assets is no less than \$50,000 on singular pieces of Machinery and Equipment other than vehicles.

Due to the nature of some infrastructure projects, the following additional thresholds are defined:

- Property Services Project Costs for infrastructure and buildings greater than \$100,000
- Bike Paths, Signage and Street Lighting annual purchases greater than \$35,000
- Land, regardless of value.

### Cost

Cost normally includes all expenditures that may be necessary to put an asset in condition for use in its intended location.

### Betterment

To qualify as betterment in capital assets inventory, the cost must be at least \$50,000 AND the addition/improvement must meet one of the following criteria:

1. Increases the useful life of the asset.
2. Increases the quantity of units produced from the asset.
3. Enhances the quantity of the units produced from the asset.

### Maintenance

Expenses to maintain equipment are not capitalized. Instead, such items are recorded directly as expenses of the accounting period. See capital asset procedure for further clarification of types of expenditures to be expensed.

### Retirement and Exchange

All capital assets will be examined with respect to condition, efficiency of use, and technological obsolescence during each year-end physical inventory process. Items that are determined to be obsolete, excess, or not being used will be entered, reported, and disposed of in accordance with capital asset disposition procedures.

## **EXHIBIT A**

# FINANCIAL POLICIES

## Useful Life

The estimated useful lives for assets are:

Class Code	Class Description	Life (Yrs)	Account Description
1000	LAND	0	LAND
1100	OUTDOOR EQUIPMENT	20	MACHINERY & EQUIPMENT
1200	POLICE & FIRE EQUIPMENT	10	MACHINERY & EQUIPMENT
1300	MACHINERY & TOOLS	15	MACHINERY & EQUIPMENT
1400	KITCHEN/APPLIANCE/CUSTODIAL EQUIP	15	MACHINERY & EQUIPMENT
1600	FURNITURE & ACCESSORIES	20	MACHINERY & EQUIPMENT
1675	FURNITURE & ACCESSORIES- HOSPITAL	20	MACHINERY & EQUIPMENT
1700	BUSINESS MACHINES	10	MACHINERY & EQUIPMENT
1800	COMMUNICATIONS EQUIPMENT	10	MACHINERY & EQUIPMENT
1850	MOBILE DATA COMPUTER	10	VEHICLES
1900	COMPUTER EQUIPMENT	5	MACHINERY & EQUIPMENT
2000	COMPUTER SOFTWARE	5	MACHINERY & EQUIPMENT
2100	AUDIOVISUAL EQUIPMENT	10	MACHINERY & EQUIPMENT
2200	BOOKS & MULTI-MEDIA MATERIALS	5	MACHINERY & EQUIPMENT
2600	LICENSED VEHICLES	6	VEHICLES
2700	CONTRACTOR'S EQUIPMENT	10	MACHINERY & EQUIPMENT
2800	GROUNDS & MAINTENANCE EQUIPMENT	15	MACHINERY & EQUIPMENT
2850	STREET SWEEPER	15	VEHICLES
2900	LAND IMPROVEMENTS	20	Other IMPROVEMENTS
3000	CONSTRUCTION	50	BUILDINGS
3010	PORTABLE STRUCTURES	25	BUILDINGS
3200	INFRASTRUCTURE	65	INFRASTRUCTURE
4100	BRIDGES	50	INFRASTRUCTURE
4200	STREETS/ALLEYS - ASPHALT	20	INFRASTRUCTURE
4250	STREETS/ALLEYS - CONCRETE	20	INFRASTRUCTURE
4300	TRAFFIC SIGNALS	20	INFRASTRUCTURE
4400	SIDEWALKS & CURBS	30	INFRASTRUCTURE
4800	STREET LIGHTING	25	INFRASTRUCTURE

The Finance Director is authorized to assign an appropriate useful life to assets which do not fall into the classes presented.