



AGATE FIRE PROTECTION DISTRICT



RESOLUTION NO. 11-0908

A RESOLUTION OF THE AGATE FIRE PROTECTION DISTRICT BOARD OF DIRECTORS ADOPTING A CAPITALIZATION POLICY

WHEREAS, the Governmental Accounting Standards Board issued Pronouncement #34 which requires governmental entities to capitalize and report Fixed Assets on the annual audited financial statements, and

WHEREAS, it is desirable to adopt a Capitalization Policy so that readers and users of the District's financial statements will be aware of the decisions made regarding the accounting for all fixed assets especially in the areas where the accounting standards allow for discretion, and

WHEREAS, the Board and the District are accountable to the taxpayers of the District to assure proper administration of funds and accounting of these funds;

NOW THEREFORE, BE IT RESOLVED by the Board of Directors of the Agate Fire Protection District that the attached Capitalization Policy is hereby adopted and that all audited financial statements, beginning with the January 1, 2011 fiscal year report, should reflect the parameters of this policy.

RESOLVED this 8th day of September, 2011.

AGATE FIRE PROTECTION DISTRICT

By: _____

President



AGATE FIRE PROTECTION DISTRICT



ATTEST:

Secretary



AGATE FIRE PROTECTION DISTRICT



Agate Fire Protection District

Capital Assets Capitalization Policy

The Agate Fire Protection District (the District) holds certain capital assets which include land, buildings, building improvements, vehicles, machinery, equipment, furniture, appliances, and all other tangible or intangible assets that are used in operations and that have initial useful lives extending beyond a single annual reporting period, and; these assets must be accounted for at historical cost or estimated historical cost and fairly represented in the District's annual audit, in accordance with current standards as established by the State of Colorado and the Governmental Accounting Standards Board ("GASB").

- 1) Capital assets are to be capitalized only if they have estimated useful lives of at least two years following the date of acquisition.
- 2) Capital asset value thresholds for capitalization are to be applied to individual capital assets rather than groups of similar capital assets.
- 3) Capital assets to be capitalized must have an initial value greater than the "capitalization threshold" for reporting purposes.
- 4) Capital asset having values less than the capitalization threshold, but greater than \$250 are to be controlled at the department level for insurance and inventory reporting purposes. However, these capital assets will not be capitalized and will not be reported as capital assets in the District's audit.



AGATE FIRE PROTECTION DISTRICT



- 5) Value estimates of capital assets required to be reported, but for which no historical documentation is available due to past accounting practices, shall be reviewed by the District auditor in accordance with the State of Colorado and GASB requirements.
- 6) An inventory of capitalized assets is to be kept, annually reconciled and reported in the District's audit.

Purpose

The purpose of the Capitalization Policy is to:

- establish guidelines and criteria for what is a capital asset,
- establish guidelines and criteria for what is an attractive asset,
- monitor and safeguard District assets,
- comply with state regulatory requirements,
- provide accurate information for financial reports,
- provide information for insurance coverage,
- articulate practices to account for assets owned by the District, in accordance with generally accepted accounting principles, and
- establish guidelines for physical inventories of assets.



AGATE FIRE PROTECTION DISTRICT



Assets

Assets are resources expected to add value to the District. Assets may be real, tangible or intangible property, and acquired through purchase, donation, or construction.

Capital Assets

Capital assets are tangible or intangible assets that are obtained for use in the operations of the District. The District capitalizes assets that have an individual cost that exceeds the thresholds in the table below and benefits more than two fiscal periods. Groups of smaller items that exceed the capitalization threshold in the aggregate may be capitalized if the aggregate cost is material to the financial statements. The District's capitalization threshold for aggregate costs is \$10,000.00. If federal and/or state capital asset policies and regulations conflict with the policy of the District, the federal and state policies and regulations will prevail. However, if federal and/or state policies and regulations are less restrictive than the District policy, then the District policy will prevail. Capital assets can be purchased, constructed, or donated, and fall into one of the categories below:

Capital Asset Category	Capitalization Threshold
Land	Capitalize All
Buildings	5,000
Building/Land Improvements	10,000



AGATE FIRE PROTECTION DISTRICT



Furniture, Fixtures, and Equipment	5,000
Vehicles	7,000
Construction in Progress	10,000
Intangible Assets	5,000
Leasehold improvements	10,000
Capital Leases	10,000
Network / Communication / Misc. Electronic Systems Equipment	5,000
Machinery & Equipment	5,000

Grant-funded equipment or improvements (any asset funded or partially funded by federal or state) will be capitalized based on the criteria specified by the grant requirements. If grant requirements do not specify capitalization criteria, use the thresholds above.

Attractive (theft sensitive) Assets

Attractive (theft sensitive) Assets are portable, durable items that do not meet the minimum capitalization threshold but require special attention because of their potential to be stolen. Examples of these items include but are not limited to computers, laptops, printers, scanners, fax machines, copiers, digital cameras, televisions, and DVD players. Regardless of initial acquisition cost, these items are assigned an identification



AGATE FIRE PROTECTION DISTRICT



and tracked by the District, but are not capitalized. For attractive (theft sensitive) assets, there is no need to estimate or summarize the asset value in the asset report; there is only the need for procedures to ensure their safekeeping and availability for District use.

- Specifically excluded are video monitors, cellular phones, pagers, radar and bar code scanners, portable radios, and other similar electronics.

Capitalization Threshold

Capitalization Threshold is the minimum cost per unit at which an asset must be valued to be considered a capital asset. The various capital asset categories have different cost thresholds as set out in this policy. Assets purchased with grant funds may have a different threshold amount as stipulated by the grant. Usage and disposal of assets acquired by a grant are subject to the grant agreement which supersedes this policy.

Capital Lease

Capital Lease is any agreement entered into by the District involving the lease of property and granting the lessor rights to the property similar to those rights which would have existed if the agreement had been that of an outright purchase. For accounting purposes, such leases will be accounted for as capital leases when the lease agreement meets GAAP criteria and the District's capital threshold.

Operating Lease

Operating Lease is any lease agreement that does not qualify as a capital lease.

Periodic lease payments are accounted for as operating expense.



AGATE FIRE PROTECTION DISTRICT



Donations

Donations are defined as a voluntary non-exchange transaction entered into willingly by two or more parties. Both parties may be governments or one party may be a non-governmental entity, including an individual.

Capital Asset Categories

A. Land

Land is real property that provides a foundation for structures or produces crops, trees, and other forms of shrubbery. Land has an indefinite useful life. Expenses to prepare the land for its intended use are capitalized. Capitalizable costs for land include purchase price, legal and title fees, easements, grading, etc. Acquisition could be by purchase, donation, trade and/or condemnation.

B. Buildings

Buildings are permanent structures which include warehouses, plant facilities, and office buildings. Capitalizable costs for buildings include purchase price, legal fees, reconditioning, materials, labor, professional fees, etc. The District capitalizes all components of a building as one asset and depreciates them over the useful life of the building. Replacement of components of the building, such as replacement of a roof, is expensed as incurred.



AGATE FIRE PROTECTION DISTRICT



C. Building/Land Improvements

Land improvements add value to the land and can be inexhaustible or exhaustible.

Inexhaustible

Inexhaustible land improvements include costs that are necessary to bring the land to its intended condition for use. Initial improvement costs, such as clearing, filling, grading, and leveling of land, are included in the cost of the land.

Exhaustible

Land improvements that are exhaustible, or deteriorate over time, are capitalized separately and depreciated. Examples include, but are not limited to, parking lots, fences, and landscaping.

Building improvements are capitalized if they prolong the useful life of the asset, or increase the value or future economic benefit of the individual asset. Regular maintenance or minor renovations, however, are not capitalized by the District.

D. Furniture, Fixtures, and Equipment

Furniture, fixtures, and equipment are assets that include machinery, furnishings, software, and similar items. Capitalizable costs include net purchase price, taxes, transportation, installation, etc. Lump-sum purchases of a group of smaller items that are below the individual capitalization threshold (network equipment, furniture, etc.) are not capitalized unless the aggregate cost is considered to be material to the financial statements. The District's capitalization threshold for aggregate costs is \$5,000.00.



AGATE FIRE PROTECTION DISTRICT



Software

Software is considered an intangible asset and should be capitalized if purchased or developed for internal uses. Acquisition costs and other costs incurred to customize the software are also capitalized. Major software upgrades that provide a significant increase in functionality or exceed the aggregate capitalization threshold are capitalized. Internally generated computer software has additional qualifications for capitalization. Internally generated software development is considered to occur in three phases:

- Preliminary Project Stage: conceptual formulation, evaluation of alternatives, determination of existence of needed technologies, and final selection from alternatives.
- Application Development Stage: design of the chosen path, coding, installation to hardware, testing, and data conversion needed to make software operational.
- Post-Implementation/Operations Stage: application training and software maintenance.

Costs are only capitalized in the application development stage once the preliminary project stage is complete. Costs can only be capitalized once management authorizes and commits to funding. Costs in the preliminary project stage and post-implementation/operations stage are not capitalized.

Equipment is further defined as movable personal property of a relatively permanent nature (useful life of 2 years and over) and value of \$5,000.00 and over.



AGATE FIRE PROTECTION DISTRICT



- a. Additions and betterments to existing equipment including a single unit that significantly prolongs the capital asset's economic life (two years of time), or expands its usefulness (\$5,000.00 of value). Component assets will not be assigned new identification, but will use the original asset identification with an alpha appended to the end of it.
- b. Normal parts or repairs that merely maintain the asset in its working condition should not be capitalized.

E. Vehicles

Vehicles include cars, trucks, ambulances, etc. used by the District in its normal operations. Capitalizable costs for vehicles include net purchase price, taxes, transportation, etc. Vehicles are capitalized individually.

F. Construction in Progress

Construction in progress is used for costs incurred to construct capital assets before they are substantially complete. Costs during construction are tracked throughout the construction period in an effort to represent reliable information on the District's financial statements. Furniture, fixtures, and equipment that are associated with the project are capitalized separately as costs are incurred and are not included in the construction costs of the project. Interest incurred during this process is capitalized as part of the capitalized value of the assets constructed.



AGATE FIRE PROTECTION DISTRICT



ASSUMPTIONS

A. Capitalizable Costs

Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Historical costs include:

- Purchase price (Actual purchase costs before trade-in allowances, net of discounts).
- Costs needed to place the asset at its intended location, i.e. freight.
- Costs needed to place the asset in its intended condition for use, i.e. installation and site preparation costs.
- Actual costs incurred by the District's staff if the asset/project is constructed "in-house".
- Associated professional fees.
- Capitalized interest (if applicable)

All costs must be directly identifiable with a specific asset to be capitalized. Costs incurred after the asset acquisition is considered to be probable are capitalized. Internal costs that directly relate to the acquisition or construction of a specific asset are also capitalized. Net interest costs are capitalized if the asset is funded from proprietary funds or fiduciary funds. Assets donated by third parties are recorded at estimated fair market value at the date of donation.

B. Purchased Capital Assets

Purchased Capital Assets are purchased in close-to-serviceable condition, rather than being designed and constructed over time. Each individual item must meet the minimum



AGATE FIRE PROTECTION DISTRICT



threshold amount for its particular asset category. In addition to the equipment cost, the District may also incur ancillary charges necessary in placing the asset into service. These costs should be added to the equipment cost when calculating the total original cost for the capital asset. The piece of equipment alone may not have met the threshold cost to be considered capital, but may meet the threshold after including ancillary costs. If the asset meets the criteria for capital, both the equipment and ancillary charges should be coded to capital line items.

C. Identification

Capital assets are to be identified by serial numbers, vehicle identification numbers, or some other unique number. In the absence of unique numbers, the asset will be identified by specific description. Land will be identified by legal description, or the tax map identification number, or the physical address.

D. Depreciation

Depreciation is a method to distribute the cost of a capital asset over its useful life in a systematic and rational manner. The life of Capital Assets has been set in years. The District uses the straight-line method to depreciate capital assets. Assets are assumed to have no salvage value at the end of their useful lives. In the month an asset is acquired, a full month of depreciation will be calculated. Construction In Progress is not depreciated; when the project is completed it is removed from Construction In Progress and recorded under its appropriate capital asset category, where it is then depreciated according to its estimated useful life. Depreciation is prorated by month in the year of



AGATE FIRE PROTECTION DISTRICT



acquisition and disposal. The District also uses Generally Accepted Accounting Principles. Capital assets are depreciated based on the useful life schedule below:

Capital Asset Category

Useful Life

Land and Land Rights	Indefinite
Land Improvements (Inexhaustible)	Indefinite
Buildings	40 years
Building/Land Improvements (Exhaustible)	20 years
Furniture and Office Equipment	5 years
Machinery & Equipment	5-10 years
Computer-related Equipment	3 years
Miscellaneous Buildings	5-25 years
Non-specialized vehicles	5 years
Fire and Rescue Vehicles	10 years
Command Vehicle	3 years
Trailers	5 years
Wells	30 years
HVAC	20 years
Roof Restoration	10 years
Carpet	5 years
Shop equipment	5 years
Communication equipment	7 years
Fire department equipment	12 years
Defibrillators	5 years



AGATE FIRE PROTECTION DISTRICT



Depreciation expense must be reported as a reduction of net assets and accumulated depreciation reduces the carrying amount of capital assets as reported in the statement of net assets.

E. Useful Life

Useful Life is the estimated average life (in years) over which a depreciable capital asset is expected to provide service.

F. Grant Funded Assets

Grant Funded Assets will be capitalized based on the criteria specified by each individual grant requirements. Depending on the terms of the agreements involved, the federal government could retain an equity interest in these assets. These assets are identified in the asset system as grant funded for tracking purchases in the event of a sale or surplus of the item.

G. Dispositions

It is at the discretion of the District to determine when an asset is considered for disposition. Once an item has been disposed the item can be removed from the capital asset system.

Disposal of Computer Equipment

When computer equipment in the District is no longer needed it must be collected to ensure the District's data and (where appropriate) software license is removed. If the equipment is non-functional it will be disposed of. Functional equipment may be donated to another fire department.



AGATE FIRE PROTECTION DISTRICT



Disposal of Vehicle Equipment

If a new or used vehicle is acquired to replace current inventory, the Chief must state which vehicle is being replaced, at which time the Chief should request funding from the Board of Directors. This may also be done during the Preliminary or Final Budget requests. Once the new vehicles are placed into services the replaced vehicles will be surplus. The vehicle then can be donated to other fire departments. If sold, the proceeds will be placed in the Capital Replacement Fund for future Capital Replacement.

If the equipment is non-functional and is not wanted elsewhere, it will be disposed of, as determined by the Board of Directors.

H. Inventory Review

The District will conduct a physical observation of capital assets each fiscal year. The purpose of the observation is to verify assets of a moveable nature, i.e. equipment and vehicles. The District will verify every asset on the capital asset inventory during the annual observation.

“Physical Inventory” is a systematic and periodic physical verification of the existence and location of capital equipment and attractive assets assigned to a department.

I. Capital Asset Accounting vs. Capital Improvement Program Budgeting.

Project budget may include funds for aspects of the project that should not be capitalized. In the accounting system, the decision about whether to “capitalize” a particular expenditure – that is, treat it as an expenditure that creates or adds to a



AGATE FIRE PROTECTION DISTRICT



capital asset – must follow the criteria contained in this policy, regardless of whether capital funding sources were used to build or buy the asset. The exception is for grant-funded projects, where the requirements of a particular grant may supersede the criteria contained in this policy.

J. Maintenance and routine repair costs are costs that allow an asset to realize its original function and life. Maintenance and routine repair costs are treated as non-capital and expensed as an operating cost when they are incurred. Major repair should be capitalized if they result in betterments/improvements. In the event capital outlays are both partly replacements and partly betterments/improvements, to the extent that the project replaces the “old” part of the capital asset, outlays should not be capitalized (unless the “old” part can be identified and removed from the cost of the asset); and to the extent that the project is betterment/improvement, outlays should be capitalized. When the distinction between replacement and betterment/improvement is not easily determinable, the cost of the entire project should be expensed.

K. Recording Assets.

The Chief is responsible for reporting all capital and attractive assets acquired by purchase, construction, donation, or leases to the District’s Secretary/Treasurer. The Secretary/Treasurer is responsible for the maintenance of an accurate capital and attractive asset system based on the information provided. The asset system shall include the following information, if available, about a specific asset: Description, Serial Number, Model Number, Asset Identification Number or Description, Funding



AGATE FIRE PROTECTION DISTRICT



Source, Purchase Date, Purchase Price, Location, Estimated useful life, and a copy of the Purchase Invoice shall be kept on file for the life of the asset.