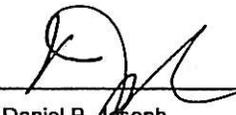


City of Aliso Viejo

ADMINISTRATIVE PROCEDURES

SUBJECT FIXED ASSET POLICY AND PROCEDURES	APPROVED BY:  Daniel P. Joseph CITY MANAGER	PROCEDURE NO. 7	EFF. DATE 11/1/05 REV. DATE	PAGE 1 of 6
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PURPOSE

The purpose of this policy is to ensure adequate control and appropriate use of City assets. The procedures are intended to define City assets and to establish guidelines for budgeting, purchasing, using, transferring, disposing, depreciating and financial reporting for all assets.

POLICY

It is the policy of the City of Aliso Viejo that City assets be properly accounted for and used for appropriate City uses. The Finance Department, with assistance from the Departments will be responsible to ensure fixed assets are tagged, inventoried on a regular basis, and accounted for by fund and asset category. It is the responsibility of City Department Heads to ensure that proper budgeting and purchasing guidelines are followed; fixed assets are adequately controlled and used for appropriate City purposes. All City Departments are subject to the provisions of this policy.

The City of Aliso Viejo's fixed asset policy has three (3) objectives:

- a. Accounting and Financial Reporting: To accurately account for City assets in financial reports issued to the City Council and external reporting agencies.
- b. Safeguarding: The City has a fiduciary responsibility to establish systems and procedures to prevent its assets from loss and or theft.
- c. Guidance: Provide City staff with guidelines to prudently manage City assets.

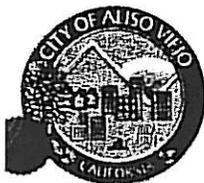
PROCEDURES

Capitalization Policy (Accounting and Financial Reporting)

In general, all assets, including land, building, machinery and equipment, with an original cost in excess of \$2,000 and a useful life of three years or more will be subject to capitalization. All costs associated with the purchase or construction shall be considered, including ancillary costs such as freight and transportation charges, site preparation expenditures, installation charges, professional fees, and legal costs directly attributable to asset acquisition.

Specific capitalization requirements are identified below.

- a. The capitalization threshold is applied to *individual units* of fixed assets. For example, ten chairs purchased through a single purchase order each costing \$250 will not qualify for capitalization even though the total cost of \$2,500 exceeds the threshold of \$2,000.



City of Aliso Viejo

ADMINISTRATIVE PROCEDURES

SUBJECT FIXED ASSET POLICY AND PROCEDURES	APPROVED BY:  Daniel P. Joseph CITY MANAGER	PROCEDURE NO. 7	EFF. DATE 11/1/05 REV. DATE	PAGE 2 of 6
---	--	-------------------------------	--	---------------------------

- b. Subsequently purchased *component* units will be added to the original purchase. For example, bookcase and hutch purchased as components of office furniture will not be evaluated individually against the capitalization threshold.
- c. *Repair costs* for fixed assets will be subject to capitalization when the repair extends the useful life of the related fixed asset.
- d. *Capital projects* will be capitalized as "construction in progress" until completed. Costs to be capitalized include direct costs, such as labor, materials, and transportation and indirect costs such as engineering and construction management.
- e. All computer and computer related equipment would be recorded and controlled as inventory and not depreciated. Constant changes in technology, software demands, and system configurations cause this asset class to be obsolete before it reaches its useful life.

Inventory Control Policy (Safeguarding)

City Assets that do not meet the criteria to be capitalized are accounted for as inventory. These assets are accounted for and controlled through the same systems and procedures used to account and control assets subject to capitalization. Department Heads are responsible for safeguarding assets under their control from theft or loss. However, the Finance Department is responsible for establishing and maintaining systems and procedures that enable Departments to properly safeguard assets.

Assets will be subject to inventory control if they meet at least one of the following criteria:

- a. The original cost of the asset is in the range of \$250 and \$1,999.
- b. The original cost of an asset is less than \$250 but due to either portability or market demand, it is susceptible to misplacement, loss, or theft.
- c. An asset required to be controlled and separately reported pursuant to grant conditions or other externally imposed reporting requirements. *For example*, an asset acquired through grant funds may be required to be identified and tracked as a grant-funded asset



City of Aliso Viejo

ADMINISTRATIVE PROCEDURES

SUBJECT FIXED ASSET POLICY AND PROCEDURES	APPROVED BY:  Daniel F. Joseph CITY MANAGER	PROCEDURE NO. 7	EFF. DATE 11/1/05 REV. DATE	PAGE 3 of 6
---	--	-------------------------------	--	---------------------------

Donated Assets

Fixed assets acquired by gift, donation or payment of a nominal sum not reflective of the asset's market value shall be assigned cost equal to the fair market value at the time of receipt.

Asset Salvage Value

The salvage value of an asset is the value it is expected to have when it is no longer useful for its intended purpose. In other words, the salvage value is the amount for which the asset could be sold at the end of its useful life. This value can be based on (1) general guidelines from professional organizations such as Government Finance Officers Association (GFOA), (2) internal experience or (3) professionals such as engineers, architects, etc.

Construction in Progress (CIP)

A CIP asset reflects the cost of construction work undertaken, but not yet completed. For construction in progress assets, no depreciation is recorded until the asset is placed in service. When construction is completed, the asset should be reclassified as building, building improvement, land improvement, or equipment and should be capitalized and depreciated.

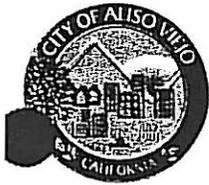
Depreciation

Depreciation is the process of allocating the cost of tangible property over a period of time, rather than deducting the cost as an expense in the year of acquisition. Generally, at the end of an asset's life, the sum of the amounts charged for depreciation will be equal to the original cost less the salvage value.

Information Needed to Calculate Depreciation

To calculate depreciation on a fixed asset the following five factors must be known:

1. the date the asset was placed in service;
2. the asset's cost or acquisition value;
3. the asset's salvage value;
4. the asset's estimated useful life, and
5. the depreciation method.



City of Aliso Viejo

ADMINISTRATIVE PROCEDURES

SUBJECT FIXED ASSET POLICY AND PROCEDURES	APPROVED BY:  Daniel P. Joseph CITY MANAGER	PROCEDURE NO. 7	EFF. DATE 11/1/05 REV. DATE	PAGE 4 of 6
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Estimated Useful Life

Estimated useful life means the estimated number of months or years that an asset will be able to be used for the purpose for which it was acquired. Eligible fixed assets should be depreciated over their estimated useful lives. The City has established a table of useful lives that is coded into the Fixed Asset Accounting System (FAAS). When an asset is added to the system, depending upon the category of fixed assets selected, a corresponding estimated useful life would be assigned.

Depreciation Method

The City has established the straight-line methodology for depreciating all fixed assets. Depreciation will begin in the month the asset is placed in service. Under the straight-line depreciation method the basis of the asset is written off evenly over the useful life of the asset. The amount of annual depreciation is determined by dividing an asset's cost reduced by the salvage value, if any, by its estimated life. The total amount depreciated can never exceed the asset's historic cost less salvage value. At the end of the asset's estimated life, the salvage value will remain.

Useful Life Schedule

The Asset Type Code is an identifier used in the FAAS to properly classify the asset or asset component.

Asset Type Code	Description	Useful Life In Years
BL	Buildings	100 Years
CP	Computers, printers, faxes etc.	N/A
EQ	Machinery and Equipment	5 Years
FF	Furniture and Fixtures	5 Years
IM	Improvements other than buildings	3 Years
IN	Infrastructure (Listed as follow)	
	Sidewalks	20-50 Years
	Curb and gutters	20-50 Years
	Traffic signals	15 Years
	Street signs	15 Years
	Storm drains	20-50 Years
	Park equipment	10-50 Years
IV	Inventory and Office Equipment	N/A
LD	Land	N/A



City of Aliso Viejo

ADMINISTRATIVE PROCEDURES

SUBJECT	APPROVED BY:	PROCEDURE NO.	EFF. DATE	PAGE
FIXED ASSET POLICY AND PROCEDURES	 Daniel P. Joseph CITY MANAGER	7	11/1/05 REV. DATE	5 of 6

Purchasing Fixed Assets

1. Review your departmental budget to ensure the requested asset has been included in the current year's budget.
2. If the desired asset is not in the budget, you must contact the Finance Department to determine appropriate action. The following criteria's will be used in requesting a budget amendment.
 - Availability of Funds
 - Need
 - Utility
 - Duplication of Function
3. Computer equipment (hardware and software) purchases must be reviewed by the Financial Services Manager for compatibility with existing hardware and software.
4. Prepare a Purchase Order to purchase the asset.
5. Notify the Finance Department by completing the "Fixed Assets Information Form". Exhibit A.
6. An asset tag will be assigned to the fixed asset by the Finance Department and logged on the "Assets Tracking Form". Exhibit B.

Transferring An Asset To Another Department/Location

1. Use the "Fixed Asset Transfer/Surplus/Disposal Form". Exhibit C.
2. Fill out sheet and obtain Finance approval prior to transferring the asset.
3. Make sure you have identified the correct department, location, and the tag number on the sheet.

Disposal of Asset/Surplus Property

All assets that have reached the end of their useful life and have a zero (\$0) book value for reporting purposes will be accounted for under the Surplus category. Surplus property, with the approval of the City Manager, can be donated to a school or non-profit agency, sold to any public or private person or entity, transferred from one department to another department, recycled or



City of Aliso Viejo

ADMINISTRATIVE PROCEDURES

SUBJECT	APPROVED BY:	PROCEDURE NO.	EFF. DATE	PAGE
FIXED ASSET POLICY AND PROCEDURES	 Daniel P. Joseph CITY MANAGER	7	11/1/05 REV. DATE	6 of 6

disposed off as junk to a landfill or other appropriate waste removal facility. Surplus property for the purposes of this policy includes furniture, fixtures, machinery, equipment and obsolete computer equipment.

It is the Department's responsibility to appraise the value of surplus properties and fixed assets. City Council approval will be required for scrapping of surplus items with a value greater than \$1,000. If it is determined that the property sold as a unit has value less than \$1,000, the property may be disposed of in a manner approved by the City Manager. If the appraised value of the surplus properties and the fixed assets, either sold as a unit or as single piece, has a market value of \$5,000 or more, the property must be disposed by advertisement to the general public. The City Clerk is authorized to advertise such surplus property for sale to the general public. Do not bring the surplus properties/fixed assets to the Finance Department.

Prior to the disposal of any surplus property, each department is required to complete a "Fixed Asset Transfer/Surplus/Disposal Form" obtain the City Manager's approval for disposal and return it to Finance for processing.

Proceeds from the disposal of surplus property will be allocated to the City's General Fund unless the property was originally purchased with monies from a specific City Fund, in which case, the proceeds will be returned to that specific fund.

Misplaced/Lost Asset

Department Heads are responsible for ensuring the "Fixed Asset Missing Report", Exhibit D, is completed in detail, obtain the City Manager's signature and submit it to the Finance Department for processing.

Tagging

"Tags" are two-part numbered bar code labels. The first part of the bar code label is affixed to the "Fixed Asset Information Form" located in Finance Department and the other part is affixed to the corresponding asset. Assets are tagged to provide an efficient mechanism:

- To provide accountability by ensuring the assets assigned to each Department are secured and accounted for by departmental personnel.
- To assist in accounting for asset replacement cost and life.
- To provide auditors with a mechanism to verify that the City is in control of its assets and to provide an accurate record of the City's capital expenditures.

City of Aliso Viejo
Fixed Asset Information Form

Exhibit A

Asset ID (tag #) _____	
Asset: _____	
Acquisition Date: _____	Vendor: _____
Original Cost: _____	Purchase Order #: _____
Acquisition Method:	
<input type="checkbox"/> Purchase	<input type="checkbox"/> Construction
<input type="checkbox"/> Lease	<input type="checkbox"/> Other
<input type="checkbox"/> Donation	<input type="checkbox"/> Grant
Manufacturer: _____	
Model: _____	
Serial #: _____	
Type Code: _____	
Fund #: _____	
Department #: _____	
Account #: _____	
Site Location: _____	
Building Location: _____	
Room Location: _____	
_____	_____
Name	Signature

City of Aliso Viejo
Fixed Asset Transfer/Surplus/Disposal Form

Exhibit C

Request Date: _____

Transferring From: Department: _____ Location: _____	Transferring To: Department: _____ Location: _____
--	--

Item #	Asset Tag #	Serial #	Description
1			
2			
3			
4			
5			
6			
7			
8			
9			
10			

Justification: _____

Authorized Signature of Releasing Department: _____

City Manager:	_____	Date	_____
Finance:	_____	Date	_____
Fixed Asset System Updated:	_____	Date	_____

Fixed Asset Missing Report

Report By: _____

Report Date: _____

Department Report

Description of Missing Item/s: _____

Asset ID (Tag #): _____

Missing Date: _____

Asset Location: _____

Replacement: _____

Item/s Value \$ _____

Action taken: _____

Result: _____

Signature _____

Date _____

To Be Completed By Finance Department

Action by Fin. Dpt: _____

Result: _____

Finance _____

Date _____

City Manager _____

Date _____