

ORDINANCE NO. 2088

ORDINANCE AMENDING THE NORTHPORT MUNICIPAL CODE BY ADDING SECTION REGARDING CAPITAL ASSET POLICY

WHEREAS, the City should articulate its policy for Capital Assets; and

WHEREAS, the attached addition to the Northport Municipal Code will set forth written policies to be followed as to the City's Capital Assets.


NOW, THEREFORE, BE IT ORDAINED BY THE CITY COUNCIL OF THE CITY OF NORTHPORT, ALABAMA AS FOLLOWS:

1. Article VIII - Capital Asset Policy, is hereby added to Chapter 34 in the Northport Municipal Code, as set forth in Exhibit "A" which is attached hereto and incorporated by reference as if fully set out verbatim.
2. This Ordinance shall become effective immediately upon passage and publication.


ORDAINED this the 2nd day of August, 2021.

**CITY COUNCIL OF THE
CITY OF NORTHPORT**


BY: _____


Jeff Hogg, Its President

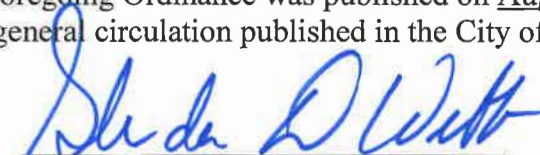
ATTEST:


Glenda D. Webb, City Administrator

APPROVED this the 2nd day of August, 2021.


Bobby Herndon, Mayor

I hereby certify that the above and foregoing Ordinance was published on August 11, 2021, in the Northport Gazette, a newspaper of general circulation published in the City of Northport.



Glenda D. Webb, City Administrator

1st Reading: July 19, 2021
Motion By: Hogg
2nd Reading: August 2, 2021
Motion By: Bobo
Second By: Washington
Publication: August 11, 2021

EXHIBIT “A”

CHAPTER 34

FINANCE

Article VIII – Capital Asset Policy

Sec. 34-150. Introduction.

The Capital Asset Policy is designed to provide guidance for capitalization and depreciation of Capital Assets. The purpose of the policy is to establish controls to provide for effective management of Capital Assets.

It is the responsibility of the Finance Director to establish and maintain an accurate accounting of Capital Assets, and to design, implement and continually improve operating procedures for activities required as a result of this policy. It shall be the responsibility of all city departments to cooperate in the capitalization process and to perform the annual inventory.

Sec. 34-151. Definitions.

- (a) *Capital asset.* Any property acquired by the city with an estimated useful life extending beyond a period of at least two (2) years, including real property (land, land improvements, buildings, building improvements, infrastructure, etc.), leasehold improvements, construction in process, tangible and intangible movable property (furniture & fixtures, machinery & equipment, vehicles, works of art & historical treasures, easements/right-of-way, water rights, timber rights, mineral rights, etc.), and all other assets used in the operations of the municipality.
- (b) *Capitalization threshold.* Acquisition value of \$5,000 or more and having an estimated useful life extending beyond two years.
- (c) *Real property.* Land and any attachment to the land that cannot be readily removed, including land improvements, buildings, building improvements and infrastructure.
 - (1) *Land improvements.* Improvements to land which are incidental to the property or access to the property including but not limited to: driveways, sidewalks, fences, parking lots, flagpoles, retaining walls, outdoor lighting and other non-building improvements with a limited useful life intended to make the land ready for its intended purpose.
 - (2) *Buildings.* Permanent structures erected above ground, together with fixtures attached to and forming a permanent part of the building, for the purpose of sheltering persons or personal property.
 - (3) *Building improvements.* Major repairs, renovations, or additions such as addition of a new wing or a new air conditioning system, ramps, fire escapes, doors or other appurtenances; modifications to comply with fire, health, or safety codes; conversion of unusable to useable floor space, upgrade of the space which extend the useful life of the building or increases the value. Ordinary repairs which do not extend the useful life of a building are considered operating costs.
 - (4) *Infrastructure.* Items that normally are stationary in nature and can be preserved for a significantly greater number of years than most Capital Assets. Examples include roads,

bridges, tunnels, drainage systems, water systems, sewer systems, dams, lighting systems etc. Infrastructure does not include buildings or land improvements.

- (c) *Leasehold improvements.* Improvements made by the lessee to leased property such as land improvements, buildings, and buildings improvements. The lessee has the right to use such facilities and improvements during the life of the lease, but the leasehold improvements made to the property revert to the lessor at the expiration of the lease.
- (d) *Construction in progress.* Accumulation of on-going project costs that increase the value or life of the Capital Asset.
- (e) *Movable property.* Property that is not fixed or stationary in nature and can be further classified as tangible and intangible.
- (f) *Tangible property.* Property that is moveable such as furniture and fixtures, machinery and equipment, vehicles, works of art and historical treasures.
 - (1) *Furniture and fixtures.* Office furniture and building fixtures.
 - (2) *Machinery and equipment.* Equipment usually composed of a complex combination of parts (excluding vehicles). Examples include laths, drill presses, and printing press.
 - (3) *Vehicles.* Equipment used to transport persons or objects. Examples include automobiles, trucks, and buses.
 - (4) *Works of art and historical treasures.* Inexhaustible items held for public exhibition, educational purposes, or research in enhancement of public service instead of financial gain. Examples include paintings, sculptures, photography, maps, manuscripts, musical instruments, recordings, film, furnishings, artifacts, tools, weapons, and other memorabilia.
- (g) *Intangible property.* Items which lack physical substance, are nonfinancial in nature, and have a useful life extending beyond two years. Examples include bonds, notes, contracts, computer software, programs, and proprietary assets that are created or purchased and owned by the city. Assets that arise from contractual or other legal rights, regardless of whether or not the rights are separable, are also considered intangible assets.
- (h) *Surplus property.* Tangible non-consumable movable property owned by the City having an estimated value of at least \$250, which has been declared by the City Council or City Administrator as no longer needed for public purposes.

Sec. 34-152. Capitalization costs.

GASB 34 states that Capital Assets should be reported at historical cost. There are various methods by which the city acquires assets. These methods include, but are not limited to: purchase, gifts/donation, lease/purchase, trade-in, forfeiture, condemnation, internal/external construction, transfers from other governments, or any other method which transfers title of any property to the city. The cost of a capital asset should include any charges necessary to put the asset into place.

- (1) *Method of acquisition.*
 - a. *Purchases.* Capital assets purchased by the city are reported at acquisition cost plus costs incurred in preparing the asset for use (interest, freight, etc). The city will recognize acquisition costs based on individual unit prices.
 - b. *Gifts/donations.* The city capitalizes assets acquired through gifts/donations at fair market value on the date donated, provided such gift/donation meets the capitalization threshold of this policy. If the asset is new and the donor can furnish an invoice, the invoice shall determine the fair market value. If the asset is used or no information is

available regarding the value of the asset on date of donation, an appraisal will be conducted to establish the value.

- c. *Leased/purchased assets.* The city capitalizes assets acquired under capital lease provided they meet the capitalization threshold and a buy-out option is included in the lease agreement. The capital lease must meet accounting standards for capitalization purposes. For capital leases where the title of the asset will ultimately be transferred to the city, the asset will be capitalized at the net present value of future minimum lease payments. The city does not capitalize assets acquired under operating leases.

(2) *Real property.*

- a. *Land.* The city will capitalize all costs incurred to acquire land and to place it in use. The acquisition costs of land shall include: purchase price, ancillary charges (legal and title fees, closing costs, appraisal and negotiation fees, surveying fees, site preparation fees, demolition costs, architect and accounting fees, insurance premiums during construction phase, and transportation charges) assumption of any liens or mortgages, land improvements (excavation, filling, grading, demolition of buildings, removal or relocation of other property such as telephone or power lines) and all rights associated with land (water rights, timber rights, and mineral rights) unless acquired separately, etc.
- b. *Land improvements.* The city will capitalize all costs of land improvements if the total improvement, including the contract price, engineering, architectural, attorney's fees, and other related costs, meets the capitalization threshold of this policy.
- c. *Buildings.* The city will capitalize all costs incurred to acquire and place a building into use. The acquisition costs of the building should include: purchase price, ancillary charges (legal and title fees, closing costs, appraisal and negotiation fees, surveying fees, architect and accounting fees, etc.), assumption of any liens or mortgages, and other incidental expenditures incurred at the time of acquisition. If the building is constructed, the capitalized cost includes material, labor, supervision, and overhead, or the contract price, including costs such as: permits and licenses, architectural and engineering fees, insurance, title fees, and interest incurred on tax exempt debt.
- d. *Building improvements.* The city will capitalize costs of building improvements if expenditures extend the useful life of the building and total improvement costs, including the contract price, engineering, architectural, attorney's fees, etc., meet the capitalization threshold of this policy.
- e. *Infrastructure.* Although these assets have long, useful lives, these assets are not depreciated.

(3) *Leasehold improvements.* The city shall capitalize leasehold improvements at the lesser of 20 years or the remaining lease term. Examples include buildings constructed on leased land or improvements made to leased buildings.

(4) *Construction in progress.* Construction in progress shall be capitalized and not depreciated. Upon project completion, the construction in progress account will be closed out and costs will be capitalized into the appropriate asset category (infrastructure, land improvement, building, building improvements).

(5) *Tangible property.*

- a. *Furniture and fixtures.* Expenditures for furniture and fixtures meeting the capitalization threshold shall be capitalized, consistent with the method of acquisition as outlined above.

- b. *Machinery and equipment.* Expenditures for individual items or pieces of equipment meeting the capitalization threshold shall be capitalized, consistent with the method of acquisition as outlined above.
 - c. *Vehicles.* Expenditures for vehicles meeting the capitalization threshold shall be capitalized, consistent with the method of acquisition as outlined above.
 - d. *Works of art and historical treasures.* Record at historical cost, depreciation is not required for collections or works of art that are inexhaustible after January 1, 2020.
- (6) *Intangible property.* An intangible asset shall be recognized only if it is: 1) identifiable, and 2) capable of being separated and sold, transferred, or licensed.
 - (7) *Easements/right-of-way.* Easements are not required to be reported in the financial statements unless the entity paid for the easement.
 - (8) *Water rights.* Water rights are capitalized as part of land unless acquired separately and paid for by the city.
 - (9) *Timber rights.* Timber rights are capitalized as part of land unless acquired separately and paid for by the city.
 - (10) *Mineral rights.* Mineral rights are capitalized as part of land unless acquired separately and paid for by the city.

Sec. 34-153. Method of depreciation.

Capital assets capitalized under this policy shall be included in the government-wide financial statements in the annual external audit beginning in 2022. Depreciation is calculated using the straight-line depreciation method (cost divided by useful life) with no estimated salvage values. In the year of disposal, any remaining depreciation will be taken if an asset is not fully depreciated at the time of disposal.

Sec. 34-154. Estimated useful life.

Asset Class	Examples	Estimated Useful Life
Land		Not depreciated — indefinite useful life
Land Improvements—Structure	Parking Lots, Sidewalks, Bus Ramp, Fencing, Running Track, Flagpole	20 years
Land Improvements—Ground Work	Golf Course, Ball Field, Park Landscaping	30 years
Buildings		40 years
Buildings—Movable	T-Buildings, Other Portable	25 years

Building Improvements—HVAC System	Air-Conditioners, Heating, Ventilation System	20 years
Building Improvements—Roofing		20 years
Building Improvements—Carpet Replacement		7 years
Building Improvements—Electrical/Plumbing		30 years
Roads—Paved		40 years
Roads—Asphalt Rural		40 years
Roads—Asphalt Urban		20 years
Roads—Non-Paved		50 years
Easements		Not depreciated — indefinite useful life
Drainage Systems		25 years
Water Systems		25 years
Sewerage Disposal Works System		25 years
Levees and Canals—Unlined		Not depreciated — indefinite useful life
Canal Lining		30 years
Dams—Concrete		50 years
Dams—Steel, Sheetpile		30 years
Dams—Earthen Embankment		Not depreciated — indefinite useful life
Leasehold Improvements		Lesser of 20 years or lease term

Machinery and Equipment		5 years
Telephone Equipment		10 years
Kitchen Equipment	Appliances	12 years
Heavy Construction Equipment	Backhoes, Trucks, Dozers, Front-End Loaders, Large Tractors	5-10 years
Police Special Equipment		10 years
Computer Hardware	Monitors, CPU, Printer	5 years
Office Equipment		5 years
Traffic Control Equipment	Stoplights	10 years
Radio, Communications Equipment	Mobile, Portable Radios	10 years
Outdoor Equipment	Playground Equipment, Scoreboards, Bleachers, Radio Towers	20 years
Custodial Equipment	Floor Scrubbers, Vacuums, Other	12 years
Grounds Equipment	Mowers, Tractors and Attachments	15 years
Furniture & Fixtures		7 years
Vehicles		5 years

Sec. 34-155. Disposal/transfer of assets; surplus property.

- (a) *Records.* Moving forward, the City shall maintain records, including but not limited to information as to the date of purchase of any property or equipment, the initial cost, the disposition, if any, the purpose of such disposition, and the recipient of the disposed property or equipment.
- (b) *Disposition of capital assets.*
- (1) All Capital Assets are the property of the City which may not be donated, discarded, or transferred to another owner without direct authorization from the City Council or City Administrator as allowed by Code Sections 2-700 through 2-714.
 - (2) The disposition of Capital Assets the City purchased with federal, state, or other grant funds shall follow the guidelines of the specific grant or federal general guidelines, which dictate the

duration of time that the asset must remain property of the City and will dictate the method of disposition of the proceeds from the sale of the asset. All dispositions of Capital Assets declared surplus property shall comply with applicable state law.

- (c) *Procedure.* Disposal requests shall include a description of the property, the reason for the disposal request, as well as the additional requirements as set out in Sections 2-700 through 2-714 of the Northport City Code.

Sec. 34-156. Annual inventory.

The Finance Director (or designee) is responsible for recording and coordinating the annual inventory of all Capital Assets. The listing of Capital Assets is to be updated each year for assets acquired and disposed. Any missing assets should be addressed and appropriately resolved. Unresolved and significant unaccounted for losses of assets shall be brought to the attention of the City Administrator for further action.