



**STANDARD  
OPERATING  
PROCEDURE**

**NUMBER:**

**101.043**

**Fixed Asset Purchasing &  
Inventory**

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**PURPOSE**

The Board of Directors and the Fire Chief shall properly authorize all additions to District property and equipment. Expenditures for tangible assets used actively in operations that benefit a period exceeding three fiscal years and with a cost of \$2,000 or more shall be capitalized.

**POLICY**

**1) Additions to Property and Equipment**

The following broad asset types categorize District property and equipment:

- a) Land
- b) Buildings and leasehold improvements
- c) Firehouse equipment
- d) Office equipment
- e) Construction in progress
- f) Fire engines, rescue vehicles, and automobiles
- g) Operations equipment

Capital budgeting is as integral to forming the District's annual business plan as operations budgeting. Since the budgeting process must take place far in advance, estimations of acquisitions in the annual budget and forecast must be made. The decision to purchase a capital asset shall be an informed one, based on current year budgets, projected benefits of the addition, and analysis of the lease versus purchase option.

Approval of Capital Budgeting

Capital budgets shall be submitted along with operating budgets for review and approval by the Board of Directors during the annual preliminary budget and final budget cycles.

Fixed Asset Purchase Authorizations

Proper authorization for purchase of fixed assets is specified in the current purchasing procedures SOP 101.040. No purchase of capital assets shall be made without review to ensure compliance with budget guidelines and sound investment decision-making.

Long Term Lease or Purchase

Obtaining the use of property, plant and equipment through long-term leases is an alternative to outright purchase. Leases vary in term, assumption of expenses, and many

other details. The purchase versus lease decision shall be based upon the basis of net cost, considering:

- a) Cash flow considerations.
- b) Suitability of the asset to leasing (i.e. some assets, such as computers, are subject to rapid technological change and may not be of as much benefit to the District after a few years).

## **2) Accurate Records of Property and Equipment**

### Receipt and Identification of Capital Assets

All fixed asset items shall be identified upon receipt by the use of a pre-numbered tag:

- a) The tag shall be permanently affixed in a readily visible area.
- b) The property number on the tag shall be recorded in the detailed fixed asset ledger.
- c) The location of the asset installation shall be recorded in the detailed fixed asset ledger.

### Review of Purchase Price Variances

For each fixed asset item purchased, a comparison shall be made of the actual versus the budgeted cost. Differences shall be explained and approved by the Director of Business Services.

### Maintenance of Detailed Fixed Asset Ledgers

Detailed fixed asset ledgers that are accurate and complete shall be maintained for the following classifications:

- a) Land
- b) Buildings and leasehold improvements
- c) Firehouse equipment
- d) Office equipment
- e) Construction in progress
- f) Fire engines, rescue vehicles, and automobiles
- g) Operations equipment

### Depreciable Assets Net Acquisition Costs

Depreciable assets shall be carried in the accounting records at the original net acquisition cost, less separate accounts for accumulated depreciation or depletion. Non-depreciable capital assets (e.g. land) customarily shall be carried in the records at the original net cost. Purchased items of property, plant, and equipment that meet the capitalization

requirements are to be capitalized at the invoice price plus all charges incurred to prepare the asset for operations.

Cost of acquisition or construction includes not only the contract or invoice price, but also such costs as preliminary engineering studies and surveys, legal fees to establish title, installation costs, sales tax, freight, and labor and material used in construction or installation.

Cash discounts taken shall be recorded as a reduction of the cost.

#### Capitalization of Expenditures While Building

Expenditures made by the District while building a capital asset shall be capitalized.

Expenditures such as those for materials, labor, engineering, supervision, legal expenses, insurance, overhead, and interest shall be capitalized as "construction in progress" until the project is completed and placed in service. No depreciation shall be taken on construction in progress.

Periodically during construction, a comparison shall be made between projected and actual expenses incurred. Approvals shall be obtained from the Board of Directors if projected costs will exceed the budgeted amount.

Upon completion of construction and placement in service, the asset shall be removed from construction in progress and entered into the detailed fixed asset ledger under the appropriate classification. Depreciation shall now be taken on the asset.

#### Expenditures – Capitalization vs. Expense

Repair expense shall be distinguished from expenditures for improvements, additions, renovations, alterations, and replacements.

- a) Expenditures are repair expense if they do not materially add to the value of the property and do not materially prolong the life of the property.
- b) Repair costs that increase the value of property, prolong its life or adapt it to a new or different use are capital expenditures. If the life of the asset has been significantly extended, the remaining original cost and the repair cost shall be depreciated over the new life.
- c) Other expenditures that may be capitalized:
  - i) Land improvements that depreciate over time (e.g. parking lots).
  - ii) Structural changes or alterations to District owned buildings.
  - iii) Significant improvements to property leased by the District.

### 3) Depreciation Of Property and Equipment

The cost of all capital assets shall be allocated (depreciated) over the estimated useful lives in a rational and systematic manner. The generally accepted depreciation method used to systematically allocate an assets cost (less salvage value) over its useful life shall be the straight line method: an equal amount of the net cost of an asset allocated to each accounting period in its useful life.

#### Determination of Useful Life

The useful life shall be determined when a capital asset is acquired. The useful life may be expressed in terms of time, units of production, or hours of service.

- a) The cost of an asset shall be allocated over a useful life via depreciation.
- b) When a useful life is not determinable, such as for land, no depreciation shall be taken.
- c) If there is a change in the estimate of the remaining useful life after the asset is placed in to service, the remaining cost to be depreciated shall be spread over the revised remaining life.
- d) The Board of Directors shall review the estimated useful life change.

### 4) Existence of Capital Assets

Control shall be maintained over capital assets and their related records to ensure that all recorded assets exist and are in use for operations. The physical existence of capital assets shall be verified and reconciled to the fixed asset records.

#### Identification and Record of Assets

At the time of acquisition, all assets shall be identified, tagged and entered into the detailed fixed asset ledger. The tag shall be placed in a visible area. The tags provide a clear method of tracing the asset to the fixed asset ledger. Annually, the District shall take a physical inventory of all capital assets to ensure the completeness and accuracy of the District's records.

- a) Responsible management employees who are not responsible for the custody or record keeping of the assets shall oversee the inventory process. Therefore, the Fire Chief shall review the Director of Business Services' annual physical inventory of fixed assets.
- b) All assets shall be examined to determine that they are currently being used.

#### Comparison to Detailed Records

The inventory of the assets on hand shall be compared to the detailed records.

Resolution of Differences

The Director of Business Services shall resolve all differences in the records.

**5) Disposal of Capital Assets**

Disposal of capital assets shall occur as specified in the Purchasing SOP 101.040 – Disposal of Surplus Property section. Control over the disposition of property shall be maintained not only to preserve the accuracy of the records but also to ensure that assets are safeguarded, improper disposal is avoided, and the best possible terms are received for disposal.

Recording Disposal

Once the retirement has been properly approved and conducted, the following procedures apply to the recording of the transaction:

- a) At the time the property is retired, the cost shall be removed from the appropriate asset account.
- b) When the disposal is via a trade-in of a similar asset, the acquired asset shall be recorded at the book value of the trade-in asset plus any additional cash paid. In no instance shall such cost exceed the fair market value for the new asset.

Fully Depreciated Assets

Fully depreciated assets shall remain on the property records with the related accumulated depreciation as long as the property is still in use.