



FINANCE DEPARTMENT

City of  
**REDLANDS**

Incorporated 1888  
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**MEMORANDUM**

DATE: NOVEMBER 9, 2017  
TO: DEPARTMENT DIRECTORS  
FROM: DANIELLE GARCIA, MANAGEMENT SERVICES/FINANCE DIRECTOR   
SUBJECT: CAPITAL ASSET MANAGEMENT

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To ensure that all capital assets are adequately safeguarded and only used for authorized purposes; fixed assets purchased with Federal funds are clearly identified in the fixed asset accounting system; a physical inventory of fixed assets purchased with Federal funds is performed at least every two years; and the results of the physical inventory are reconciled to the fixed asset records, Management Services/Finance has written the attached formal procedure for Capital Asset Management. Please adhere to these procedures.

If you have any questions please contact me.

## PURPOSE

With the adoption of Resolution No. 7737, City Council established a Capital Asset Policy to ensure that all capital assets are properly accounted for; adequately safeguarded; only used for authorized purposes; and that a physical inventory of such assets is performed at least every two years.

This policy aims to provide guidance and information to departments on best practices. So, they can actively and properly manage their capital assets. We expect all department heads and assigned personnel to ensure that capital assets are protected from loss, most value is received from their investment, and that they are tracked properly.

## POLICY

It is the duty of the City of Redlands Finance Director to supervise the keeping of current inventories of all property of the city in accordance with the City Municipal Code No. 2.08.020.

## DEFINITION

Capital assets are non-financial assets that are used in operations costing \$5,000 or more and have an initial useful life of at least 3 years. They could be movable or immovable, tangible (has a physical form) or intangible (not physical in nature). Examples of capital assets include land, land improvements, buildings, building improvements, Infrastructures, equipment, computer software, etc. For a further explanation of these examples, please refer to the Capital Asset policy, pages 2-4.

## RECORDING

### At the time of purchase:

Departments must determine whether expenditures are capitalizable or can be expensed. Expenses should be capitalized only if **BOTH** these requirements are met:

- Historical cost is at least \$5,000 or more (includes shipping, installation, and any related costs necessary to place the asset into service)
- The asset has a useful life of at least 3 years

Examples of costs that should be capitalized and those that are not eligible for capitalization can be found on pages 4 & 5 of the Capital Asset Policy.

Once established that a cost is eligible for capitalization, departments must code the expenditure to the 7000 Series of object codes. A listing of all Object Codes can be found on the shared drive in the following directory: \Finance Department\Chart of Accounts. If cost did not meet the capitalization criteria you can code it to object code 6640 - Non-Capital Expenditures.

Additions or improvements:

If the addition or improvement enhances the functionality of the asset or increases the expected useful life or value of the asset by 25% of the original life or cost, it is eligible to be capitalized. Otherwise, it should be expensed.

Upon discovery of an incorrectly coded purchase or discrepancy:

Notify the Management Services /Finance Department immediately. We will post an adjusting journal entry to correct the transaction.

**TRANSFER TO/FROM ANOTHER DEPARTMENT**

Capital assets transferred to or from one department require an "Asset Transfer Form" to be completed by the department transferring the asset. The Department Director receiving the capital asset must acknowledge receipt of the fixed asset transferred to their department. The form must be submitted to Management Services / Finance for approval.

**ASSETS SOLD/SURPLUS OR DISPOSED**

When you sell/surplus or dispose of a capital asset, **including those purchased with Federal funds**, you will need to send a copy of the "surplus form" to Management Services / Finance. We will need to create a journal entry to officially remove the asset from the City's capital asset records. Management Services / Finance will identify assets purchased with Federal funds and work with Purchasing to dispose or sell the asset in accordance with Federal guidelines and the terms and conditions of the Federal award.

**INVENTORY**

A physical inventory of the City's capital assets, **including those purchased with Federal funds**, will be conducted, at a minimum, once every two fiscal years at the fiscal year end. The Senior Accountant in charge of capital assets will compile a list of assets, list location, and condition of asset. This inventory and its findings will be submitted to the Finance Director for review.

Any discrepancies during the inventory count will be investigated and reconciled. The physical inventory should assess the following:

- Any changes, such as location, sale, trade-in, or disposal of capital assets
- The serial number if it does not appear correct or missing on the listing
- Any capital asset found to be missing during the physical inventory

The inventory will be competed to ensure unauthorized acquisition or disposal of asset or theft is being prevented or detected.

Upon completion of the physical inventory, the updated capital asset listing will be provided to Human Resources / Risk Management to update their insured asset listing.

## CAPITAL ASSET TRACKING

Upon completion of the biennial physical inventory, the Management Services /Finance Department will provide each department with a listing of capital assets assigned to their department. City records will include a description of the property; the identification number or VIN; the source of funding; who holds title; the acquisition date; the cost; the percentage of Federal participation in the cost of the property; the location of the property; the condition and use; and any ultimate disposition data, including disposition date and sale price of the property. **Each Department Head is responsible for conducting the physical inventory and returning the results to the Management Services /Finance Department. The results of the physical inventory will be reconciled to the fixed asset records, and the reconciliation will be reviewed and approved by the Accounting Manager. This documentation will be kept on file in accordance with Federal and State record retention requirements.**

Capital assets acquired with grant funds will be coded with a unique identifier.


During the fiscal year, new capital assets acquired or transferred in from another department should be added to the list and any capital assets that are no longer operational, sold, scrapped or transferred out to another department should be removed from the departmental listing. The accuracy and completeness of these records will also impact other costs associated with owning capital assets (i.e. insurance). For this reason, our records must be complete, accurate and up-to-date.

## CAPITAL ASSET MANAGEMENT

Departments must establish "internal control procedures" to prevent loss, damage, or theft; procedures to keep the property in good condition; and procedures to ensure that assets purchased with Federal funds are being used only for the authorized purposes. Each department is required to adequately safeguard all capital assets and confirm they are only used for authorized purposes.

### Internal Control Requirements

- Departments must complete a periodic review of internal controls to identify weaknesses.
- Human Resources / Risk Management and Emergency Operations must complete a periodic review of accountability and responsibilities of risk management, crisis management, and disaster recovery.
- All entrances and doors are secured.
- Routine inspection by management of assets, including those purchased with Federal funds, for condition and maintenance.
- On a routine basis, security risks are reviewed, identified, and documented and appropriate measures are implemented to manage them.

  
Danielle Garcia, Management Service/Finance Director  
Effective Date: November 9, 2017