

City of Lancaster
Administrative Policies and Procedures Manual

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| Subject Capital Assets | | Effective Date 06/24/2014 | |
| Index: Finance Number: 200-XX | Supersedes N/A | Staff Contact B. Boswell | Pages |

1.0 Purpose

The purpose of this policy is to define and provide a system to account for and control capital assets.

2.0 Organizations Affected

All City departments/divisions
Auditors of City records

3.0 References

Government Accounting Standards Board (GASB) Statement 34

4.0 Definition of Terms

4.1 Capital Assets – Assets of significant value having a utility which extends beyond the current year are classified as capital assets. The City categorizes capital assets as: land, construction in progress, structures & improvements, furniture & equipment, and infrastructure. Capital assets are also referred to as “fixed assets”.

4.2 Capital Asset List - Records monitored and maintained by the Finance Department through use of financial software & Ldocs (records management system).

4.3 Capitalized Expenditures - Expenditures which materially add to the value of the property or appreciably extend its life. This amount should be added to the current book value of the asset where the original cost of a component being improved can be specifically identified. If a component is being replaced, the cost of the old component should be disposed and the new cost capitalized.

4.4 Construction-in-Progress - Major class of capital assets used for costs incurred to construct or develop a tangible or intangible capital asset before it is substantially ready to be placed into service.

- 4.5 Furniture & Equipment – Category of capital assets used to account for movable equipment such as office furnishings, office equipment, electronic equipment, computers and computer components, machinery and vehicles or vehicle-type equipment. This is also defined as moveable property of a relatively permanent nature.
 - 4.6 Infrastructure - Construction on street, road, site improvements, and flood control projects of a permanent nature. Examples of infrastructure include bridges, culverts, storm drains, channels, sidewalks, fencing, retaining walls, parking lots, sewer lines, traffic signals and landscaping.
 - 4.7 Land - The investment in real estate other than buildings and building improvements. Land is not classified as a depreciable asset.
 - 4.8 Maintenance and Repairs - Expenditures which neither materially add to the value of the property nor appreciably prolong its life but merely keep it in an ordinary, efficient operating condition. Maintenance and repair costs are not capitalized.
 - 4.9 Straight Line Depreciation – Depreciation is charged uniformly over the useful life of the asset.
 - 4.10 Structures & Improvements - All permanent structures are included in this category. As a general rule, the cost of buildings associated with infrastructure should be reported as buildings rather than infrastructure.
 - 4.11 Significant value - having an initial, individual cost of more than \$5,000 (amount not rounded) and having an estimated useful life in excess of two years.
- 5.0 Policy
- 5.1 It is the policy of the City of Lancaster and its component units (Lancaster Housing Authority - LHA, Lancaster Community Services Foundation - LCSF, Lancaster Public Financing Authority - LFA, and Lancaster Power Authority - LPA) that capital assets be used for appropriate City purposes and be properly accounted for and secured.
 - 5.2 Capital assets include moveable property (furniture & fixtures, machinery & equipment, automobiles, etc.), land, land improvements, buildings, building improvements, leasehold improvements, infrastructure, historical treasures and works of art,

and all other tangible assets that are used in operations that have initial useful lives beyond a single reporting period.

- 5.3 It is the responsibility of the Finance Department to ensure capital assets are properly accounted for by fund and asset category on the Capital Asset List. Capital assets acquired with grant or other special revenue funds will be designated as such on the Capital Asset List and considered a capital asset of that fund.
- 5.4 It is the responsibility of all City Department Heads to ensure that proper budgeting and purchasing guidelines are followed, that capital assets are adequately controlled and used for appropriate City purposes, and to secure such capital assets.
- 5.5 The City of Lancaster's capital asset policy has two (2) main objectives:
 - 5.5.1 Accounting and Financial Reporting – To accurately account for and report capital assets in financial reports issued to the City Council, external reporting agencies, granting agencies, and the public.
 - 5.5.2 Safeguarding – To maintain City capital assets for the use and enjoyment of its citizens.
 - 5.5.2.1 Development Services and Parks, Recreation and Arts are primarily responsible for safeguarding infrastructure assets. Finance is responsible for establishing and maintaining systems and procedures that enable these departments to safeguard assets.
- 5.6 The Finance Department is responsible for, and will establish, systems and procedures through which both objectives are met. These systems and procedures are used to identify, process, control, track, and report City capital assets.
- 5.7 Capital assets are to be valued at historical cost or estimated historical cost if actual historical cost is not available. Capital assets donated are to be valued at their estimated fair market value on the date donated.
- 5.8 The capitalization threshold for reporting capital assets is \$5,000. All costs associated with the purchase or construction should be considered, including ancillary costs such as design engineering, construction management, inspection, permits, insurance, freight and transportation charges, site preparation expenditures,

installation charges, professional fees, and legal costs directly attributable to asset acquisition.

- 5.9 Repairs to infrastructure assets will generally not be subject to capitalization unless the repair extends the useful life of the asset or enhances the asset's functionality (effectiveness or efficiency). In this case, it represents an addition or improvement and is subject to the capitalization policy and should be evaluated separately.
- 5.10 Capital projects will be capitalized as "construction in progress" without depreciation until completed. Costs to be capitalized include direct costs, such as labor, materials, and transportation, indirect costs such as engineering and construction management, and ancillary costs such as construction period interest.
- 5.11 Purchasing of capital assets will be done in accordance with the Procurement Manual.
- 5.12 Retirement, disposal, or transfer of capital assets will follow procedures detailed in the Procurement Manual section titled Surplus Property. Any revenue resulting from the retirement, disposal or transfer of capital assets acquired with grant or other special revenue funds will be recorded in that fund.

6.0 Depreciation Guidelines

6.1 Capital Assets will be depreciated using the straight line depreciation method.

6.2 Useful life is set at:

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| Building and structures | 40 years |
| Machinery and equipment valued < \$50,000 | 7 years |
| Machinery and equipment valued ≥ \$50,000 | 10 years |
| Public domain infrastructure | 50 years |

Approved:

Mark V. Bozigian, City Manager

Date