City

Of

Hornell

Capital Assets Policies and Procedures Manual

Introduction

The City Clerk is responsible for the management of all capital assets for The City of Hornell. This manual includes definitions and other guidelines used for recording capital assets for The City of Hornell's financial presentations.

Capital Asset Definitions

Capital assets are real or personal property that have a value equal to or greater than the capitalization threshold for the particular classification of the asset and have an estimated life of greater than one year.

Assets which are purchased or constructed that meet or exceed established capitalization thresholds will be recorded by The City.

Assets are recorded at their historical costs, which include the vendor's invoice (plus the value of any trade-in or allowance, if reflected on the invoice), plus initial installation cost (excluding in- house labor), modifications, attachments, accessories or apparatus necessary to make the asset usable and render it into service. Historical costs also include ancillary charges such as freight and transportation charges, site preparation costs, and professional fees.

Leased equipment should be capitalized if the lease agreement meets any one of the following criteria:

- The lease transfers ownership of the property to the lessee by the end of the lease term
- The lease contains a bargain purchase option
- The lease term is equal to 75 percent or more of the estimated economic life of the leased property
- The present value of the minimum lease payments at the inception of the lease equals at least 90 percent of the fair value of the leased property.

Leases that do not meet any of the above requirements should be recorded as an operating lease.

Assets will be reported on financial presentations at net book value, which is the asset's historical cost less the accumulated depreciation.

Capital Asset Categories

The City reports the following capital assets:

> Land
> Land improvements
> Buildings and building improvements
> Infrastructure
> Construction in progress
> Moveable equipment and furniture

Land

Land is the surface of the earth, which can be used to support structures, and may be used to grow grass, shrubs, and trees. Land is characterized as having an unlimited life. Donated land should be treated like other donated assets. Site improvements (other than buildings) that prepare land for its intended use are added to the cost of the land.

Examples of expenses to be included in the cost of land are:
• Purchase price or fair market value at time of gift
• Commissions
• Professional fees (title searches, architect, legal, engineering, appraisal, surveying, environmental assessments, etc.)
• Land excavation, fill, grading, and drainage
• Demolition of existing buildings and improvements (less salvage)
• Removal, relocation, or reconstruction of property (railroad, telephone and power lines)
• Interest on mortgages accrued at date of purchase
• Accrued and unpaid taxes at date of purchase
• Right-of-way
• Other costs incurred in acquiring the land

Land improvements

Land improvements are assets, other than buildings, which are built, installed, or established to enhance the quality or facilitate the use of land for a particular purpose.

Examples of expenses to be included in the cost of land improvements are:
• Fencing and gates
• Landscaping
• Parking lots/driveways/parking barriers
• Outside sprinkler systems
• Recreation areas and athletic fields (including bleachers)
• Paths and trails
• Swimming pools, tennis courts, basketball courts
• Fountains, plazas, and pavilions

Buildings and building improvements

A building is a structure that is permanently attached to the land, has a roof, is partially or completely enclosed by walls, and is not intended to be transportable or moveable. Building improvements are capital events that materially extend the useful life of a building, increase the value of a building, or both. A building improvement should be capitalized if the improvement is at the capitalization threshold. For a replacement to be capitalized, it must be a part of a major repair or rehabilitation project, which increases the value, and/or useful life of the building. A replacement may also be capitalized if the new item/part is of significantly improved quality and higher value compared to the old item/part such as complete replacement of an old roof with a new roof. Replacement or restoration to original utility level will not be capitalized. Determinations must be made on a case-by-case basis.

Any maintenance-related expenses or repairs which do not increase the value of the building will be expensed when it occurs and will not be capitalized as an asset.

Examples of expenses to be included in the cost of buildings are:
• Purchased Buildings
• Original purchase price
• Expenses for remodeling, reconditioning or altering a purchased building to make it ready to use for the purpose for which it was acquired
• Environmental compliance (i.e., asbestos abatement)
• Professional fees (legal, architect, inspections, title searches, etc.)
• Payment of unpaid or accrued taxes on the building to date of purchase
• Cancellation or buyout of existing leases
• Other costs required to place or render the asset into operation
• Constructed Buildings
• Completed project costs
• Interest accrued during construction
• Cost of excavation or grading or filling of land for a specific building
• Expenses incurred for the preparation of plans, specifications, blueprints, etc.
• Professional fees (architect, engineer, management fees for design and supervision, legal)
• Costs of temporary buildings used during construction
• Unanticipated costs such as rock blasting, piling, or relocation of the channel of an underground stream
• Permanently attached fixtures or machinery that cannot be removed without impairing the use of the building
• Additions to buildings (expansions, extensions, or enlargements)
• Conversion of attics, basements, etc., to usable office or storage space
• Structures attached to the building such as covered patios, garages, enclosed stairwells, etc.
• Installation or upgrade of heating and cooling systems
• Original installation/upgrade of wall or ceiling covering such as carpeting, tiles, paneling, or parquet
• Structural changes such as reinforcement of floors or walls, installation or replacement of beams, rafters, joists, steel grids, or other interior framing
• Installation or upgrade of window or door frame, upgrading of windows or doors, built-in closet and cabinets
• Interior renovation associated with casings, baseboards, light fixtures, ceiling trim, etc.
• Exterior renovation such as installation or replacement of siding, roofing, masonry, etc.
• Installation or upgrade of plumbing and electrical wiring
• Installation or upgrade of phone systems, networks, fiber optic cable, wiring required in the installation of equipment (that will remain in the building)
• Other costs associated with the above improvements

Infrastructure

Infrastructure assets are long-lived capital assets that normally are stationary in nature and can be preserved for a significantly greater number of years than most capital assets. Infrastructure assets are often linear and continuous in nature.

An infrastructure improvement should be capitalized if the improvement is at the capitalization threshold. Assets to be included as an infrastructure improvement should follow the same basic guidelines as a building improvement listed previously.

Construction in progress

Construction in Progress is the economic construction activity status of buildings and other structures, infrastructure, additions, alterations, reconstruction, installation, and maintenance and repairs, which are substantially incomplete. Construction in progress assets should be capitalized to their appropriate capital asset categories upon the earlier occurrence of execution of substantial completion contract documents, occupancy, or when the asset is placed into service.

Moveable equipment and furniture

Moveable equipment and furniture are moveable tangible assets to be used for operations, the benefits of which extend beyond one year from date of acquisition and rendered into service. Improvements or additions to existing equipment that constitute a capital outlay or increase the value or life of the asset, which meets or exceeds established capitalization thresholds, should be capitalized and recorded as an addition of value to the existing asset.

Examples of expenses to be included in the cost of moveable equipment and furniture are:
- Original contract or invoice price
- Freight charges
- Handling and storage charges
- In-transit insurance charges
- Installation charges
- Charges for testing and preparation for use
- Costs of reconditioning used items when purchased
- Parts and labor associated with the construction of equipment

Expenses for extended warranties and maintenance agreements, which can be separately identified from the cost of the equipment, should not be capitalized.

The following special purpose equipment or furnishings, semi-permanently attached to the building, and not normally considered moveable, will not generally be capitalized:
- Library and storage shelving
- Carpets
- Curtains w/attaching hardware
- Built-in storage units or mail boxes
- Counter cabinets
- Water fountains

Capitalization Thresholds

Assets are recorded if they meet or exceed established capitalization thresholds. Capitalization thresholds for The City are as follows:

Classification	Threshold
Land Capitalize all	
Land improvements	$100,000
Buildings	$ 100,000
Building improvements	$ 100,000
Infrastructure	$ 200,000
Moveable equipment and furniture	$ 2,500

The City capitalizes interest on construction projects until substantial completion of the project. Capitalized interest is amortized on the straight-line basis over the estimated useful lives of such assets.

Capital Asset Depreciation

Depreciation is computed using the straight-line method, half-year convention, over the estimated useful life of the asset. The annual depreciation is calculated by taking the historical cost, less any residual value, and dividing by the estimated life. One half of the annual depreciation is expensed in the first year, regardless of the actual purchase date. If an asset is deleted prior to the end of its estimated life, one half of the annual depreciation will be expensed in the year it is deleted to determine the carrying value.

When capital assets are sold, or otherwise disposed of, the historical cost of such assets and any accumulated depreciation are removed from asset accounts and any gain or loss on disposal is recognized. The gain or loss on disposal is calculated by taking the carrying value (historical cost less accumulated depreciation) and subtracting any proceeds from the sale.

A gain or loss must be recognized in the financial report when:

- Cash is exchanged and the amount paid does not equal the net book value of the asset.
- Cash is not exchanged and the asset is not fully depreciated or has a residual value.

A gain or loss is not reported when:

- Cash exchanged equals the net book value and the asset does not have a residual value.
- Cash is not exchanged and the asset is fully depreciated.

Estimated useful lives are as follows:

Classification	Estimated Life
Land improvements	20 years
Buildings	40 years
Machinery & Equipment	5-20 years
Infrastructure	
Dams & drainage systems	100 years

Water and sewer systems	50 years
Traffic control systems	40 years
Bridges and culverts	50 years
Roads	20 years

Land is deemed to be inexhaustible and is not depreciated. Construction in progress is not depreciated until the asset is put into service.

The following table provides a breakdown of equipment and furniture:

Equipment	Estimated Life
Office (miscellaneous)	15
Office Furniture	15
Office Machines	10
Computers	5 - 10
Software	10
Typewriters	10
Facsimile Unit	10
Copiers	10
Printers/Scanners	10
Data Processing	10
Computer Systems	10
Motor Vehicle	8 - 10
Other (Radios, Telecomm equipment, etc.)	10

The recording of assets collections is currently performed using Excel spreadsheets. All depreciation schedules are in Excel.

Moveable Equipment Procedures

General

Through these procedures a perpetual inventory is maintained of The City's moveable equipment and furniture. The objective is to provide a detail file of equipment that support the dollars recorded in the general ledger of the financial accounting system. The information captured on the Property Accounting file for each asset is as follows:

Name/Description of asset
Budget Code
Location
Department
Cost
Date Entered into Service
Useful Life
Depreciation
Accumulated Depreciation

Book Value

Additions
Purchases are coded by the Accounts Payable Department. If purchase is determined to be equipment, the descriptive information is entered into the Capital Assets file.

Deletions
A "Disposition of Property/Equipment" form is completed for obsolete, worn, and broken equipment which is being scrapped by the department. In some cases the equipment may be utilized by another department. Equipment reported as traded-in, scrapped, sold, or stolen is recorded on annual deletion report. Total of report is balanced to total deletions.

Inventory Report Ledgers
There are two types of Reports:

A - Printed at fiscal year end — Details supporting documentation which balances to audited financial report.

B - Printed at end of December — Sent to departments to verify accuracy of property file.

The purpose of the annual inventory confirmation by departments is:

1. Update equipment inventory ledgers for each department.
2. Lists to allow accountable managers to check and confirm their equipment.
3. A means to detect errors in reporting accountability and location and their revisions.
4. A procedure to detect surplus equipment.

Property inventory reports
Property Inventory Reports are printed annually. Two copies of the report are issued to each department to confirm accuracy of reported property assignment. The department should note any changes (room #'s, serial # corrections etc.) additions, deletions, have their department head sign the report, and return copy to the City Clerk. The second copy is retained by the department to track necessary updating throughout the year. The City Clerk updates the property file and retains the signed copy for audit purposes.

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