

FIXED ASSETS POLICY

1.0 Purpose

- 1.1 To provide control and accountability over capital assets, and to gather and maintain information needed for the preparation of financial statements. The City of Lake Forest capital asset policy is herein established to safeguard assets and to insure compliance with GASB34 for governmental financial reporting.
- 1.2 To explain the City's process for capital asset accounting. The City of Lake Forest acquires and constructs capital assets in pursuit of its mission. In line with GAAP and best business practices, this document sets forth the requirements for accounting for these assets, as well as the definitions of different types of such assets. To account for assets with depreciating values and to amortize them over their useful lives, capital assets must be recorded and capitalized in accordance with U.S. GAAP. If their value is below the City's capitalization threshold, assets are neither added to the capital asset accounts nor are they depreciated; rather they are fully expensed at the time of acquisition.
- 1.3 The City Manager or designee is responsible for safeguarding and addressing the City of Lake Forest investment in property, which comprises a significant resource. This policy is meant to ensure compliance with various accounting and financial reporting standards including Generally Accepted Accounting Principles (GAAP), and Governmental Accounting, Auditing, and Financial Reporting (GAAFR).
- 1.4 Further, this policy is meant to reflect the City of Lake Forest desire to meet the reporting requirements set forth in the Governmental Accounting Standards Board (GASB) Statement No. 34. Specifically, the GASB Statement No. 34 states that governments should provide additional disclosures in their summary of significant accounting policies including the policy for capitalizing assets and for estimating the useful lives of those assets which is used to calculate the depreciation expense. The statement also requires disclosure of major classes of assets, beginning and end-of-year balances, capital acquisition, sales/dispositions, and current-period depreciation expense.

2.0 Scope

- 2.1 This Directive governs all Fixed Assets of The City of Lake Forest, to include buildings, building components, infrastructure, land, roadways, bridges, machinery, fixed, movable or leased equipment, and software with a useful life of one year or more that equals or exceeds \$10,000.
- 2.2 The policy and supporting procedures address the inventory capitalization process to include maintaining records, methods of depreciation, disposal of assets and who is authorized to approve changes in the capital asset inventory.

3.0 Capitalizing Assets

- 3.1 Any machinery, fixed or movable equipment, or software with a useful life of one year or more will be recorded as a capital asset if its cost equals or exceeds \$10,000. Individual items with costs below the capitalization threshold on a “unit basis” will be expensed and shall be inventoried and maintained at the department level. Guidelines are as follows:
- Vehicles – Costs include purchase price.
 - Machinery and Equipment – Assets included in this category are heavy equipment, traffic equipment, generators, office equipment and kitchen equipment.
- 3.2 Additionally, land and land improvements, building and building improvements and infrastructure assets that equals or exceeds \$10,000 are capitalized at their full acquisition cost or value with no threshold and based on the following conditions:
- Land and Land Improvements – Capitalized value is to include the purchase price and may include costs such as legal fees and filing fees; improvements such as parking lots, fences, pedestrian bridges, landscaping.
 - Building and Building Improvements – Costs include purchase price; improvements include structures, and all other property permanently attached to, or an integral part of the structure. These costs include re-roofing, electrical/plumbing, carpet replacement, and HVAC.
 - Infrastructure Assets – Infrastructure assets are long-lived capital assets that are stationary in nature and normally can be preserved for a significantly greater number of years than most capital assets.

- 3.3 The Finance Department uses a Fixed Assets software as a ledger in which to maintain accounting records for the City's capital assets. Assets are added and removed within the software on an annual basis.
- 3.4 Capital assets should be valued at cost or historical costs and any related costs for transportation, installation, or other direct, identifiable expense involved in procuring the asset and readying it for its intended use. In the absence of historical costs information, a realistic estimate will be used.
- 3.5 Donated assets will be recorded at the estimated current fair market value.
- 3.6 Costs for training and maintenance and warranty agreements are not considered part of the asset cost and should be expensed.
- 3.7 Routine repairs and maintenance, e.g., intermittent pavement repairs and pothole patching, are not capitalized but instead are charged as expense.
- 3.8 Constructed assets are valued at the total amount paid for acquiring or improving the asset including land, labor and materials. Engineering, design and inspection fees, construction management fees, charges by brokers or others, appraisal fees, site preparation fees, legal, title, and filing fees will be included in the costs.

4.0 Depreciation

- 4.1 Depreciation is computed on a straight-line method with depreciation computed on an annual basis from year of acquisition. Additions and improvements will only be capitalized if the cost either enhances the asset's functionality or extends the asset's useful life. The useful life of the asset types are determined below:
- 3 years (36 months)- Vehicle Equipment for Police
 - 5 years (60 months)- Computer Equipment, Office Equipment, Miscellaneous equipment and Mowers.
 - 7 years (84 months)- Vehicle Equipment for Fire, Forestry, Community Development, Building Maintenance, Streets, Engineering and General Equipment.

- 10 years (120 months)- Books and materials, Playground and Park equipment, Improvements and Improvements other than Building.
- 15 years (180 months)- Traffic Signals.
- 20 years (240 months)- Water Meters, Parking Lots and Roads.
- 30 years (360 months)- Street Lights.
- 40 years (480 months)- Building, Pedestrian Bridges, Sidewalks and Watermains.
- 50 years (600 months)- Sanitary Sewer.
- 60 years (720 months)- Vehicle Bridges and Storm Drainage.
- 0 years (0 months)- Infrastructure-Land, Land Improvements, Reservoir, Right of Way, Site Improvements and Water Tower.

4.2 All reports generated from the Fixed Asset software system will be reviewed and approved by the Assistant Finance Director.

5.0 Inventory

- 5.1 Responsibility for control of capital assets will rest with the operating department wherein the asset is located. The Finance Department shall ensure that such control is maintained by establishing an annual inclusive capital asset inventory report. Asset purchases, which fall below the capitalization threshold, will not be included in the report.
- 5.2 The inventory report will include the following for each asset: Department Name, Classification, Type, Vendor, Description, Date of Acquisition/Disposal, Cost and Method of Acquisition (purchased or donated).
- 5.3 This list will be updated and reviewed by the Finance Department on a yearly basis.

6.0 Disposal/Sales of Assets

- 6.1 An asset is removed from the capital asset accounts when it is determined that the asset is no longer operable, has been replaced, or is no longer available for use.

Retirement may consist of sale, scrap, or donation of the asset. Notification of an asset retirement is made by the Department Head to the Finance Department.

- 6.2 When a capital asset is disposed of, sold, or retired, its cost and accumulated depreciation are removed from the City's books and a gain or loss, if any, is recognized. The Finance Department is responsible for noting these changes in its annual capital asset inventory report. The Finance Department records the disposal in its Fixed Asset software ledger.
- 6.3 Each department must report all capital assets classified as surplus to the Finance Department. The City of Lake Forest will have an auction or sealed bid as needed to sell the surplus property.
- 6.4 Asset disposals must follow Administrative Directive 3-2.

7.0 Responsible Parties

- 7.1 Each Department Head is responsible for control of the capital assets pertaining to their department that are neither infrastructure nor buildings, performing regular maintenance of the capital assets, and reporting dispositions, lost or stolen assets, or any other retirement of capital assets to the Finance Department.
- 7.2 The Finance Department is responsible for recording capital assets in the Fixed Asset software system, computing depreciation expense, and reporting capital assets and depreciation expense accurately in the City's GAAP financial statements.
- 7.3 The Finance Department must execute a process to periodically determine the completion of construction and engineering projects and on a timely basis to move amounts in construction in progress accounts to capital assets accounts, where depreciation can commence. All entries to the Fixed Asset software system must be supported by detailed documentation and reviewed by the Assistant Finance Director.

8.0 Lost or Stolen Property

- 8.1 When suspected or known losses of inventoried assets occur, the department should conduct a search for the missing property. The search should include transfer to another department, storage, scrapping, surplus property. If the missing property is not found, the department must contact the Finance Department.

9.0 Definitions

For the purposes of this Directive, the following terms are defined as follows:

"Accumulated depreciation": The total reduction in value over time of an asset since its acquisition, which is recorded for financial statement purposes.

"Acquisition cost/value": Assets should be recorded and reported at their historical costs, which include the vendor's invoice, plus sales tax, initial installation cost, modifications, attachments, accessories or apparatus necessary to make the asset usable and render it into service. Historical costs also include ancillary charges such as site preparation costs and professional fees.

"Additions": Newly acquired assets or modifications to existing assets. Modifications include capital outlays that increase the capacity, the useful life or efficiency of the asset. A change in capacity increases the level of service provided by an asset. A change in efficiency maintains the same service level, but at a reduced cost.

"Appraised value": The estimated value of an asset based on the expertise of a qualified independent appraiser.

"Bar code tag": A label with a specific identifying bar code that is affixed to a capital asset, as the asset is placed in service.

"Building": A roofed, enclosed facility intended for the permanent or temporary shelter of persons, animals, plants, or equipment.

"Building component": An equipment item designed and installed as an integral part of a structure. Building components differ from fixed equipment in that they are not separate from the building structure. The useful life of a building component may differ from that of the related building.

"Building Improvements": Capital costs that increase the value of a building. A building improvement should be capitalized as a betterment and recorded as an addition of the value of the existing building if the expenditure for the improvement is at the

capitalization threshold. The depreciable life of the improvement is calculated separately from the original building cost.

"Capital asset": A permanent item with a useful life that extends beyond one year, which is held for purposes other than investment or resale. Capital assets include land, land improvements other than buildings, infrastructure, buildings, building components, furniture, machinery, equipment, vehicles and services necessary to the construction of infrastructure which are of long term value.

"Construction in Progress": An asset that is comprised of the substantially incomplete construction costs of, typically, a road or building.

"Date placed in service": The date at which the capital asset becomes available for use.

"Depreciation": A method for allocating the acquisition cost/value of capital assets over time. GAAP requires that the value of capital assets must be written off as an expense ("depreciation expense") over the useful life of the asset.

"Disposition": The final status of an asset when it is removed from the capital asset accounts and is no longer physically located on the Government's property, e.g., upon sale, scrap, or donation.

"Fixed equipment": Equipment permanently affixed to a building but separate from the building itself, e.g. light fixtures, wall-to-wall carpeting, raised flooring.

"Infrastructure": Assets that 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. They include highways, ramps, bridges, retaining walls, parking lots, and sidewalks that the Government has purchased/constructed/accepted to fulfill its mission.

"Improvement other than building": A modification to an outside area, other than repairs, e.g., sidewalks, parking lots, utility lines, fences.

"IT equipment": All computerized and auxiliary automated equipment used in information handling, storage, and retrieval and all voice, video, data communications, and other communications systems equipment and controls.

"Land": The surface or crust of the earth, which can be used to support structures, and may be used to grow crops, grass, shrubs, and trees. Land is characterized as having an unlimited life (indefinite) and is not depreciated.

"Land Improvements": Betterments, site preparation and site improvements (other than building and infrastructure) that ready land for its intended use. The costs associated with improvements to land are added to the cost of the land and are not depreciated.

"Leasehold Improvements": Construction of new buildings or improvements made to existing structures by the Government or its lessee, who has the right to use these leasehold improvements over the term of the lease. The improvements will revert to the lessor (Government) at the expiration of the lease. Moveable equipment or office furniture that is not attached to the leased property is not considered a leasehold improvement.

"Leased Equipment": Leased equipment should be capitalized (Capital Lease) if the lease agreement meets any one of the following criteria:

- The lease transfers ownership of the property to the lessee (Government) by the end of the lease.
- The lease contains a bargain purchase option.
- The lease term is 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, excluding executory costs, equals at least 90 percent of the fair value of the leased property.

"Machine (machinery) ": any mechanical or electrical device that transmits or modifies energy to perform or assist in the performance of human tasks.

"Maintenance": Activities related to the repair and upkeep of an asset, with the intent of preserving the asset's original useful life and function.

"Market value": The cost to acquire an item in its current condition through an arm's length transaction. Also referred to as "fair market value" and "fair value".

"Movable equipment": An item that is neither permanently affixed to nor part of a building, e.g., vehicles, computers.

"Net Book value": The difference between the acquisition cost and accumulated depreciation. At the time of acquisition book value equals acquisition cost/value.

"Obsolescence": A factor to consider when determining the disposition of an asset. Assets are obsolete when they are no longer useful to the Government.

"Renovation": Construction activity that changes and/or improves the function of all or part of a facility.

"Scrap equipment": An item that can be discarded as worthless or broken down into parts for disposal or salvage.

"Software": An entire set of programs, procedures, and related documentation associated with a computer system and used to direct the operation of that system.

"Surplus equipment": An item or items that are no longer needed or required.

"Useful life": The period over which a capital asset has utility to the Government in performing the function for which it was purchased.

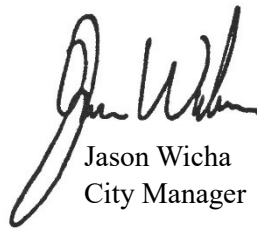
"Vehicles": Automobiles and trucks. This asset category includes any additions needed to allow a vehicle to perform its function such as a plow being added to a pickup truck to enable it to move snow. The addition will have a separate asset number.

10.0 Annual Review

- 10.1 Administrative Directive 3-18 shall be reviewed annually by the Staff Accountant. Procedures and forms related to Administrative Directive 3-18 shall be reviewed annually by the Assistant Finance Director.

11.0 Distribution

- 11.1 Human Resources website: www.citylf.org.



Jason Wicha
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