CITY OF CENTRAL

BY COUNCILMAN MESSINA

ORDINANCE NO. 2014-07

AN ORDINANCE TO ADOPT A CAPITAL ASSET POLICY PROVIDING GUIDANCE FOR CAPITALIZATION AND DEPRECIATION OF CAPITAL ASSETS AND ESTABLISHING CONTROLS FOR EFFECTIVE MANAGEMENT OF CAPITAL ASSETS AND TO PROVIDE FOR RELATED MATTERS

WHEREAS, since incorporation of the City of Central, the City has acquired capital assets and seeks to establish proper controls for management of said assets; and

WHEREAS, the Council and Mayor for the City of Central desire to enact a policy for the effective management of Capital Assets;

NOW THEREFORE, BE IT ORDAINED by the Council of the City of Central, State of Louisiana as follows:

Section 1. The City of Central Capital Asset Policy attached hereto as Exhibit A shall be adopted and implemented.

Section 2. Conflicts. This Ordinance shall supersede any and all other ordinances in conflict with this Ordinance.

Section 3. Severability. If any section, subsection, sentence, clause or provision of this Ordinance is declared by a court of competent jurisdiction to be invalid, such declaration of invalidity shall not affect the validity of the Ordinance as a whole, or parts thereof, other than the part declared invalid. The remainder of the Ordinance shall not be affected by the declaration of invalidity and shall remain in force and effect.

Section 4. Effective Date. This Ordinance shall be effective upon publication.

Introduced on the 22nd day of April, 2014.

Notice of public hearing was published in The Advocate on the 8th day of May, 2014.

This Ordinance having been submitted to a vote, the vote thereon was as follows:

For: DeJohn, LoBue, Messina, Moak

Against: None

Absent: Washington

Adopted on the 13th day of May, 2014.

Signed on the 14 day of May, 2014.

Shelton "Mac" Watts

Shelton "Mac" Watts, Mayor

Attest:

Mark Miley, City Clerk

Adopted Ordinance published in The Advocate on the 31st day of May, 2014.

CAPITAL ASSET POLICY

EXHIBIT
A

INTRODUCTION

The Capital Asset Policy is designed to provide guidance for capitalization and depreciation of capital assets. The purpose of the policy is to establish controls to provide for effective management of capital assets.

Louisiana Revised Statute 24:515(B)(1) requires a municipality to maintain records of all capital assets. It is the responsibility of the Finance Director to establish and maintain an accurate accounting of capital assets, and to design, implement and continually improve operating procedures for activities required as a result of this policy. It shall be the responsibility of all City departments to cooperate in the capitalization process and to perform the annual inventory.

DEFINITIONS

Capital Asset: Any property acquired by the City with an estimated useful life extending beyond one reporting period. Including real property (land, land improvements, buildings, building improvements, infrastructure, etc.), leasehold improvements, construction in process, tangible and intangible movable property (furniture & fixtures, machinery & equipment, vehicles, works of art & historical treasures, easements/right of way, water rights, timber rights, mineral rights, patent, trademark, copyright, computer software, etc.), and all other assets used in the operations of the municipality.

Capitalization Threshold: Acquisition value of $1,000 or more and having an estimated useful life extending beyond one year.

Real Property: Land and any attachment to the land that cannot be readily removed, including land improvements, buildings, building improvements and infrastructure.

> **Land Improvements:** Improvements to land which are incidental to the property or access to the property including but not limited to: driveways, sidewalks, fences, parking lots, flagpoles, retaining walls, outdoor lighting and other non-building improvements with a limited useful life intended to make the land ready for its intended purpose.
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> **Buildings:** Permanent structures erected above ground, together with fixtures attached to and forming a permanent part of the building, for the purpose of sheltering persons or personal property.
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> **Building Improvements:** Major repairs, renovations, or additions such as addition of a new wing or a new air conditioning system, ramps, fire escapes, doors or other appurtenances; modifications to comply with fire, health, or safety codes; conversion of unusable to useable floor space, upgrade of the space which extend the useful life of the building or increases the value. Ordinary repairs which do not extend the useful life of a building are considered operating costs.
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> **Infrastructure:** Items that normally are stationary in nature and can be preserved for a significantly greater number of years than most capital assets. Examples include roads, bridges, tunnels, drainage systems, water systems, sewer systems, dams, lighting systems etc. Infrastructure does not include Buildings or Land Improvements.

Leasehold Improvements: Improvements made by the lessee to leased property such as Land Improvements, Buildings and Buildings Improvements. The lessee has the right to use such facilities and improvements during the life of the lease, but the Leasehold Improvements made to the property revert to the lessor at the expiration of the lease.

Construction in Progress: Accumulation of on-going project costs that increase the value or life of the Capital Asset.

Movable Property: Property that is not fixed or stationary in nature and can be further classified as tangible and intangible.

Tangible Property: Property that is moveable such as furniture and fixtures, machinery and equipment, vehicles, works of art and historical treasures.

Furniture and Fixtures: Office furniture and building fixtures.

Machinery and Equipment: Equipment usually composed of a complex combination of parts (excluding vehicles). Examples include laths, drill presses, and printing press.

Vehicles: Equipment used to transport persons or objects. Examples include automobiles, trucks, and buses.

Works of Art and Historical Treasures: Inexhaustible items held for public exhibition, educational purposes, or research in enhancement of public service instead of financial gain. Examples include paintings, sculptures, photography, maps, manuscripts, musical instruments, recordings, film, furnishings, artifacts, tools, weapons, and other memorabilia.

Intangible Property: Items which lack physical substance, are nonfinancial in nature, and have a useful life extending beyond one year. Examples include bonds, notes, contracts, computer software, programs, and proprietary assets that are created or purchased and owned by the City. Assets that arise from contractual or other legal rights, regardless of whether or not the rights are separable, are also considered intangible assets.

Easements/Right of Way: The right to use land owned by another for a specific purpose conveyed by an agreement recorded in the parish conveyance records.

Water Rights: The right to draw water from a particular source, such as a lake, irrigation canal, or stream.

Timber Rights: The right to cut and remove trees from the property of another party.

Mineral Rights: The right to draw minerals from a particular source, such as a lake or stream.

Patent: The right to exclude others from making, using, offering for sale, selling or importing and invention. Patens are issued by the U.S. Patent and Trademark Office.

Trademark: A word, name, symbol or device which is used in trade with goods to indicate the source of the goods and to distinguish them from the goods of others. Trademarks used in interstate or foreign commerce may be registered with the U.S. Patent and Trademark Office

Copyright: A form of protection provided to the authors of "original works of authorship" including literary, dramatic, musical, artistic, and certain other intellectual works, both published and unpublished. Copyrights are registered by the Copyright Office of the Library of Congress.

Computer Software and Internally Generated Software: Computer software is considered internally generated if developed in-house by the City's personnel or by a third party contractor on behalf of the City including software purchased or licensed by the City and modified using more than minimal effort incremental (changing code, changing fields, adding special reporting capabilities, and testing for any changes) before being put into operation. Internally generated software can be classified into three categories:

Preliminary Project Stage: includes the conceptual formulation and evaluation of alternatives, the determination of the existence of needed technology, and final selection of alternatives for development of software.

Application Development Stage: includes the design of the chosen path (consisting of software configuration and interfaces), coding, installation to hardware, and testing (including parallel processing). Also includes licensing of commercially available software (GASB 51, paragraph 65).

Post-Implementation/Operation Stage: includes application training and software maintenance.

CAPITALIZATION COSTS

GASB 34 states that capital assets should be reported at historical cost. There are various methods by which the City acquires assets. These methods include, but are not limited to: purchase, gifts/donation, lease/purchase, trade-in, forfeiture, condemnation, internal/external construction, transfers from other governments, or any other method which transfers title of any property to the City. The cost of a capital asset should include any charges necessary to put the asset into place.

Method of Acquisition:

Purchases: Capital assets purchased by the City are reported at acquisition cost plus costs incurred in preparing the asset for use (interest, freight, etc). The City will recognize acquisition costs based on individual unit prices.

Gifts/Donations: The City capitalizes assets acquired through gifts/donations at fair market value on the date donated, provided such gift/donation meets the capitalization threshold of this policy. If the asset is new and the donor can furnish an invoice, the invoice shall determine the fair market value. If the asset is used or no information is available regarding the value of the asset on date of donation, an appraisal will be conducted to establish the value.

Leased/Purchased Assets: The City capitalizes assets acquired under capital lease provided they meet the capitalization threshold and a buy-out option is included in the lease agreement. The capital lease must meet accounting standards for capitalization purposes. For capital leases where the title of the asset will ultimately be transferred to the City, the asset will be capitalized at the net present value of future minimum lease payments. The City does not capitalize assets acquired under operating leases.

Real Property:

Land: The City will capitalize all costs incurred to acquire land and to place it in use. The acquisition costs of land shall include: purchase price, ancillary charges (legal and title fees, closing costs, appraisal and negotiation fees, surveying fees, site preparation fees, demolition costs, architect and accounting fees, insurance premiums during construction phase, and transportation charges) assumption of any liens or mortgages, land improvements (excavation, filling, grading, demolition of buildings, removal or relocation of other property such as telephone or power lines) and all rights associated with land (water rights, timber rights, and mineral rights) unless acquired separately, etc.

Land Improvements: The City will capitalize all costs of Land Improvements if the total improvement, including the contract price, engineering, architectural, attorney's fees, and other related costs, meets the capitalization threshold of this policy.

Buildings: The City will capitalize all costs incurred to acquire and place a Building into use. The acquisition costs of the building should include: purchase price, ancillary charges (legal and title fees, closing costs, appraisal and negotiation fees, surveying fees, architect and accounting fees, etc.) assumption of any liens or mortgages, and other incidental expenditures incurred at the time of acquisition. If the Building is constructed, the capitalized cost includes material, labor, supervision, and overhead, or the contract price, including costs such as: permits and licenses, architectural and engineering fees, insurance, title fees, and interest incurred on tax exempt debt. In addition building components (e.g., roof, air conditioner system, etc.) shall be recorded separately when components have different useful lives. The value of each component needs to be determined and placed within its own category.

Building Improvements: The City will capitalize costs of Building Improvements if expenditures extend the useful life of the Building and total improvement costs, including the contract price, engineering, architectural, attorney's fees, etc., meet the capitalization threshold of this policy.

Infrastructure: Although these assets have long, useful lives, these assets are not depreciated.

Leasehold Improvements: The City shall capitalize Leasehold Improvements at the lesser of 20 years or the remaining lease term. Examples include Buildings Constructed on leased land or improvements made to leased Buildings.

Construction in Progress: Construction in progress shall be capitalized and not depreciated. Upon project completion, the construction in progress account will be closed out and costs will be capitalized into the appropriate asset category (infrastructure, land improvement, building, building improvements).

Tangible Property:

Furniture and Fixtures: Expenditures for furniture and fixtures meeting the capitalization threshold shall be capitalized, consistent with the method of acquisition as outlined above.

Machinery and Equipment: Expenditures for individual items or pieces of equipment meeting the capitalization threshold shall be capitalized, consistent with the method of acquisition as outlined above.

Vehicles: Expenditures for vehicles meeting the capitalization threshold shall be capitalized, consistent with the method of acquisition as outlined above.

Works of Art and Historical Treasures: Record at historical cost, depreciation is not required for collections or works of art that are inexhaustible after June 30, 1999.

Intangible Property: An intangible asset shall be recognized only if it is: 1) identifiable, and 2) capable of being separated and sold, transferred or licensed.

Easements/Right of Way: Easements are not required to be reported in the financial statements unless the entity paid for the easement.

Water Rights: Water Rights are capitalized as part of land unless acquired separately and paid for by the City.

Timber Rights: Timber Rights are capitalized as part of land unless acquired separately and paid for by the City.

Mineral Rights: Mineral Rights are capitalized as part of land unless acquired separately and paid for by the City.

Computer Software and Internally Generated Software: The activities within the three stages of development may occur in a different sequence. The recognition guidance for outlays associated with internally generated computer software should be applied based on the nature of the activity, not the timing of its occurrence. For example, outlays associated with application training activities occurring during the application development stage shall be expensed as incurred.

If the City is developing a system such as ERP with multiple modules, the guidance for reporting outlays based on the stages of software development shall be applied for each individual module of the system rather than the system as a whole.

Modification of Internally Generated Software:
Outlays that are associated with an internally-generated modification of software already in operation should be capitalized when all criteria for internally-generated software intangible assets have been met. Any modification to testing procedure of computer software must do at least one of the following to qualify for capitalization:

- Increase the software's functionality,
- Increase the software's efficiency, or
- Extend the software's estimated useful life.

If a modification does not result in any of the above outcomes, that modification should be considered maintenance, and the associated outlays should be expensed as incurred.

Preliminary Project Stage: Outlays associated with activities in this stage should be expensed as incurred.

Application Development Stage: Outlays related to activities in the application development phase should be capitalized only upon the occurrence of all of the following:

1) Determination of the specific objective of the project and the nature of the service capability to be provided by the asset.

2) Demonstration of the technological feasibility for completing the project.

3) Demonstration of the current intention, ability, and presence of the effort to complete or continue development of the asset.

Post-Implementation/Operation Stage: Outlays associated with activities in this stage should be expensed as incurred.

METHOD OF DEPRECIATION

Capital assets capitalized under this policy shall be included in the government-wide financial statements in the annual external audit. Depreciation is calculated using the straight-line depreciation method (cost divided by useful life) with no estimated salvage values. In the year of disposal, any remaining depreciation will be taken if an asset is not fully depreciated at the time of disposal.

ESTIMATED USEFUL LIFE

Asset Class	Examples	Estimated Useful Life
Land		Not depreciated – indefinite useful life
Land Improvements – Structure	Parking Lots, Sidewalks, Bus Ramp, Fencing, Running Track, Flagpole	20 years
Land Improvements – Ground Work	Golf Course, Ball Field, Park Landscaping	30 years
Landfill Disposal System		25 years
Buildings		40 years
Buildings – Movable	T-Buildings, Other Portable	25 years
Building Improvements – HVAC System	Air-Conditioners, Heating, Ventilation System	20 years
Building Improvements – Roofing		20 years
Building Improvements – Carpet Replacement		7 years
Building Improvements – Electrical/Plumbing		30 years
Roads – Paved		40 years
Roads – Asphalt Rural		40 years
Roads – Asphalt Urban		20 years
Roads – Non Paved		50 years
Easements		Not depreciated – indefinite useful life
Drainage Systems		25 years
Water Systems		25 years
Sewerage Disposal Works System		25 years
Levees and Canals – Unlined		Not depreciated – indefinite useful life
Canal Lining		30 years
Dams – Concrete		50 years
Dams – Steel, Sheetpile		30 years
Dams – Earthen Embankment		Not depreciated – indefinite useful life
Leasehold Improvements		lesser of 20 years or lease term
Machinery and Equipment		5 years
Telephone Equipment		10 years
Kitchen Equipment	Appliances	12 years
Heavy Construction Equipment	Backhoes, Trucks,	5-10 years

	Dozers, Front-End Loaders, Large Tractors	
Police Special Equipment		10 years
Computer Hardware	Monitors, CPU, Printer	5 years
Office Equipment		5 years
Traffic Control Equipment	Stoplights	10 years
Radio, Communications Equipment	Mobile, Portable Radios	10 years
Outdoor Equipment	Playground Equipment, Scoreboards, Bleachers, Radio Towers	20 years
Custodial Equipment	Floor Scrubbers, Vacuums, Other	12 years
Grounds Equipment	Mowers, Tractors and Attachments	15 years
Furniture & Fixtures		7 years
Vehicles		5 years

DISPOSAL/TRANSFER OF ASSETS

Article VII, Section 14 (A) of the Louisiana Constitution provides, "funds, credit, property, or things of value of the state or of any political subdivision shall not be loaned, pledged, or donated to or for any person, association, or corporation, public or private." Violations of Article VII, Section 14(A) shall be reported to the Mayor, City Attorney or Financial Director.

La. R.S. 24:513(A) requires the City to maintain records which include information as to the date of purchase of such property or equipment, the initial cost, the disposition, if any, the purpose of such disposition, and the recipient of the property or equipment disposed of.

All capital assets are the property of the City which may not be donated, discarded or transferred to another owner without direct authorization from the City Council. Departments should notify the Mayor (or designee) for City assets and Police Chief (or designee) for Police Department assets of all surplus assets ready for disposition who shall request that authorization for disposition be placed on the next council agenda.

The disposition of capital assets the City purchased with federal, state, or other grant funds must follow the guidelines of the specific grant, or Federal general guidelines will dictate the duration of time that the asset must remain property of the City. The guidelines also will indicate the disposition of the proceeds from the sale of the asset.

All dispositions of Capital Assets property shall be in accordance with applicable state law .

SEGREGATION OF DUTIES

The City segregates responsibilities for custody of assets from record keeping responsibilities for those assets, i.e., approval of capital expenditures, leases and maintenance or repair projects are segregated from those for project accounting, property records, and general ledger functions.

ANNUAL INVENTORY

La. R.S. 24:515.(B)(1) requires the City to maintain records of its capital assets. The Finance Director (or designee) is responsible for recording, tagging and coordinating the annual inventory of all Capital Assets. The listing of Capital Assets is to be updated each year for assets acquired and disposed. Failure to identify and periodically account for City assets exposes the City to possible loss, theft, and misuse of its assets. Any missing assets should be addressed and appropriately resolved. Unresolved and significant unaccounted for losses of assets shall be brought to the attention of the Mayor for City assets and Police Chief for Police Department assets for further action.