LANSING HOUSING
LHC
COMMISSION 419 Cherry St., Lansing, MI 48933 Telephone: (517) 487-6550 Fax: (517) 487-6977

Lansing Housing Commission
Policy No. 2014
Capitalization Policy and Valuation of Property and Equipment

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I. Policy Statement

The Lansing Housing Commission capitalizes property and equipment which in general, has a useful life of more than one year and unit value of $2,500.00 or more for equipment and $5,000 for building improvements. The evaluation of property or equipment, weather purchased or constructed, is based on cost. The cost is determined by the cash distributed, by the fair market value of any asset given in exchange, or by the present value of any liability incurred. If property or equipment is acquired by gift, the valuation is the fair market value at the date of receipt of the gift, if determinable. Otherwise, an appraised value is used.

II. Scope

This policy applies to all fixed assets purchased by the Lansing Housing Commission regardless of the source of funds. Accurate records shall be maintained of the cost and accumulated depreciation of property, physical plant, and equipment. The acquisition of capital assets should be organized to ensure that no unauthorized acquisitions have been made and that records of each acquisition are accurate, complete, and recorded in the appropriate period.

III. Initiation of Requisitions for Plant, Property, and Equipment

a. Requisitions for Fixed asset additions should be initiated by the user divisions/departments and provided for in either their operating budgets or capital budget depending on the source of funds that will be used for the acquisition.
b. Capital purchases in excess of $100,000.00 shall be approved by the Board of Commissioners, during the budget process or by the Board approved budget revisions.
c. Capital purchases under $100,000.00 shall be approved by the Contracting Officer or delegate.
d. Approved capital purchases, shall be made by Purchase order or Check Request and approved by the Initiating Division/Department Manager and the Executive Director.

IV. Receipt and Identification of Capital Assets

a. When practical (portable, relocatable, and movable items) and equipment shall be identified upon receipt by the use of a pre-numbered tag.
b. In addition:
   i. The tag should be permanently affixed in a readily visible area.
   ii. The property number on the tag should be recorded in the detailed fixed asset ledger.

V. Review of Purchase Price Variances

a. For each capital item purchased, a comparison shall be made of the actual versus budgeted cost.
b. Differences between budgeted and actual cost shall be explained by the initiating division/department director or purchasing officer and approved by the Executive Director.
c. In addition, variances in excess of plus or minus 10 percent shall be explained to the Board of Commissioners.

VI. Maintenance of Detailed Fixed-Assets Ledgers

a. Detailed fixed asset ledgers that are accurate and complete shall be maintained for the following classifications.
   - **I.** Land
   - **II.** Buildings
   - **III.** Building Improvements
   - **IV.** Furniture and Fixings - Dwellings
   - **V.** Furniture and Fixings – (COCC)
   - **VI.** Equipment - Dwellings
   - **VII.** Equipment – COCC
b. The date of purchase, the asset's tag number, the cost, the location, and source of funding for the asset shall be recorded in the detailed fixed asset ledger.

VII. Capital Assets Defines

a. Equipment Assets costing $2,500.00 or more and building assets costing $5,000 or more and that have useful lives of greater than one year shall be considered depreciable assets.
b. Capital assets shall be carried in the accounting records at the original net acquisition cost. Less separate accounts for accumulated depreciation or depletion. Non-depreciable capital assets (e.g., land) shall be carried in the records at the original cost.
c. Purchased items of property, physical plant, and equipment that meet the capitalization requirements are to be capitalized at the invoice price plus all charges incurred to prepare the assets for operation.
d. Cost of acquisition or construction includes not only the contract or invoice price but also such cost as preliminary engineering studies and surveys. Legal fees to establish title, installation cost, sales tax, freight, labor, and material used in construction or installation.
e. Cash discounts taken will be recorded as a reduction to the cost.

VIII. Postings and Reconciliation to General Ledgers

a. Asset additions, disposals, and period depreciation shall be posted to the detailed ledger regularly.
b. On a periodic basis, the detailed fixed asset ledger should be reconciled with the general ledger or asset cost and accumulated depreciation
c. Any differences disclosed by the reconciliation should be investigated and resolved. The result of the reconciliation shall be reviewed and approved by finance before any adjustments to the account are recorded, such a review shall be evidenced by signature.

IX. Capitalization of Expenditures While Building

a. Expenditures made by LHC while building a capital asset shall be capitalized.
b. Expenditures such as those for materials, labor, engineering, supervision, employee salaries and expenses, legal expenses, insurances, and interest shall be capitalized as construction – in – progress until the project is completed and placed in service no depreciation should be taken on construction – in – progress.
c. Periodically during construction, a comparison should be made between, projected and actual expenses incurred. Appropriate approvals should be obtained if cost will exceed budgets.

X. Expenditures-Capitalization vs Expense

a. Repair expenses should be distinguished from expenditures for improvements, additions, renovations, alterations, and replacements.
b. Expenditures are repair expenses if they do not materially add to the value of the property and do not materially prolong the life of the property.

Examples of repair expenses are:

i. Replacing loose or damaged roof tiles.
ii. Replacing broken glass.
iii. Painting and decorating a common area.
iv. Resurfacing a parking lot.
v. Making temporary repairs to last less than one year.
vi. Making minor repairs to fully depreciate assets.

c. Repair costs that increase the value of property, prolong its life, or adapt it to new or different use are capital expenditures. If the life of the asset has been significantly extended, the remaining original cost and the repair cost should be depreciated over the new life.

Examples of repair expenditures that are capital expenditures are:

i. Replacing floors.
ii. Replacing a roof, thereby substantially prolonging its life.

iii. Reconditioning machinery, thereby extending its life.
iv. Replacing an auto's or trucks engine.
v. Installing a new heating system.
vi. Major renovations to the interior of a building, thereby prolonging its life.
vii. Major renovations to the exterior of a building, thereby prolonging its life.

d. Other expenditures that may be capitalized:
   i. Land improvements that depreciate over time (e.g., parking lots)
   ii. Structural changes or altercations to LHC owned buildings, which become part of a building and increase its life or value.
   iii. Significant improvements to property leased by the company
   iv. improvements that add value to the leasehold (e.g., permanent office partitions)

XI. Existence of Capital Assets

a. LHC shall conduct a physical count of all capital assets at least once every three years to ensure that all recorded assets exist and are in use for operations.
b. An employee who is not responsible for the custody or record keeping of the assets, should conduct an actual count.
c. The inventory of the assets on hand should be compared to the detailed ledger. Differences should be reviewed and approved, by the executive director or designee, before account adjustments are recorded. A signature should evidence such review.
d. Significant differences should be explained to the Board of Commissioners.

XIII. Valuation of Property

Capitalization and Valuation of Property and Equipment

Property Accounting requires the inventory control and capitalization of appropriate expenditures for each of the following major asset classes.

Moveable Equipment (personal property)

Equipment

- Equipment groups

Real Property

- Buildings (including fixtures)
- Construction - in – process
- Improvements to land other than buildings
- Land

<u>Leasehold Improvements</u>

In the event it becomes applicable, improvements such as buildings and other structures, walkways, and permanently installed equipment located on property leased to LHC shall be capitalized. Leasehold improvements shall be included under any major asset category except land and construction - in – process.

Permanent improvements to leased assets are those items which cannot be removed without causing substantial damage to the leased asset from which the leasehold improvement is removed. Assets which are merely located on leased property, rather than permanently installed, are recorded using the appropriate inventory tags with a location reference, and shall be listed as inventory accordingly in the General Ledger.

Moveable Equipment (Personal Property)
Moveable equipment for and controlled by individual pieces of equipment.
All tangible personal property is, in general, considered moveable equipment if it has a useful life expectancy of one year or more and a unit value of $2,500.00 or more. This includes additions or enhancements that increase the useful life or productivity of the equipment. An item of personal property is considered equipment if it meets the criteria:

a. Has a useful life expectancy of one year or more. Articles that are excluded as equipment are those which by their nature have a useful life of less than one year, show a material change or appreciable depreciation upon the first usage.
b. Has unit value of $2,500.00 or more.
c. Is complete in itself. Articles, which lose their identity or become part of something else, are excluded as individual items of equipment. They may, however, be an enhancement and thus change the value of an existing piece of equipment.
d. Is not part of a group of equipment (see “Equipment Group” in this section).
e. Is not permanently attached to the building or grounds of any LHC facilities as a fixture improvement.

Acquisition Valuation
Constructed - Valued at the total of all identifiable direct costs. Direct costs are to include labor, drawings, blueprints, component parts, materials, and supplies consumed in construction.

Gift – Valued at fair market value at the date of acquisition. The fair market value is usually determined by appraisals performed by outside experts, by a LHC employee or affiliate with expert knowledge about the asset(s), or by values established by courts for assets received from the estate of a donor.

Installation Cost – All costs associated with placing the asset in service for its intended purpose or use are included in the acquisition valuation.

Purchased – Valued at the net amount paid (invoice prices less all discounts). Freight should also be included if shown on the invoice, or if readily available on related freight bills. Trade- in allowances are not deducted in determining the asset value. Finance charges are not included.

<u>Disposal Valuation</u>
Removal of Equipment – The value of equipment removed from inventory is the unit value carried on the account record less depreciation.

<u>Equipment Groups</u>
There are only two groups recognized:

1. Vehicles, (For Office or Maintenance Use)
2. Non-dwelling Equipment Furniture

Maintenance Tools – Includes equipment and tools individually valued over $2,500.00

<u>Real Property</u>

<u>Buildings and Fixtures</u>
Buildings - are permanent structures to house persons and/or personal property. The cost of building includes the cost of the structure itself plus the cost of all permanent equipment, components, and fixtures necessary for the intended use of the structure. Buildings are accounted for and controlled by individual building structures.

Improvements and Additions – An improvement or addition is the adding of something to the asset structurally, such as a fixture or a component that did not exist previously. When there is an improvement or addition of an asset, the increased value of the asset is capitalized.

Purchase or Donated – When buildings are purchased or acquired by gift, the valuation method is the same as any other asset and may require an appraisal to determine the fair market value of the asset being donated.

<u>Construction – in – Process</u>
The cost of buildings or other fixed assets (capital projects) that are under construction at a balance sheet date are included on the balance sheet as "construction – in – process." Construction – in – process represents a temporary capitalization of labor, materials and equipment of a construction project.
When the constructed asset is put into use, cost in construction – in – Process account are classified to one or more of the other major assets categories and corresponding reductions must be made to the construction – in – process account.

Depreciation is not calculated for assets under construction.

Accountability – Construction is accounted for by project and, when completed, costs are transferred to either buildings and/or improvements as applicable.

Valuation – the costs included in construction – in – process are the total project – to – date expenditures together with the related accounts payable, insurance premiums, interest and other related costs.

Improvements to Land other than Buildings

To prepare land for its intended use, additional acquisition cost may be encountered. These include roads, bridges, drainage systems, tunnels, power lines, walks, sanitation systems, sidewalks, paving, fences, curbs, approaches, landscaping, and similar item. All improvements are an integral part of the land and are necessary to prepare the land for its use. Improvements to land, other than buildings, are accounted for individually or as a single group or class within an entity. Improvements are valued at cost, at fair market value, or at an appraisal value as the situation may require.

Land – Land is defined as non-expendable, real property. It is ground to which LHC holds the title. Land is accounted for and controlled by tracts or parcels which are identified by their legal descriptions.

Acquisition Valuation

Assets Acquired Together - When land, buildings and improvements are acquired together the total cost is allocated among the individual assets on the basis of fair market value or appraisal.

Cost of Demolished Buildings – The decision to demolish a building at the time of site acquisition results in an assignment of the building's value and demolition cost to the cost of the land. This decision is based on the intended use of the acquired building. Any decision to demolish a building after site acquisition; results in the cost of demolition being assigned to the cost of new construction and the building being written off. If no new construction is intended, the demolition cost involved should be expensed.

Eminent Domain – Land acquired by eminent domain is valued at the amount of the award made to the landholders by the court. Other costs are the same as for purchased land.

Gift – When land is acquired by gift, the land cost is the fair market value at the time of acquisition. The fair market value is usually determined by appraisals performed by outside experts; by LHC employees with expert knowledge about the assets, or by values established by courts for assets received from the estate of a donor. The costs are the same as for purchased land.

Purchased – When land is purchased, the valuation includes the price of the land itself, any cost incurred in its acquisition, and any cost necessary to prepare the land for its intended use. This cost includes such items as legal, title, and brokers' fees; filing; clearing; and grading. Improvements such as streets, sidewalks, fences, etc., are included in the cost of improvements to land other than buildings.

<u>Repairs, Maintenance, Remodeling, and Replacements</u>
Repairs, maintenance, remodeling, and replacements are normally expensed and not capitalized.

Repairs and Maintenance - Repairs and maintenance are activities performed to obtain the expected service life of an asset. Repairs put an asset back into normal or expected operating condition. Maintenance keeps an asset in normal or expected operating condition on a regular basis.

Remodeling – Remodeling may increase the usefulness of an asset. If remodeling results in a significant increase in the usefulness or service life, the requirements shown in the "Buildings and Fixtures" or "Improvements to Land Other than Buildings," sections are used.

Replacements – The initial cost of fixtures and component parts of an asset are capitalized when acquired. Such fixtures and component parts may have a useful life that is less than the asset. When these fixtures and component parts are replaced, they are expensed. If the replacement results in a significant increase in the usefulness and service life of the asset, the "Buildings and Fixtures" or "Improvements to Land Other than Buildings," section is followed.