

ORDINANCE NO. 2023-14

AN ORDINANCE ESTABLISHING A CAPITAL ASSET POLICY

WHEREAS, the Town Council of the Town of Thorntown, Indiana, has been advised by the Indiana State Board of Accounts of the necessity of creating a Capital Asset Policy; and **WHEREAS**, the Town Council of the Town of Thorntown, Indiana, believes the creation of such a policy in order to track and keep an inventory of the assets belonging to the Town is in the best interests of the citizens of the Town and efficient Town administration. **BE IT THEREFOR ORDAINED** by the Town Council of the Town of Thorntown, Indiana that said Town's Capital Asset Policy shall be as follows:

SECTION 1:**GENERAL INFORMATION**

The Capital Asset Policy is being issued effective _____. The new policy will be referred to as the Capital Asset Policy. This Policy is being issued to document the minimum value of capital assets to be reported on our financial reports and to include infrastructure assets. This issuance of a policy document is related to the implementation of a new reporting model, Governmental Accounting Standards Board Statement 34. Statement 34 will require the Town to depreciate capital assets. The capital asset threshold will be \$5,000.00. An asset with a value under \$5,000.00 will be expensed in the year of purchase. The infrastructure portion of this policy is also effective _____.

Town Utilities will follow this same definition of capital assets except any item with a unit cost of \$5,000.00 or more shall be capitalized. Assets that are not capitalized (items < \$5,000.00) are expensed the year of acquisition. Town Utilities will follow the capitalization guidelines of the Indiana State Board of Accounts.

The Town of Thorntown is, by this Ordinance, establishing a Capital Asset Policy in order to provide a higher degree of control over its considerable investment in capital assets, and to be able to demonstrate accountability to its various constituencies: citizens, rate-payers, oversight bodies and regulators. All public information pertaining to capital assets will be made available in the Comprehensive Annual Financial Report (CAFR).

The purpose of establishing a Capital Asset Policy is fivefold:

1. to safeguard the investments of the citizens of Thorntown,
2. to fix responsibility for the custody of equipment,
3. to provide a basis for formulating capital assets acquisition, maintenance and retirement policies, 4. to provide data for financial reporting,
5. to demonstrate appropriate stewardship responsibility for public assets.

This policy will only serve to classify capital assets, including fixed and infrastructure, for accuracy in financial reporting through the Indiana State Board of Accounts.

SECTION 2:

DEFINITION OF CAPITAL ASSETS

A capital asset meeting the criteria will be reported and depreciated in the government-wide financial statements. Assets that are not capitalized (items < \$5,000.00) are expensed in the year of acquisition. Purchases made using grant funds only if it is over the \$5,000 threshold.

For the purpose of this ordinance, the following definitions shall apply unless the context clearly indicates or requires a different meaning

"Tangible Assets".

Assets that can be observed by one or more of the physical senses. They may be seen and touched and, in some environments, heard and smelled.

"Capital Asset".

Tangible assets of a durable nature employed in the operating activities of the unit and that are relatively permanent and are needed for the production and sale of goods or services are termed property, plant and equipment or capital assets. These assets are not held for sale in the ordinary course of business. This broad group is usually separated into classes according to the physical characteristics of the items (e.g. land, infrastructure, buildings, improvements other than buildings, machinery and equipment, and construction in progress).

"Capital Outlays".

Expenditures which benefit both the current and future fiscal periods. This includes costs of acquiring land or structures; construction or improvements of buildings, structures or other fixed assets; infrastructure, machinery and equipment having an appreciable and calculable period of usefulness. These are expenditures resulting in the acquisition of or addition to the government's general fixed assets.

ITEM TYPES/ RULES & DEFINITIONS

LAND

Land is defined as specified land, lots, parcels, owned by the Town of Thorntown, its various departments, boards or authorities, regardless of the method or date of acquisition. Easements will not be included as the Town does not own them, but as an interest in land owned by another (i.e. property owner) that entitles its holder to a specified limited use. Purchases made using Federal or State funding will follow the source funding policies and above procedures if information is known.

INFRASTRUCTURE

Infrastructure: Examples include roads, curbs, streetlights, traffic signals, drainage systems, and water systems. Additions and improvements to infrastructure, which increase the capacity or efficiency of the asset, will be capitalized. Maintenance/Repairs will be considered as necessary to maintain to existing asset, and therefore not capitalized. For example, patching, resurfacing, etc., are considered maintenance activities and will be expensed. Also, normal department operating activities such as feasibility studies, will be expensed and not capitalized as an element of the infrastructure asset. Preliminary engineering and design will only be included if the project happens otherwise they will be expensed.

The Town will capitalize all owned: streets, curbs and sidewalk. All water lines, and sewer lines, electric lines will be capitalized. Except service lines such as from infrastructure to customers. The known or estimated historical costs of infrastructures will be included. Depreciated value estimates for: water, sewer, electric utility infrastructures will be reported. Infrastructures that are accepted from subdivision developers, acquired from other donations, or annexation shall be included at the known or estimated cost at the time of receipt of the infrastructure.

- (A) New infrastructure will only be capitalized only if it meets the following conditions:
- (1) The total cost exceeds \$5,000.00; and
 - (2) The useful life is greater than two years.
 - (3) Meters will be expensed rather than capitalized
 - (4) Only streets and sidewalks constructed on or after 2004 as required ISBOA will be included
- (B) Improvements or renovations to existing infrastructure will be capitalized only if the result meets the following conditions:
- (1) The total cost exceeds \$100,000.00; and
 - (2) The useful life is extended two or more years.
- (C) Infrastructure purchases using federal or state funding will follow the above provisions.

IMPROVEMENTS OTHER THAN BUILDINGS

The definition of this group of assets is improvements to land for better enjoyment, Assets that are attached or not easily removed, and with a life expectancy of more than two years. Examples of Town assets in this category are sidewalks on town property, walks path, parking areas and drives, fencing, retaining walls, pools, outside fountains, planters, underground sprinkler systems, water towers, communication antennas and/or towers and other similar items.

The Town will capitalize new improvements other than buildings or renovations to existing improvements other than buildings if the results meets the following conditions:

- a) the total cost exceeds \$5,000 for civil town and utility assets
- b) the asset's useful life is extended two or more years
- c) Improvements or renovations to existing improvements other than buildings will be capitalized only if the result meets the following conditions:
 - (1) The total cost exceeds \$50,000.00; and
 - (2) The useful life is greater than two years.
- d) Donated improvements will be recorded at fair market value on the date of transfer with any associated costs.
- e) Maintenance/Repairs will be expensed examples: replacing sidewalk, sealing parking

lot, striping, lot light replacement, etc.

- f) Improvements other than building purchases using federal or state funding will follow the above provisions.

BUILDINGS

Buildings are structures designed to house personnel or equipment. A department will capitalize buildings at full cost with no subcategories for tracking attachments such as roofs, heating, cooling, plumbing, lighting, sprinkling systems, or any part of the basic building. Each department will include the cost of items designed or purchased exclusively for the building.

The Town will capitalize new buildings only if it meets the following conditions:

- a) the total cost exceeds \$5,000, in civil town and utilities
- b) the useful life is greater than two years

A department improving or renovating an existing building will capitalize the cost only if the results meet the following conditions:

- (1) the total cost meets or exceeds \$100,000, and
- (2) the useful life is extended two or more years
- (3) Maintenance/Repairs will be expensed less than \$100,000. Examples: Replacement of HVAC Equipment, Roof Repairs, Carpet
- (4) Donated buildings will be recorded at fair market value on the date of transfer with any associated costs.
- (5) Leasehold Improvements or renovations will be expensed examples: ADA improvements, sidewalk improvements, renovations and betterments if Town decides to purchase leased property cost will be included in purchase cost of said structure and will be broken out by

Building purchases made using Federal or State funding will follow the source funding policies and above procedures

MACHINERY & EQUIPMENT

Machinery & Equipment includes: office mechanical equipment, office furniture, appliances, furnishings, machinery items, maintenance equipment, communication equipment, police equipment, fire equipment, sanitation equipment, park department equipment, laboratory equipment, vehicles, road equipment, aircraft, emergency equipment, etc...

The Town will capitalize new Machinery & Equipment buildings only if it meets
The following conditions:

- (1) total cost is \$5,000 or more for civil town and utilities
- (2) the useful life is extended by two or more years

Improvements or renovations to an existing machinery or equipment will be capitalized only if the result meets the following conditions:

- (1) The total cost exceeds \$50,000.00; and
 - (2) The useful life is extended two or more years.
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- a) Capitalization of machinery and equipment costs will include shipping charges, consultant fees and any other cost directly associated with the purchase, delivery or set up, which makes such machinery or equipment operable for its intended purpose. Cost of attachments for machinery and equipment shall be included since they are necessary for using the asset for its intended purpose.
 - b) Maintenance/Repairs will be expensed. Examples: Motor Replacement, Collision Repairs, General Maintenance Etc..
 - c) Lease-purchase agreements will be inventoried but not capitalized until purchased. They will be recorded at original historical at time of lease, interest payment will be expensed.
 - d) Software & Services will be expensed. Examples: Cloud based software/ storage
 - e) Equipment attachments or fixtures for example: Network Racks, Servers, Light Bars, Decals, other attachments or fixtures etc... will only capitalized if over the \$5,000 threshold individually all other items will be expensed.
 - f) Disposal of Equipment and attachments or fixtures it will be assumed that these items will be removed from the capital asset ledger at time of disposal of main equipment. Unless there is transfer paper work for items if over the \$5,000 threshold individually all other items will be expensed.

- g) Machinery and equipment purchases using federal or state funding will follow the above provisions

A department will record donated machinery and equipment at fair market value on the known or estimated date of transfer with any associated costs

Purchases made using Federal or State funding will follow the source funding policies and above procedures.

CONSTRUCTION IN PROGRESS

Assets included under this item type are those buildings or improvements other than buildings that are not completed at the end of a fiscal year. These assets will be included with noted payments and dates, including change orders for all services and materials necessary for the preparation of the building or improvement other than building for its intended purpose.

The Town will capitalize construction in progress if the results meet the following conditions:

- a) the total cost exceeds \$5,000 for civil town and utilities other than water, and
- b) the asset's useful life is extended two or more years
- c) Maintenance/Repairs will be expensed.

LEASE & LEASEHOLD IMPROVEMENTS

Lease & Leasehold Improvements/renovations/ betterments will be expensed examples: ADA improvements, sidewalk improvements, landscaping and if Town decides to purchase leased property cost will be included in purchase cost of said structure and will be broken out by item type: Land, Infrastructure, Buildings, Improvements Other Than Buildings, Machinery & Equipment upon purchase or at end of fiscal year: Lease & Leasehold items will not be capitalized as they are not owned by Town.

SECTION 3:

THRESHOLD LEVELS FOR CAPITAL ASSETS

The following schedule will be followed for the different types of capital assets.

Land

See Section II for General Rules (Minus Easement and Unrecorded Right of Way)

Threshold is All Land

Infrastructure, See Section 2: for General Rules

Threshold New Infrastructure \$5,000, Improvements or renovations \$50,000

Expense Maintenance and Repairs below \$50,000

Buildings, See Section 2: for General Rules

Threshold Buildings \$5,000, Improvements or renovations \$100,000

Expense Maintenance and Repairs below \$100,000

Improvements Other Than Buildings, See Section 2: for General Rules

Threshold Improvements Other Than Buildings \$5,000, Improvements or renovations \$50,000

Expense Maintenance and Repairs below \$50,000

Machinery and Equipment, See Section 2: for General Rules

Threshold Machinery and Equipment \$5,000, Improvements or renovations \$50,000

Expense Maintenance and Repairs

Construction in Progress, See Section 2: for General Rules

Threshold Construction in Progress \$5,000

Expense Maintenance and Repairs

SECTION 4:

VALUATION OF CAPITAL ASSETS

Capital assets must be recorded at historical cost or estimated replacement cost and converted to historical cost if data is unavailable. Normally the cost recorded is the purchase price or

construction costs of the asset, but also included is any other reasonable and necessary costs incurred to place the asset in its intended location and intended use.

Such costs could include the following:

legal and title fees, closing costs, appraisal and negotiation fees, surveying fees, land preparation costs, demolition cost, architect, engineering and accounting fees, (insurance premiums during construction will be expensed), transportation charges, (interest costs will be expensed) during construction Donated or contributed assets should be recorded at their fair market value on the date donated.

Historical Cost:

The cash equivalent price exchanged for goods or services at the date of acquisition land, infrastructure, buildings, improvements other than buildings, machinery and equipment, and construction in progress are common examples of assets recognized under the historical cost attribute.

SECTION 5:

ASSET DEFINITIONS BY MAJOR CATEGORY:

It is important to the maintenance of accurate records that each asset category be precisely defined and that all persons responsible for records maintenance be fully aware of the categorization system. This section further clarifies the asset definitions by major category.

SECTION 6:

RECORDING & ACCOUNTING:

The Town and its various departments shall classify capital expenditures as capital outlays within the fund from which the expenditure was made in

accordance with the Chart of Accounts of the City, Town and County's Accounting manual. The cost of property, plant and equipment includes all expenditures necessary to put the asset into position and ready for use. For purposes of recording fixed assets of the Town and its Departments, the valuation of assets shall be based on historical cost or by estimation of such costs if historical cost is unknown.

SECTION 7:

SAFEGUARDING ASSETS:

Be it ordained that accounting controls be designed and implemented to provide reasonable assurance that:

- a) Capital expenditures made by the Town, its various departments, and utilities be in accordance with management's authorization as documented in the minutes.
- b) Transactions of the utilities be recorded as necessary to permit preparation of financial statements in conformity with generally accepted accounting principles.
- c) Adequate detail records be maintained to assure accountability for Town and utility owned assets.
- d) Access to assets be pennitted in accordance with management's authorization.
- e) That recorded accountability for assets be compared with existing assets at least annually and appropriate action be taken regarding any difference

SECTION 8:

LIFE EXPECTANCY & DEPRECIATION METHODS.

(A) The Town will indicate life expectancy for each asset and by using a national table and or generally accepted life expectancy for specific items. Depreciation of capital assets will be calculated using the straight-line method. There will be no salvage value used. Depreciation will be calculated at year-end. The asset current life year and ensuing

depreciation shall begin the year after the year purchased (example: the asset purchased in 2012; the 2013 current life and depreciation year is one). Land is not depreciated according to general accepted accounting principles.

(B) **Straight-line depreciation.** All assets accounted for under the capital asset policy will be depreciated using the straight-line method of depreciation. A gain or loss on disposal will be recorded. Following is a list of the most Town useful lives:

ASSET	USEFUL LIFE (years)
Land	Not Depreciated
Infrastructure	20-50
Buildings	15-50
Improvements other than Buildings	10-50
Machinery and Equipment	3-20
Construction in Progress	Not Depreciated

Examples life expectancy:

(1) **Land: Not Depreciation**

(2) **Infrastructure or Improvements other than Buildings:**

Street Lights/Traffic Signals, Electric Items – 20 years Flood Walls/Gates – 50 years Cement – 20 years Gravel – 10 years Concrete – 20 years Asphaltic Concrete – 20 years Brick – 50 years Water/Sewer Mains and Lines– 50 years Hydrants – 50 years Lift Station – 50 years

(3) **Buildings**

Heavy Duty Building: Brick/Concrete Town Hall, Water/Sewer Plant Buildings – 50 years

Medium Duty Building: Metal/Wood Metal Clad Shop Building/Storage/Pavilion – 30 years

Light Duty Building: Wood Wall Less Shelter/Gazebo/Pavilion– 15 years

Building Components (HVAC systems, roofing) – 20 years

(4) Improvements other than Buildings

Communications Towers – 20 years Land Improvements – structure (parking lots, athletic courts, swimming pools) – 20 years Land Improvements – ground work (golf course, athletic fields, landscaping, fencing) – 15 years

(5) Machinery and Equipment

Communications Equipment – 10 years Pumping Equipment – 20 years Shop and Lab Equipment – 5 years Computers – 3 years Office Furniture – 5 years

Vehicles – 5 years Car, SUV, Trucks

Heavy Duty Vehicles -10 years Fire Truck, Dump Truck, Excavating, Backhoes

Grounds Equipment – (mowers, tractors, attachments) – 5 years

SECTION 9:

ASSET TRANSFERS AND DISPOSITIONS

Property should not be transferred, turned-in for auction, or disposed of without prior approval of the department head. A Vehicle/Equipment Outprocessing checklist should be sent to the Town Controller's Office in all cases. This form is a dualpurpose form for transfer (defined as any movement of an asset by virtue of change in location, either by account, department, building, floor, or room) or retirement (disposal) of property.pposed pursuant to I.C. 36-5-2-9.8.

The main points to be remembered when using this form are: always provide sufficient detail to properly identify the asset, most importantly the asset's tag number or Town ID. be accurate and do not overlook any of the needed entries. write legibly. complete each column for every asset listed on the form. enter information in correct row, depending on whether you are transferring or deleting an asset. have Department Head sign at the bottom of the form. return the form to the Town's Controller's Office. If an asset is stolen, the department should notify the Police as well as the Town Controller's Office.

SECTION 10:

Periodic Inventories

A physical inventory of all capital assets (any item over \$5,000.00) will be conducted in each department on or about December 31 of every year. The Town Clerk Treasurer Office will conduct spot checks on a random basis. Department heads will be accountable for the capital asset inventory charged to their departments by verifying a list of their capital assets at year-end.

SECTION 11:

Responsibilities of Town Clerk Treasurer

The Fiscal Officer will ensure that accounting for capital assets is being exercised by establishing a capital asset inventory, both initially and periodically in subsequent years. The Fiscal Officer will further ensure that the capital asset report will be updated annually to reflect additions, retirements, and transfers and to reflect the new, annual capital asset balance for financial reporting purposes and the annual and accumulated depreciation calculation.

SECTION 12:

Responsibilities of Department Heads

It is the responsibility of the department head to act as or designate a steward for each piece of property.

The steward will become the focal point for questions regarding the availability, condition, and usage of the asset, as well as the contact during the physical inventory process.

The Steward shall be designated as the person to record the receipt of the asset, to examine the asset to make sure that no damage was incurred during shipment and to make sure that the asset was received in working order.

The steward is also responsible for arranging for the necessary preventative maintenance and any needed repairs to keep the asset in working condition. It is necessary to have a responsible person available for questions that arise during a physical inventory or when someone wants to borrow the asset. The steward ensures that the asset is used for the purpose for which it was acquired and that there is no personal or unauthorized use. In addition, the steward should report any property damage or theft.

SECTION 13:

This Ordinance shall remain in full force and effect from and after its passage and posting of said Ordinance