

## ORDINANCE NO. 2022 - 11\_

### **Fixed Asset Ordinance for Town of Thorntown, Indiana**

WHEREAS, the Town Council of the Town of Thorntown, Indiana (“Town Council”) has authority, pursuant to its statutory and home rule powers, to create a fixed asset ordinance; and

WHEREAS, the Town Council now determines that establishing an ordinances for fixed asset inventory and capitalization policy should be undertaken by the Town of Thorntown, Indiana (“Town”) to account for and safeguard the significant investments of public dollars, to improve internal controls, and to verify account balances carried in the accounting records.

NOW THEREFORE, BE IT ORDAINED by the Town Council of the Town of Thorntown, Indiana that the following shall be known as the Capital Asset Inventory and Capitalization Policy of the Town of Thorntown, Indiana, and shall read as follows:

#### **CAPITAL ASSET INVENTORY AND CAPITALIZATION POLICY**

**Section 1: DEFINITIONS.** For the purpose of this subchapter, the following definitions shall apply unless the context clearly indicates or requires a different meaning:

***CAPITAL ASSETS, PROPERTY, PLANT AND EQUIPMENT.*** Tangible assets of durable nature, employed in the operating activities of the Town and relatively permanent and needed for the production or sale of goods or services, are termed PROPERTY, PLANT AND EQUIPMENT and CAPITAL ASSETS. This broad group is usually separated into classes according to the physical characteristics of the items.

***CAPITAL OUTLAYS.*** Expenditures which benefit both the current and future fiscal periods. This includes accounting for costs of Town-owned land, infrastructure, buildings, improvements other than buildings, machinery and equipment, as well as construction in progress; acquiring land and infrastructure, as well as installing infrastructure or structure construction or improvement of buildings, adding improvements other than buildings; and machinery and equipment purchases having an appreciable and calculable period of usefulness. These are expenditures resulting in the acquisition of or addition to the Town's capital assets. To meet The Indiana State Board of Accounts requirements for fixed asset reports for 2022and thereafter, all items will have life expectancies established with depreciated values on an annual basis, with the exception of land which is never depreciated. Documentation of costing sources: architects, engineering firms, project managers, and construction companies, life expectancy tables, cost indexes and other means for establishing known or estimated historical costs will be provided.

***ENTERPRISE FUNDS.*** Those funds used to account for operations that are financed and operated in a manner similar to private business enterprise, where the intent of the Town is that

the expenses, including depreciation of providing goods and services to the general public on a continuing basis, be financed or recovered primarily through user charges; or, where the Town has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability and other purposes. The enterprise funds of the Town include the municipally-owned water, wastewater and electric utilities, and any other utility that may be established by the Town Council. Operation of these utilities shall require enterprise fund accounting and reporting.

***HISTORICAL COST.*** The case 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 Town examples of categories of items to be recognized under the historical cost attribute.

***TANGIBLE ASSETS.*** Assets that can be observed by one or more of the physical senses that may be seen and touched.

## **Section 2: LAND CAPITALIZATION PROVISIONS.**

(A) The Town will capitalize all land purchases, regardless of cost, except payments for land use purchased outright as easements or rights-of-way for infrastructure.

(B) The original historical cost of land will include the known or estimated full value, including purchase price, relocation payments to former owners, legal services incidental to the purchase (including title work and opinion), appraisal and negotiation fees, surveying and costs for preparing the land for its intended purpose (including contractors' and/or Town workers' salaries and benefits) and for services, such as demolishing buildings, excavating, cleanup and/or inspection. Information from county offices including auditor's office, assessor's office and recorder's office will be researched and included in the capital asset report

(C) The Town will account for donated land at fair market value on the date of transfer plus any associated costs necessary for making the land usable for its intended purpose.

(D) Land purchases made using federal or state funding will follow the above provisions as indicated above

## **Section 3: CAPITALIZATION PROVISIONS**

(A) The Town will capitalize infrastructure with estimated or known historical costs at or above the \$5,000 threshold for construction. Engineering and other professional service fees such as surveying will be included.

(B) Examples of Town infrastructure include roads and streets, street lighting

systems, bridges, overpasses, curbs, street signals, and storm water collection systems. Known or estimated costs of these assets in current existence shall be included. Additions to these assets will only be included if the total cost including any associated fees is at or above the \$5,000 threshold. Milling and paving projects will be considered as maintenance and such costs shall be expensed. Replacement of infrastructure will be included if the total cost is \$50,000 or greater. Enterprise systems include electric distribution systems, water distribution systems, and wastewater collection systems. Known or estimated costs of these assets in current existence shall be included. For the electric system in current existence, itemized system components shall be included with transformers, line closers and other system components that have known or estimated historical costs of \$5,000 or greater. Additions to the electric system will include individual assets or projects that have costs of \$5,000 or greater. Replacements of electric distribution system components will be capitalized if the project total cost is \$50,000 or greater. Accounting for the existing water system will include line known or estimated costs. In line valves, fire hydrants, and water meters will be expensed except those valves over \$5,000 and newer fire hydrants that have installation costs of \$5,000 or greater. Additions to water infrastructure will be included if the project cost is \$5,000 or greater. Replacement of water lines will be capitalized if the project total is \$50,000 or greater. Wastewater collection lines already in existence will be accounted for. Known wastewater project costs will be included. For all enterprise infrastructures historical cost of lines other than those accounted for with projects will be included with known or estimated sizes and estimated current cost with appropriate cost index percentages from a nationally recognized index table source.

#### **Section 4: BUILDING CAPITALIZATION PROVISIONS.**

(A) The Town will capitalize existing buildings that are at or over \$5,000 cost at full cost with no subcategories for the cost of attachments. Examples of attachments are roofs, windows and doors, mechanical, plumbing, electrical, sprinkler systems or any part of the basic building. The Town will include the cost of items designed or purchased exclusively for the building. Capitalization of building costs will include the preparation of land for the building, architectural and engineering fees, accounting costs of material and any costs directly attributable to the construction of a building.

(B) New buildings will be capitalized only if the new building meets the following conditions:

- (1) The total cost exceeds \$5,000.00; and
- (2) The useful life is greater than two years.

(C) Improvements or renovations to an existing building will be capitalized only if the result meets the following conditions:

- (1) The total cost exceeds \$5,000.00; and
- (2) The useful life is extended two or more years.

(D) Replacement of roofs or other building components such as HVAC systems will be expensed unless the project totals greater than \$100,000.

(E) Donated buildings will be recorded at fair market value on the date of transfer with any associated costs.

(F) Building purchases using federal or state funding will follow the above provisions of subcategory items (A-E) as listed above.

## **Section 5: IMPROVEMENTS OTHER THAN BUILDING CAPITALIZATION PROVISIONS.**

(A) The Town will capitalize existing improvements, other than buildings attached or not easily removed, that have a life expectancy of greater than two years. Examples include walks, parking areas and drives, golf cart paths, fencing, signs, retaining walls, pools, outside fountains, underground sprinkler systems and other improvements on Town property. Known or estimated historical cost of these assets will be included. For improvements other than buildings where historical cost is not known, current replacement cost will be calculated then based on known or estimated dates of acquisition and historical cost will be designated by using a cost index table of percentages. Improvements do not include roads, streets, sidewalks or assets that are of value only to the public.

(B) New improvements other than buildings will be capitalized if the new improvements meet the following conditions:

- (1) The total cost exceeds \$5,000.00; and
- (2) The useful life is greater than two 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 \$5,000.00; 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) Improvements other than building purchases using federal or state funding will follow the above provisions (A & B).

## **Section 6: MACHINERY AND EQUIPMENT CAPITALIZATION PROVISIONS.**

(A) The Town will capitalize currently owned machinery and equipment that is not a part of a basic structure or building and that has a life expectancy of greater than two years. Examples include trucks, cars, machinery, furniture, computer equipment and other similar items that have a known or estimated historical cost of \$5,000 or greater. Where historical cost is not known current replacement cost will be calculated then based on known or estimated dates of acquisition and historical cost will be designated by using a cost index table of percentages.

(B) New machinery and equipment will be capitalized only if the new machinery or equipment meets the following conditions:

- (1) The total cost exceeds \$5,000.00; and
- (2) The useful life is greater than two years.

(C) 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 \$5,000.00; and
- (2) The useful life is extended two or more years.

(D) 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.

(E) Donated machinery and equipment will be recorded at fair market value on the date of transfer with any associated costs.

(F) Machinery and equipment purchases using federal or state funding will follow the above provisions (A-D).

## **Section 7: INFRASTRUCTURE CAPITALIZATION PROVISIONS.**

(A) The Town will capitalize infrastructure that has a life expectancy of greater than two years. Examples include streets, bike/jogging paths, storm sewers, sewer lines, parking lots, streetlights and retention/detention ponds. Infrastructure does not include sidewalks.

(B) 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.

(C) Meters will be expensed rather than capitalized.

(D) Improvements or renovations to existing infrastructure will be capitalized only if the result meets the following conditions:

- (1) The total cost exceeds \$5,000.00; and
- (2) The useful life is extended two or more years.

(E) Maintenance/repairs will be considered necessary to maintain the existing asset, and therefore, not capitalized. For example, patching, resurfacing, snow removal, and the like, 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.

(F) Donated infrastructure will be recorded at fair market value on the date of transfer with any associated costs.

(G) Infrastructure purchases using federal or state funding will follow the above provisions.

## **Section 8: CONSTRUCTION WORK IN PROGRESS CAPITALIZATION PROVISIONS.**

(A) Where construction work has not been completed in the current calendar year, the cost of the project shall be recorded as "construction work in progress." When the project is complete, the project will be recorded to the applicable capital asset item type account and only if the capital asset meets the required

conditions.

**Section 9: LIFE EXPECTANCY & DEPRECIATION METHODS.**

(A) The Town will indicate life expectancy for each asset 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's current life year and ensuing depreciation shall begin the year after the year purchased (example: the asset purchased in 2021; the 2022 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:

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

ORDAINED AND ADOPTED by the Town Council of the Town of Thorntown, Indiana, this \_\_\_\_\_ day of \_\_\_\_\_, 2022.

THORNTOWN TOWN COUNCIL  
THORNTOWN, INDIANA

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President

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Member

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Member

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Member

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Member

ATTEST:

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Clerk/Treasurer