ORDINANCE 2020-09

ORDINANCE ESTABLISHING A CAPITAL ASSET POLICY

WHEREAS, the Town Council is the governing body of the Town of Spencer, Indiana so desires to establish a capitalization policy for the Town and its various Departments and utilities as required by the Indiana State Board of Accounts.

NOW THEREFORE, be it ordained by the governing body of the Town of Spencer in Owen County, in the State of Indiana that the following shall be added as a new section to Spencer Town Code:

CHAPTER 37: CAPITAL ASSET POLICY

Section

General Provisions

37.01 General Information
37.02 Definition of Capital Assets
37.03 Valuation of Capital Assets
37.04 Asset Definitions by Major Category
37.05 Depreciation Methods
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37.07 Asset Transfers and Dispositions
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37.09 Responsibilities of Clerk-Treasurer's Office
37.10 Responsibilities of Department Supervisors

§ 37.01 General Information

(A) The Fixed Asset Policy is being issued effective January 1, 2020. 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, Government Accounting Standards Board Statement 34. Statement 34 will require the Town to depreciate capital assets. The capital asset threshold will be $3,000. As asset with a value under $3,000 will be expensed in the year of purchase. The infrastructure portion of this policy is also effective January 1, 2020.

(B) The Town of Spencer has established 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) if required.

(C) The purpose of establishing a Capital Policy is fivefold:

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

(D) 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. It does not include data processing, programming requirements, or computer operations procedures.

§ 37.02 Definition of Capital Assets

(A) Capital assets include land improvements, including monuments, buildings, building improvements, construction in progress, machinery and equipment, vehicles and infrastructure. All land will be capitalized but not depreciated. All items with a useful life of more than one year and having a unit cost of $3,000 or more shall be capitalized (including acquisitions by lease- purchase agreements and donated items). A capital asset meeting the criteria will be reported and depreciated in the government-wide financial statements.

(B) Assets that are not capitalized (items < $3,000) are expensed in the year of acquisition. An inventory will be kept on all computers and other equipment with a capitalized cost of < $3,000.

(C) Exceptions are:

(1) items costing less than the above limits which are permanently installed as a part of the cost of original construction or installation of a larger building or equipment unit will be included in the cost of the larger unit,

(2) modular equipment added subsequent to original equipment construction of a larger building or equipment unit which may be put together to form larger units costing more than the prescribed limits will be charged to capital assets even though the cost of individual items is less than such units,

(3) cabinets, shelving, bookcases, and similar items, added subsequent to original construction, which are custom made for a specific place and adaptable elsewhere, will be capitalized,

NOTE: Purchases made using grant funds must comply with grant requirements or the above procedures, whichever are the most restrictive.

(D) **Threshold levels for capital assets**

(1) The following schedule will be followed for the different types of capital assets other than infrastructure assets:

	Capitalize/Depreciate
Land	All/ Capitalize only
Land Improvements	$3,000
Building	$3,000
Building improvements	$3,000
Construction in Progress	All/Capitalize only
Machinery and Equipment	$3,000
Vehicle	$3,000
Utility Assets	$3,000

(E) **Infrastructure**

At the network level, the asset will be classified as major if the cost of the network item is at least 10 % of the cost of all capital assets in fiscal year 2020. A network will be defined as a group of similar assets that serve a particular function or purpose for the Town of Spencer.

At the subsystem level, the asset will be classified as major if the cost of the subsystem item is at least 5% of the cost of all capital assets in fiscal year 2020. A subsystem will be defined as a segment of a network of assets that serve a similar function for the Town of Spencer.

§ 37.03 Valuation of Capital Assets

(A) Capital assets must be recorded at actual cost. 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:
(1) legal and title fees
(2) closing costs
(3) appraisal and negotiation fees
(4) surveying fees,
(5) damage payments,
(6) land preparation costs,
(7) demolition costs,

(8) architect, engineering and accounting fees,
(9) insurance premiums during construction,
(10) transportation charges,
(11) interest costs during construction

(B) Donated or contributed assets should be recorded at their fair market value on the date donated.

§ 37.04 Asset Definitions by Major Category

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

(1) **Land**

Land is defined as specified land, lots, parcels or acreage including rights of way, owned by the Town of Spencer, 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.

(2) **Improvements Other Than Buildings**

a) Examples of Civil City assets in this category are walks, parking areas and drives, fencing, retaining walls, pools, fountains, planters, underground sprinkler systems, and other similar items.

b) Examples of Town Utilities assets in this category are water supply mains, collection sewers, wells, dams, fences, intake pipes, manholes, and fire hydrants.

(3) **Buildings**

a) All structures designed and erected to house equipment services, or functions are included. This includes systems, services, and fixtures within the buildings, and attachments such as porches, stairs, fire escapes, canopies, areaways, lighting fixtures, flagpoles, and all other such units that serve the building.

b) Plumbing systems, lighting systems, heating, cooling, ventilating and air handling systems, alarm systems, sound systems, surveillance systems, passenger and freight elevators, escalators, built-in casework, walk-in coolers and freezers, fixed shelving, and other fixed equipment are included with the building, if owned. Communication antennas and/or towers are not included as buildings. These are parts of the equipment units that they serve.

(4) **Equipment**

Equipment includes all other types of physical property within the scope of the Fixed Asset Management System not previously classified. Included within this category

are office mechanical equipment, office furniture, appliances, furnishings, machinery items, maintenance equipment, communication equipment, police and park department, laboratory equipment, vehicles, road equipment, aircraft, emergency equipment, and data processing equipment. All supplies are excluded.

(5) **Infrastructure**

a) Infrastructure assets are long-lived capital assets that normally can be preserved for a significant greater number of years than most capital and that are normally stationary in nature. Examples include roads, streetlights, traffic signals, drainage systems, and water systems. Infrastructure assets do not include buildings, drives, parking lots or any other examples given above that are incidental to property or access to the property above.

b) 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 the existing asset, and therefore not capitalized. For example, patching, resurfacing, snow removal, ect., are considered maintenance activities and will be expensed. Also, normal department operating activities such as feasibility studies, and preliminary engineering and design, will be expensed and not capitalized as an element of the infrastructure asset.

§ 37.05 Depreciation Methods

(A) The Town will be depreciating capital assets by using either composite/group method depreciation or the straight-line method.

(B) Salvage value will be determined on an asset-by-asset basis. Depreciation will be calculated at year-end. Land is not depreciated according to general accepted accounting principles.

(C) A network of assets is composed of all assets that provide a particular type of service for government. A subsystem of a network of assets is composed of all assets that make a similar portion or segment of a network of assets. The following will be the breakdown of our networks and subsystems:

Roads/Streets Network
Subsystems: Types of Streets
Curbs

Traffic Components Network
Subsystems: Traffic Signals
Street Lights

(D) **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 common useful lives:

- Vehicles – 5 years
- Office Equipment – 5 years
- Office Furniture – 20 years
- Heavy Equipment – 10 years
- Buildings – 50 years
- Building Components (HVAC systems, roofing) – 20 years
- Leasehold Improvements – useful life of asset or lease term (whichever is shorter)
- Land Improvements – structure (parking lots, athletic courts, swimming pools) – 20 years
- Land Improvements – ground work (golf course, athletic fields, landscaping, fencing) – 20 years
- Outdoor Equipment – (playground equipment, radio towers) – 15 years)
- Ground Equipment – (mowers, tractors, attachments) – 15 years
- Computer Hardware – 3 years
- Computer Software – 5 years

Town Utilities' useful lives are as follows:

- Buildings and Improvements – 50 years
- Sewer Lines – 50 years
- Combined Sewer Overflow -- 50 years
- Lift Station – 50 years
- Treatment Plant/Equipment – 10 years
- Office Equipment – 5 years
- Miscellaneous Operating Equipment – 5 years
- Vehicles – 5 years

§ 37.06 Capital Asset Acquisitions

(A) The method of acquisition is not a determining factor. Each department should report items acquired by:

- Regular purchases,
- Lease purchase – see below
- Construction by Town personnel,
- Construction by an outside contractor,
- Resolution/condemnation,
- Donation/contribution,
- Addition to an existing asset,
- Transfer from another department,

- Trade or barter,
- Annexation

(B) Leased equipment should be capitalized if the lease agreement meets any one of the following criteria:

- The lease transfers ownership of the property to the lessee by the end of the lease term
- The lease contains a bargain purchase option
- The lease term is equal to 75 percent 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, equal at least 90 percent of the fair value of the leased property.

(C) Leases that do not meet any of the above criteria should be recorded as an operating lease and reported in the notes of the financial statements.

§ 37.07 Asset Transfers and Dispositions

(A) Property should not be transferred, turned-in for auction, or disposed of without prior approval of the department head. A Vehicle/Equipment out processing checklist should be sent to the Clerk Treasurers Office in all cases. This form is a dual-purpose 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.

- Always provide sufficient detail to properly identify the asset, most importantly the asset's tag number, VIN, 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 Clerk-Treasurer's Office

(B) If an asset is stolen, the department should notify the Department Head as well as the Clerk Treasurers office.

§ 37.08 Periodic Inventories

A physical inventory of all capital assets (any item over $3,000) will be conducted in each department on or about December 31 of every year. The Town Clerk's office will conduct spot checks on 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.

§ 37.09 Responsibilities of Clerk-Treasurer's Office

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.

§ 37.10 Responsibilities of Department Supervisors

(A) It is the responsibility of the department supervisor 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.

(B) Someone should be designated 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.

(C) 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.

SEVERABILITY

Should any section, sub-section, sentence, clause, phrase or portion of this Ordinance or any license extended hereunder is for any reason held illegal, invalid, or unconstitutional by decision of any court of competent jurisdiction, such portion shall be deemed a separate, distinct and independent provision and such holding shall not affect the validity of the remaining portions hereof.

EFFECTS OF ADOPTION ON PRIOR ORDINANCE

This ordinance supersedes all other ordinances or parts of ordinances which are in conflict with its provisions, and any such ordinance is hereby repealed.

The expressed or implied repeal of amendment by this ordinance of any other ordinance or part of any other ordinance does not affect any rights or liabilities accrued, penalties incurred, or proceedings begun prior to the effected date of this ordinance. These rights, liabilities, and other proceedings all continued, and penalties shall be imposed and enforced under the repealed or amended ordinance as if this ordinance had not been adopted.

EFFECTIVE DATE

This Ordinance shall be in full force and effect from and after the date on which the Town of Spencer has adopted and published this ordinance once each week for two consecutive weeks.

DULY RESOLVED AND ADOPTED this _____ day of _____ , 2020 by the Town Council of the Town of Spencer, Owen County, Indiana, having been passed by a vote of _____ in favor and _____ opposed.

SPENCER TOWN BOARD:

_____
Michael Spinks

_____
Dean Bruce

_____
Jon Stantz

Attest: _____
Cheryl Moke, Town Clerk/Treasurer