

JUN 22 2023

## GENERAL ORDINANCE NO. 5, 2023

CITY CLERK

AN ORDINANCE TO AMEND CERTAIN PORTIONS OF CHAPTER 2 OF THE TERRE HAUTE CITY CODE BY ESTABLISHING A CAPITAL ASSET POLICY.

WHEREAS, the Common Council of the City of Terre Haute, Indiana (the "Council") desires to establish a Capital Asset Policy for the City of Terre Haute, Indiana (the "City") and its various departments and utilities as required by the Indiana State Board of Accounts: and

WHEREAS, the Council remains committed to ensuring compliance with various accounting and financial reporting standards, including Generally Accepted Accounting Principles (GAAP), Governmental Accounting, Auditing, and Financial Reporting (GAAFR), and the Governmental Accounting Standards Board (GASB) and to meet any applicable State and Federal capital asset regulatory reporting requirements;

NOW THEREFORE, BE IT ORDAINED, by the Common Council of the City of Terre Haute, Indiana as follows:

**SECTION 1.** *Terre Haute City Code* shall be modified with the insertion of following:

**CHAPTER 2. CITY ADMINISTRATION****ARTICLE 9. FUNDS AND FISCAL PROCEDURES**

...

**Sec. 2-109 Capital Asset Policy.**

a. **General Information.** The Capital Asset Policy will be effective January 1, 2023. The Capital Asset Policy documents the minimum value of capital assets to be reported on the City of Terre Haute's Annual Financial Report. The Capital Asset Policy follows the Government Accounting Standards Board (GASB) Statement 34. The City will be required to depreciate capital assets. The capital asset threshold will be \$10,000. An asset valued less than \$10,000 will be expensed in the year of the purchase.

b. **Definition of Capital Assets.** Capital assets include land, infrastructure, buildings, improvements other than buildings, machinery, equipment, and vehicles, construction in progress, and other capital assets. All capital assets will have useful lives of more than one year and a per unit or aggregate cost of \$10,000 or more. All land will be capitalized but not depreciated.

Items costing less than \$10,000 which are permanently installed as a part of the cost of original construction or installation of a larger building or unit of equipment will be included in the cost of the larger unit.

Purchases made with grant funds must comply with grant requirements if the grant requirements are more restrictive.

The following table contains the capitalization thresholds for capital assets:

Land	All - Not Depreciable Asset
Buildings	\$10,000
Improvements Other Than Buildings	\$10,000
Machinery, Equipment, and Vehicles	\$10,000
Infrastructure	\$10,000
Construction in Progress	All - Not Depreciable Asset
Other Capital Assets	\$10,000

c. **Valuation of Capital Assets.** Capital assets should be recorded at actual or estimated historical cost. The cost normally includes the purchase price or construction costs of the asset, but it also should include any reasonable and necessary costs incurred to place the asset in its intended location and its intended use. Such costs could include the following: freight, site preparation, fees (architectural, engineering, legal, appraisal, and surveying), demolition, interest, and other reasonable costs.

Donated or contributed assets should be recorded at fair market value on the date of acquisition.

Historical amounts that are difficult to estimate will use the Consumer Price Index calculation methodology, as outlined in the Indiana State Board of Accounts March 2020 County Bulletin page 11-12.

d. **Asset Definition by Major Category.**

**Land.** Specified land, lots, parcels, or acreage including rights of way owned by the City of Terre Haute, its various departments, boards, or authorities, regardless of the method or date of acquisition.

**Improvements Other Than Buildings.** Assets such as parking areas, fencing, retaining walls, pools, fountains, planters, underground sprinkler systems, and other similar items.

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

**Building Improvements.** Plumbing systems, lighting systems, heating, cooling, ventilation, and air handling systems, alarm systems, sound systems, surveillance systems, elevators, escalators, fixed shelving, and other fixed equipment are included with the building. All items in this category should be non-movable items.

**Machinery, Equipment, and Vehicles.** Assets that are primarily movable items. Included in this category are office equipment, office furniture, appliances, furnishings, machinery items, maintenance equipment, communication equipment, police, fire, and park equipment, laboratory equipment, vehicles, road maintenance equipment, emergency response equipment, earth-moving equipment, and data processing equipment. All supplies are excluded and should be recorded separately as inventory if material in quantity or cost.

**Infrastructure.** Assets that are long-lived capital assets that normally are stationary in nature and can be preserved for a significantly greater number of years than most capital assets. Examples include roads, alleys, multi-use pedestrian trails, sidewalks, streetlights, traffic signals, sewer lift stations, sewer pumps, and stormwater drainage systems.

**Other Capital Assets.** Capital assets that do not fit into any of the other major categories listed above. Examples include but are not limited to; certain licensed software, intellectual property, and K-9 animal(s).

e. **Depreciation Methods and Salvage Value.** Depreciation represents the recognition of the cost of an asset over time by calculating its estimated loss in value during each year. Generally, at the end of the asset's life, the sum of the amounts charged for depreciation in each year (accumulated depreciation) will equal the original cost less salvage value.

The salvage value of an asset is the value it is expected to have when it is no longer useful for its intended purpose. The City assumes a salvage value of zero dollars (\$0) but may evaluate on an asset-by-asset basis.

The City of Terre Haute depreciates the majority of its capital assets using the Straight-Line Method. Under this method, the same amount of depreciation is deducted from the value of an asset every year for its useful life. The City takes the full year of depreciation of a capital asset in the year of acquisition and recognizes no salvage value (book value of a capital asset after all depreciation has been fully expensed). Land and Construction in Progress are capital asset categories that are not depreciated. Construction in Progress assets become another category of assets once the asset is substantially ready to be placed in service. Construction in Progress will be capitalized as of December 31 of each fiscal year.

The City depreciates its infrastructure capital assets using the group or composite methods of depreciation. The group or composite methods of depreciation apply a single straight-line depreciation rate and average useful life to the calculation of depreciation for a group of assets.

#### Estimated Useful Depreciable Lives

- Land – N/A
- Improvements Other Than Buildings – 20 years
- Buildings – 50 years
- Building Improvements - 20 years
- Machinery, Equipment, and Vehicles - 5 years

- Infrastructure - 50 years
- Other Capital Assets - 5 years
- Construction In Progress - N/A

f. **Capital Asset Acquisition.** The method of acquisition of a capital asset is not a determining factor. Each department shall report capital assets acquired by any of the following:

- (1) Regular purchases
- (2) Construction by City personnel
- (3) Construction by an outside contractor
- (4) Resolution/Condemnation
- (5) Donation/Contribution (see Appendix B)
- (6) Addition to an existing asset (see Appendix B)
- (7) Transfer from another department
- (8) Trade/Barter
- (9) Annexation
- (10) Lease Purchase (title transfer only aka "Capital Leases")

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

- (1) The lease transfers ownership of the property to the lessee by the end of the lease term.
- (2) The lease contains a bargain purchase option.
- (3) The lease term is equal to 75% of the estimated economic life of the leased property.
- (4) The present value of the minimum lease payments at the inception of the lease (excluding executory costs) equals at least 90% of the fair-value of the leased property.

Leases that do not meet any of the above criteria are considered operating leases.

g. **Asset Transfers and Dispositions.** Capital assets should not be transferred, sent to auction, or disposed of without prior approval of the Department Head and consent from the appropriate board. A list of the capital assets being transferred or disposed of should be sent to the City Controller prior to transfer or disposal. Notification should be given if the asset changes location or is retired/disposed of. (See Appendix B)

h. **Periodic Inventories.** A physical inventory of all capital assets will be conducted in each department annually. The inventory will be conducted on or before December 31 each year by the Department Head or a designee. Department Heads will be accountable for the capital asset inventory of their department by verifying a list of capital assets prior to year-end. Once every two years a physical inventory and audit of capital assets will be conducted to verify lists.

i. **Responsibilities of City Controller.** The City Controller will ensure that accounting for capital assets is being exercised by establishing a capital asset inventory, both initially and annually in subsequent years. The City Controller will further ensure that the capital asset report will be updated annually to reflect additions, reductions, and transfers. The City Controller will also report annual capital asset balances as required by the State Board of Accounts on the City Annual Financial Report.

j. **Responsibilities of Department Heads.** It is the responsibility of the Department Head to keep an accurate record of the department's capital assets. The Department Head or a designee will act as the contact during the physical inventory process. Someone within the department should be designated by the Department Head to record the receipt of the asset at time of acquisition and to follow the procedures above at the time the asset is transferred or disposed of. The Department Head or a designee should act as a steward for each capital asset while it is owned and used by the department. In addition, any damage or theft of a capital asset should be reported by the Department Head to City Controller within a reasonable amount of time. (e.g. within 72 hours)

**SECTION 2.** The illegality or invalidity, for any reason, of any of the sections of this ordinance, or parts thereof, shall invalidate only such section or sections as are so determined to be illegal or invalid, any such invalidity shall have no effect on the remaining sections of this ordinance.

**SECTION 3.** This ordinance supersedes all other ordinances or parts of ordinances regarding capital asset policies 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.

**SECTION 4.** This ordinance shall be in full force and effect from and after the date of its passage by the Common Council of Terre Haute, Indiana and approval of the Mayor and upon publication as required by law.

Introduced by: O. Earl Elliott O. Earl Elliott, Councilperson

Passed in open Council this 13<sup>th</sup> day of July, 2023.  
Curtis DeBaun Curtis DeBaun, President

ATTEST: Michelle L. Edwards Michelle L. Edwards, City Clerk

Presented by me to the Mayor this 14<sup>th</sup> day of July, 2023.

Michelle L. Edwards Michelle L. Edwards, City Clerk

Approved by me, the Mayor, this 14<sup>th</sup> day of July, 2023.

Duke A. Bennett Duke A. Bennett, Mayor

ATTEST: Michelle L. Edwards Michelle L. Edwards, City Clerk