RESOLUTION NO. 59A-2017

A RESOLUTION ADOPTING A CAPITAL ASSET POLICY.

WHEREAS, Council desires to adopt a Capital Asset Policy to identify and record capital assets to ensure the significant investment in capital assets.

NOW, THEREFORE, BE IT RESOLVED BY THE COUNCIL OF THE CITY OF MONROE, STATE OF OHIO, THAT:

SECTION 1: Council hereby adopts the Capital Asset Policy as set forth in Exhibit "A" attached hereto and made a part hereof.

SECTION 2: This measure shall take effect and be in full force from and after the earliest period allowed by law.

PASSED: December 19, 2017

ATTETS:

Clerk of Council

APPROVED:

Mayor

First Reading: November 28, 2017

This legislation was enacted in an open meeting pursuant to the terms and provisions of the Sunshine Law, Section 121.22 of the Ohio Revised Code.

"I, the undersigned Clerk of Council of the city of Monroe, Ohio, hereby certify the foregoing (ordinance or resolution) was published as required by Section 7.16 of the Charter of the City of Monroe.

Clerk of Council
City of Monroe, Ohio

Exhibit "A" Res No. 59-2017

CITY OF MONROE
CAPITAL ASSET POLICY

Sections:

1. Purpose
2. Scope
3. Definitions
4. Policy

Section 1: Purpose

The purpose of this policy is to provide guidelines for the City of Monroe regarding identifying and recording capital assets. This policy will ensure the significant investment in capital assets and establish a capitalization policy whereby dollar values assigned to capital assets are permanently recorded in the financial statements in accordance with State laws and regulations concerning governmental accounting, auditing, and reporting requirements and, thereby providing information for the preparation of financial statements in accordance with Generally Accepted Accounting Principles (GAAP).

Section 2: Scope

- Capitalization of capital assets includes land, buildings and improvements, roads and bridges, machinery and equipment, and construction-in-progress. The asset amounts represented in the City's financial statements should be documented by an inventory listing supported with detailed records for the historical or estimated historical cost of each asset.

Section 3: Definitions.

The following words when used in connection with this policy shall have the meaning respectively ascribed to them herein:

1. Anticipated useful life: The time allotment in years of the estimated time the asset will be in use.
2. Buildings: All permanent walled and/or roofed structures.
3. Capital Assets: Land, improvement to land, easements, buildings, building improvements, vehicles, machinery, equipment, infrastructure, and all other tangible or intangible assets that are used in operations and that have initial useful lives extending beyond a single reporting period.
4. Capitalization threshold: Dollar value at which the City elects to capitalize tangible or intangible assets that are used in operations that have initial useful lives extending beyond a single reporting period. Generally, capitalization thresholds are applied to individual items rather than groups of items unless the result would be to exclude items that would clearly be material to the financial statements in the aggregate.
5. Depreciation: Depreciation is the systematic and rational allocation of the cost of a capital asset over its anticipated useful life. Depreciation normally begins when an asset is purchased or substantially completed and accepted.
6. Furnishings/Equipment: movable personal property and distinguished from supply items with the following characteristics.
    a) It retains its original shape and appearance with use.

b) It is non-expendable; that is if the article is damaged or some of its parts are lost or worn out, it is usually more feasible to repair it rather than replace it with an entirely new unit.

c) It represents an investment of money which makes it feasible and advisable to capitalize the item.

d) It does not lose its identity through incorporation into a different or more complex unit or substance.

e) It is not permanently incorporated into the structure of a building.

7. Infrastructure: Long-lived capital assets that normally are stationary in nature and normally can be preserved for a significantly greater number of years than most capital assets. Examples of infrastructure assets include streets, bridges, and storm water systems.
8. Land: All real estate owned by the City, exclusive of improvements.

Section 4: Policy

Capitalization threshold: Effective January 1, 2017, the City will capitalize individual assets other than buildings, building and land improvements, and infrastructure that cost $10,000 or more and have an anticipated useful life of at least five (5) years. The capitalization threshold for buildings, building and land improvements, and infrastructure shall be $25,000. Land assets will always be capitalized without regard to cost; and will not be depreciated.

Valuation: Capital asset accounting maintains total capital asset costs rather than current market or replacement cost. Capital assets which are to be capitalized shall be assigned a dollar value in accordance with one of the following bases:

- **Actual historical cost**: This cost can be obtained by reference to documents such as invoices, checks, vouchers, contracts, or purchase orders.
- **Estimated historical cost:** Although actual historical costs are more desirable, they may be impossible or impractical to obtain. In this case, an estimated fair market value (estimated cost) as of the date of acquisition should be placed on each item. Estimated costs may be obtained from such sources as minutes, contracts, purchase orders, bond indentures, vendors, appraisers, newspaper articles, or inquiries of persons on hand at the time the asset was acquired.
- **Estimated fair market value**: Gifts or donations shall be valued at fair market value at the time of receipt. This value can generally be obtained from the donor.

Capital versus Non-Capital Assets: An asset will be classified as a capital asset (capitalized under Generally Accepted Accounting Principles), if it is a non-consumable, tangible item, valued at a single amount greater than $10,000 and with a useful life of at least five (5) years. Tangible items valued at single amounts less than $10,000 will be classified as a non-capital asset.

Purchased Assets: The capitalized cost of most purchased assets includes the purchase or acquisition price and related freight, installation, customs charges, and other direct costs of getting the asset into condition necessary for its intended use. Capital equipment purchased sometimes have add-on items that are not initially ordered as a single amount, but may be included as part of the historical cost. Other direct costs may include software if included with the physical capitalized equipment, and warranty costs for the first year only, if included in the acquisition price. Costs that will not be capitalized include training and maintenance unless these costs cannot be separated from the acquisition cost.

Construction in Progress: Capital assets that are construction related (e.g. buildings, streets or constructed equipment) are capitalized as construction in progress and amortization commences when work is substantially completed and the building or other constructed asset is ready for occupancy or use. Construction costs include all direct costs associated with the project that are incurred during the period when planning for the construction begins and ends when the construction project is substantially complete. Costs also include any overhead directly attributable to the construction or development activity.

Donated Assets: Donated or contributions of capital assets are capitalized at the appraised fair market value at the date of contribution.

Building Improvements versus Repairs and Maintenance: Expenditures made to maintain an existing capital asset that restores the capital asset to working condition but does not extend the life of the capital asset will be considered repairs and maintenance expenditures. These may include such examples as, repairs to the roof, repainting of a building, or painting of interior offices. Building improvements which increase the value of the asset or extends the useful life will be added as a capital asset.

Leases: A review of each lease is necessary to determine the appropriate accounting treatment of the lease. Current GASB guidance shall be used to determine the appropriate accounting treatment of each significantly material lease.

Capitalization of Interest: The basis of capitalizing interest cost of an asset should include all cost to bring the asset to the condition and location for its intended use. The period that interest may be capitalized is from the date of the first expenditure through the acquisition period. The accounting policy for capitalization of interest should be consistently applied and disclosed. Reference is to Financial Accounting Standards Board (FASB) Statement 34 and 62.

Value of Infrastructure Assets: This process is completed annually at calendar year end. Infrastructure total costs include all direct costs associated with the project that are incurred during the period when planning or construction begins and ends when the project is substantially complete. Costs also include any overhead directly attributable to the project.

Disposition of Capital Assets: When a capital asset becomes surplus and/or obsolete, the asset should be disposed. Capitalized assets will not be written off from the records or accounts of the City until the asset is disposed of physically. The disposal amount is the same as the total cost and accumulated depreciation. Any trade-in value or gains and losses are not recognized.

Financial Reporting: GAAP require governments to disclose: 1) the historical cost of capital assets (or their fair value at the time of donation), 2) accumulated depreciation, 3) additions during the period, and 4) deletions during the period in a format that demonstrates the change between the beginning and ending book values. Capital assets will be reported in the government wide financial statements.

Depreciation: Capitalized assets, other than land, will be depreciated using the straight-line depreciation method.

Inventory: All capitalized assets shall be recorded and inventoried by their identifying data (model, serial number, license number, VIN, unit number, manufacturer) and periodic physical inventories will be required.

The Finance Department will coordinate the physical inventory process. Departments may choose to maintain an inventory listing of non-capital assets in its possession for control purposes.

Capital Asset Life (Years): Applicable depreciation expensing will begin during the year of acquisition. Costing the asset over the estimated useful life is accomplished by using the following depreciation schedules:

Equipment, Furniture, Fixtures	5-8 years
Vehicles	7-10 years
Ambulances	10-15 years
Machinery	20-25 years
Fire Engine and Rescue	20-25 years
Building and Land Improvements	25-35 years
Water Lines and Infrastructure	20 -70 years
Buildings	40-60 years

The choice of any particular year used will be at the discretion of the Finance Director and the nature of the purchase with respect to the Department's general usage practices as some assets may have a useful life greater or less than these tables illustrate.