

ORDINANCE NO. 7, 2021

AN ORDINANCE OF THE COMMON COUNCIL OF THE CITY OF VALPARAISO, INDIANA, AMENDING THE MUNICIPAL CODE OF THE CITY OF VALPARAISO AND AMENDING ORDINANCE #11, 2001 CONCERNING THE CREATION OF A CAPITAL ASSET CAPITALIZATION AND INVENTORY POLICY

WHEREAS, the Common Council of the City of Valparaiso, Indiana, adopted Ordinance 11, 2001 on April 23, 2001 amending the Municipal Code and creating a Capital Asset Capitalization and Inventory Policy; and

WHEREAS, the Common Council of the City of Valparaiso, Indiana, now deems it appropriate and necessary to amend such Ordinance; and,

WHEREAS, the Common Council of the City of Valparaiso, Indiana 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 and reporting requirements related to property;

NOW, THEREFORE, BE IT ORDAINED, by the Common Council of the City of Valparaiso, Indiana, that Section 10.04 of the Valparaiso Municipal Code should be and is hereby amended as follows:

Section 10.04 Capitalization and Inventory Policy

(1) Definitions and Provisions

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

Capital Asset – Land, improvements to land, easements, buildings, building improvements, vehicles, machinery, equipment, works of art and historical treasures, and all other tangible assets that are used in operations and have initial useful lives extending beyond a single reporting period.

Infrastructure Asset – 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 include roads, bridges, tunnels, drainage systems, water and sewer systems, dams and lighting systems.

Section 10.04 (2) Capitalization Threshold and Inventory

To be considered a capital asset for financial reporting purposes, an item must be at or above the capitalization threshold and have a unit historical cost of \$25,000 or more. With regard to improvements to buildings and improvements to infrastructure, the expenditure must be at a historical cost of \$25,000 or more; however, repairs and most renovations will be expensed in the current year. With regard to land, including rights of way, all land shall be capitalized at the time of acquisition. If donated, it shall be recorded at its acquisition value. All vehicles, regardless of historical cost or acquisition value, will be capitalized.

The City Clerk-Treasurer will ensure that accounting for capital assets is being exercised by establishing a capital asset inventory, both initially and periodically in subsequent years. The Clerk-Treasurer 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.

Section 10.04 (3) Assets Below the Capitalization Threshold

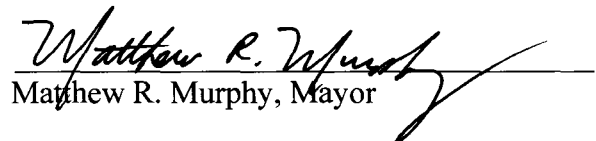
The Council also wishes to express that the day-to-day stewardship of property (above and in selected instances below the capitalization threshold of \$25,000) is the expressed responsibility of the head of the operating department utilizing the property.

And, for maintenance of the capital asset accounting report, the various heads of the operating departments have the responsibility to report additions, retirements, and transfers in detail to the Clerk-Treasurer. Detail shall include such data elements as asset description, location, make, model, serial number, date of acquisition, cost, trade-in, or disposal price received, and any other information that assists control or is deemed relevant.

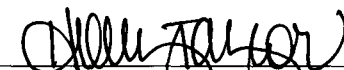
Further, these assets below the capitalization threshold, but considered sensitive may include, but not limited to, weapons, radios, computers, printers, fax machines, chain saws, small motor equipment, and power tools. These minor but sensitive items shall be inventoried and controlled at the department level by the head of the operating department. These departments would include Police, Fire, IT, and Public Works. Stated inventory shall be conducted annually. The City Clerk-Treasurer shall reserve the right to request copies of the inventory and/or updated inventory of controllable items and to periodically review the information and adherence to the policy.

This Ordinance shall be in full force and effect immediately upon its adoption by the Common Council and approval by the Mayor.

PASSED AND ADOPTED by the Common Council of the City of Valparaiso, Porter County, Indiana, by a 7-0 vote of all members present and voting, this 26th day of April, 2021.


Matthew R. Murphy, Mayor

ATTEST:



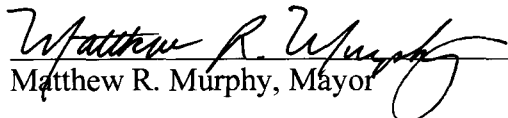
Holly Taylor, Clerk-Treasurer

Presented by me to the Mayor of the City of Valparaiso, Indiana this 26th day of April, 2021.



Holly Taylor, Clerk-Treasurer

This Ordinance approved and signed by me this 26th day of April, 2021 at 6:00 o'clock PM.



Matthew R. Murphy, Mayor

City of Valparaiso, Indiana

Capital Asset Policy

PURPOSE

The effective date of this capital asset policy is January 1, 2021. The purpose of this policy includes:

- To facilitate the preparation of the City of Valparaiso's Annual Financial Report in accordance with Generally Accepted Accounting Principles (GAAP)
- Manage and account for the acquisition, depreciation, and ultimate disposal of the City's capital assets that are used in current operations to provide governmental services
- Support furtherance of the process of financial reporting for accounting purposes relative to the capital asset provisions of the Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* as they relate to capital assets
- Maintain stewardship of the City's significant investment in capital assets
- Establish a basis for the annual reporting of additions and retirements of capital assets making possible the accurate updating of the comprehensive capital asset database
- Make possible the calculation of capital asset beginning and ending balances and depreciation totals for Gateway Reporting
- Manage the City's capital assets and related information economically, efficiently, and effectively in the future

As the Water, Sewer, and Storm Sewer Utilities do separate reporting with the exception of the combined Gateway Summary, they are excluded from this policy.

CLASSIFICATION OF ASSETS

Capital assets are personal property and real property and other assets used in the operations of the government that have an expected estimated useful life beyond a single reporting period. Capital assets are to include any item that falls into one of the following categories:

- I. Land
- II. Improvements to Land
- III. Buildings
- IV. Furnishings and Equipment
- V. Vehicles
- VI. Computer Software
- VII. General Infrastructure
- VIII. Construction in Progress

CAPITALIZATION THRESHOLDS

To be considered a capital asset for financial reporting purposes, an item must at the time of acquisition, be valued for accounting and financial reporting purpose at a unit value greater than or equal to **\$25,000** (\$5,000 if funded through a federal grant). All vehicles are to be included and capitalized regardless of acquisition value. This increased capitalization threshold is to be applied prospectively starting January 1, 2021.

Changes in capitalization threshold are applied prospectively and some items below any new threshold will remain until fully depreciated and removed when they are retired from service.

All land, including rights of way, shall be capitalized at the time of acquisition. If donated, it shall be recorded at its acquisition value. All vehicles regardless of historical cost or acquisition value will be capitalized.

When an asset is purchased or if a large repair is made, the concept of capitalizable should be applied. Because an expenditure exceeds the \$25,000 limit does not mean it is capitalizable and, depending, it may be expensed in the current period as a repair or maintenance. As referred to in this policy in the next section, the determination of capitalizable is a management decision to be made by the government.

Governments generally have a great number of buildings and often significant general infrastructure. It is the nature of these assets and in the normal course of their asset lives to require constant repairs and maintenance that do increase capacity or improve efficiency, hence, while these can be significant expenditures, they are to be expensed as such in the current period.

On major acquisitions and improvements of existing property capitalization shall take place following formal acceptance, use, and utility in providing service.

Assets shall remain as part of the property record until they are retired, sold, traded, or otherwise disposed of regardless of their net book value amount.

CAPITAL vs. EXPENSE AND IMPROVEMENT vs. REPAIR AND MAINTENANCE

There is an inherent difference between the terms capital and expense. Capital is defined as an asset or improvement to an asset that is at or above the stated capitalization threshold for its particular classification.

A capital asset or capital asset improvement may increase capacity, efficiency, or extend the estimated useful life.

An expense activity merely maintains, restores, or repairs an asset to the original service potential but does not necessarily improve the asset.

See addendum to this policy for further definitions and examples.

REPORTED VALUE OF CAPITAL ASSETS

ANNUAL UPDATING and REPORTING

Capital assets shall be recorded at historical cost which includes any ancillary charges necessary to place the asset into its intended location and condition for use. Ancillary charges include, for example, freight and transportation charges, site preparation costs, and professional fees.

Engineering costs (internal and external) include related preliminary project and environmental studies; project estimating, design, and planning (drawings and specifications); and construction engineering, construction management, construction inspection and project payment.

No costs shall be capitalized unless they can be directly identified to a specific capital asset and have been incurred subsequent to the determination that the capital asset will, in fact, be acquired (the costs of a feasibility studies are not capitalizable).

Donated capital assets are recorded at the value that would be necessary to acquire them.

ESTIMATED USEFUL LIVES OF DEPRECIABLE ASSETS

Capital assets have estimated useful lives extending beyond a single reporting period (one year) and are depreciated using the straight-line method with no allowance for salvage value. The estimated useful lives reflect the City's experience with these assets:

City

Land	non-depreciable
Improvements to Land	20 years
Buildings	50 years
Furnishings and Equipment	5 years
Vehicles	
Autos	5 years
SUV's	10 years
Light Trucks	10 years
Heavy Trucks	15 years
General Infrastructure	
Streets	50 years
Bridges	50 years
Sidewalks	40 years
Alleys	50 years
Streetlights	25 years
Traffic Signals	25 years
Storm Drains	50 years
Computer Software	5 years

Parks

Land	non-depreciable
Buildings	50 years
Pathways	20 years
Improvements to Land	20 years
Furnishings and Equipment	5 years
Vehicles	
Autos	5 years
Trucks and SUV's	8 years

Fire Protection Territory

Land	non-depreciable
Buildings	50 years
Improvements to Land	20 years
Furnishings and Equipment	5 years
Vehicles	
Autos and RTV's	5 years
SUV's	10 years
Fire Trucks	15 Years

Any future changes to estimated useful lives will be applied prospectively.

Any future increase or extension of estimated useful life will reflect a significant alteration, rehabilitation, or structural change. All repairs and maintenance no matter the acquisition value is to be expensed as such in the current period.in

DEPRECIATION METHOD AND CONVENTION

Depreciation will be calculated as to annual, accumulated, and net book value amounts using the straight-line method and full-year convention. No salvage value or residual value will be recognized.

Capital asset estimated useful lives serve to make the depreciation calculation possible. They serve as the divisor of acquisition value of a capital asset to derive the annual amount of depreciation expense. Further, the determination of estimated useful lives as in the case of capitalization threshold is a government's management decision.

RETIREMENTS

Retirements apply to all capital assets including land, improvements to land, buildings, furnishings and equipment, vehicles, and general infrastructure.

When an asset is disposed of, scrapped, sold, subject to demolition, etc. it is to be removed from the property record and the appropriate reduction shall be made to the asset value, accumulated depreciation, and net book value amounts.

Retirements shall reflect the originally recorded value of the capital asset when the amount is ascertainable. When the originally recorded value of the capital asset is not ascertainable, an estimate of that amount (typically historical cost) shall be made.

RESPONSIBILITY FOR PROPERTY RECORD MAINTENANCE

The Clerk-Treasurer's Office shall ensure that appropriate accounting for capital assets is being exercised by establishing a capital asset inventory, and updating it each year. Each annual update shall reflect all improvements, additions, retirements, and transfers that occurred during the year. The update also shall ensure that the annual calculation of depreciation expense is adjusted accordingly.

Day-to-day stewardship of personal property above the capitalization threshold of \$25,000 is the responsibility of the department utilizing the property.

To allow for the annual updating of the capital asset records, the departments are responsible to report information on improvements, additions, retirements, and transfers in detail to the Clerk-Treasurer. It is expected that this reporting will be made in a timely manner, as the capital asset record must be updated annually

In summary, additions of assets at or above the unit capitalization threshold of \$25,000 are to be reported to the Clerk-Treasurer's Office by the departments upon purchase or receipt of the asset. These will be verified per the purchasing process by the Clerk-Treasurer's Office. Transfers and retirements of assets at or above the \$25,000 unit

threshold are to be reported as such by the departments to the Clerk-Treasurer's Office at the time of the transaction.

ASSETS PURCHASED WITH FEDERAL FUNDS

Assets at or above a threshold of \$5,000 on a unit basis funded with a federal grant are to be reported for federal compliance purposes. To achieve this end a subsidiary list or other indicator is to be established and maintained annually and includes all such assets currently in use.

PROPERTY CONTROL

Capital assets below the capitalization threshold of \$25,000 on a unit basis but warranting 'control' shall be inventoried at the department level and an appropriate list will be maintained. Data elements are to include asset description, location, and other information that assists control deemed relevant.

Assets below the capitalization threshold but considered *sensitive* may include for example: weapons, radios, personal computers, laptop computers, printers, fax machines, and small power tools, and perishable hand tools.


These minor but sensitive items shall be inventoried and controlled at the department level. Stewardship of these minor but sensitive items is the responsibility of the departments utilizing these properties.

Finally, the Clerk-Treasurer's Office, at its discretion, may request copies of the inventories and any updated inventories of controllable items so as to periodically review the information, adherence to policy, and the integrity of the data.

Adopted this 9th day of April 2021.

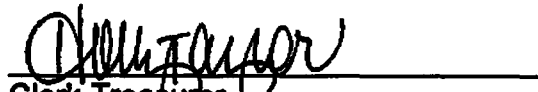
VALPARAISO BOARD OF PUBLIC
WORKS AND SAFETY


Member


Member

Member

Attest:


Clerk-Treasurer

ADDENDUM OF DEFINITIONS AND EXAMPLES FOR

CAPITAL V. EXPENSE DETERMINATION

AND

IMPROVEMENTS AND REPAIR AND MAINTENANCE CONSIDERATIONS

Definitions (sampling)

- **A change in capacity increases the level of service provided by the asset so the expenditure is capitalized**

- **A change in efficiency either increases the level of service an asset provides or allows for maintaining the same level of service at a lower cost so the expenditure is capitalized**

- **An extended estimated useful life will result from a significant alternation, structural change, or improvement so expenditure is capitalized**

- **For improvements to buildings and general infrastructure, a capital outlay must be significant and increase capacity, increase efficiency, or extend the asset's estimated useful life beyond what was originally estimated for the expenditure to be considered for capitalization**

- **Capital expenditures, then, are items at or above the stated capitalization thresholds for new or replacement assets or expenditures that materially improve an asset, increase the value, or add to the existed estimated useful life such as buildings or infrastructure**

Examples (sampling)

- While substantial repairs and renovations shall be reviewed for potential capitalization, it is anticipated that most will be expensed in the current year. These expenses often merely restore the asset to its original service potential but do not necessarily improve the asset

- Common building expense items include interior and exterior painting, re-carpeting, plumbing repairs and replacement, HVAC upgrades, and electrical work. While many of these expenses can be substantial, there is generally no increased capacity or efficiency; hence, these costs are expensed in the current year

- An addition to a building provides increased square footage; hence, the capacity is increased and the capital outlay is capitalized

- A roof replacement does not increase building capacity or efficiency; hence, cost of replacement should be expensed in the current year

- If buildings are componentized for accounting and financial reporting, the roof replaced is expensed and the new roof is capitalized

- A building remodeling may actually comprise a reconstruction as will be reflected in the acquisition value of the project; hence this acquisition value will be capitalized

- A building restoration, while costly, may merely restore the building to its original service capacity; hence, the restoration cost is expensed in the current year

- A project that improves a building with new windows of substantial acquisition value providing for future energy cost reduction is capitalized because of increased efficiency

- Newly constructed or reconstructed roads are capitalized

- Widening a road with additional lanes increases capacity and; hence, the capital outlay is capitalized
- Resurfacing a road, while costly, does not increase capacity or efficiency; hence, the cost is expensed in the current year
- Bridge joint repair and a bridge deck resurfacing do not increase capacity or efficiency; hence, repairs are to be expensed in the current year
- A newly constructed bridge or a bridge reconstruction are capitalized
- With regard to vehicles and equipment, to replace a truck transmission is a significant repair and expense; however, the truck is merely restored to good working order and is not improved so the expenditure is expensed
- To rebuild a police squad car following a collision may be a significant expenditure but is not capitalized in that the vehicle is merely restored to good working order and the expenditure is expensed
- A vehicle frame-off restoration or similar restoration may exceed the original acquisition value of the vehicle; hence, this expenditure is capitalized.