CITY OF OBERLIN, OHIO

ORDINANCE No, 13-65 AC CMS

AN ORDINANCE APPROVING A CAPITAL ASSET ACCOUNTING POLICY FOR THE CITY OF OBERLIN

BE IT ORDAINED by the Council of the City of Oberlin, County of Lorain, State of Ohio, five-sevenths (5/7ths) of all members elected thereto concurring:

SECTION 1. That Council hereby adopts a Capital Asset Accounting Policy detailed in Exhibit A, and hereby authorizes the City Manager and Finance Director to amend and/or modify said policy from time-to-time in the future as may be necessary.

SECTION 2. It is hereby found and determined that all formal actions of this Council concerning or relating to the adoption of this ordinance were adopted in an open meeting of this Council, and that all deliberations of this Council and of any of its committees that resulted in such formal action, were in meetings open to the public in compliance with all legal requirements, including Section 121.22 of the Ohio Revised Code.

SECTION 3. That this Ordinance shall take effect at the earliest date allowed by law.

PASSED: 1st Reading: November 4, 2013 (Suspended)

2nd Reading: ____________________

3rd Reading: ____________________

ATTEST:

Belinda B. Anderson

BELINDA B. ANDERSON, CMC
CLERK OF COUNCIL

Ronnie J. Rimbert

RONNIE J. RIMBERT
PRESIDENT OF COUNCIL

POSTED: 11/05/2013

EFFECTIVE DATE: 12/04/2013

Exhibit A

CAPITAL ASSET ACCOUNTING POLICY

Definitions

Capital Asset: any item which has the following characteristics:

1) Tangible in nature, possesses physical substance
2) Expected useful life of five (5) years or more

For purposes of **budgetary reporting**, capital assets with a cost of $2,000 or more are reported as Capital Outlay (Expenditure Object Code 56xxx).

For purposes of **internal control**, all capital assets which are susceptible to loss are the responsibility of the individual department head.

For purposes of **financial reporting on a GAAP basis**, only capital assets valued at $2,000 or more and governmental and enterprise fund infrastructure assets valued at $10,000 or more will be reported.

Capitalization: the practice of adding expenditures to an asset account which are expected to increase the book value of the asset account and to benefit not only the period in which the asset was acquired, but as many future periods as the asset's remaining life.

Classifications

1. **Land:** includes all land parcels acquired for building sites, recreation, etc. Land acquired for right-of-way or easement or land acquired for the express purpose of constructing both proprietary and non-proprietary infrastructure must be included in the capital asset inventory.

2. **Buildings:** includes all buildings (or structures which serve as buildings, such as permanently established trailers). Permanently attached fixtures installed during construction are considered a part of the building. The subsequent addition of equipment will be recorded as machinery and equipment. Major improvements, such as additions to buildings, are capitalized.

3. **Improvements Other than Buildings:** includes improvements such as park facilities, parking lots, baseball fields, tennis courts, swimming pools and infrastructure associated with City owned utilities (water, wastewater, solid waste and electric).

4. **Infrastructure:** Governmental Fund Infrastructure assets will be reported by function in the General Government Capital Assets. These include roads, bridges, curbs, streets, storm sewers, traffic control devices, and similar assets that have value only to the City. Proprietary infrastructure associated with City owned utilities (water, sanitary sewers and municipal electric facilities) which would typically include all utility lines, excluding electric distribution and appurtenances will continue to be reported in the appropriate fund.

5. **Machinery, Equipment, Furniture & Fixtures:** includes all motor vehicles (licensed and non-licensed), trailers, construction and maintenance equipment and furniture and fixtures.

    A. Machinery & Equipment - includes all equipment such as tractors, mowers, backhoes, graders, rollers, etc., as well as typewriters, computers, printers, terminals, calculators, etc. which meet the criteria previously established for classification as a capital assets.

    B. Licensed Vehicles - includes all motor vehicles that are licensed for on-road use such as police cruisers, automobiles, trucks, vans, buses, etc.

    C. Furniture and Fixtures - includes furniture and fixtures, which meet the criteria previously established for classification as a capital asset.

6. **Construction in Progress:** includes all partially completed projects including governmental fund infrastructure assets (i.e.: roads, bridges, storm sewers, etc.). Buildings, governmental fund infrastructure and enterprise fund infrastructure of various types will be the main components of this classification. Construction in Progress is accumulated by the Finance Director and is valued and recorded as a capital asset at the end of the year. Upon completion, these assets are transferred to one of the other capital asset classifications.

Acquisition Cost

The following costs associated with the acquisition of a capital asset are to be capitalized:

1. Purchase costs **before** trade-in allowance and less trade discount; or a qualified appraisal of value at the time acquired if the asset is contributed.

2. Assembled costs if constructed by personnel of the government unit.

3. Professional fees of attorneys, architects, engineers, appraisers, surveyors, etc., which are necessary to place the asset into service.

4. Site preparation costs such as clearing, leveling, filling and demolition of unwanted structures.

5. Fixtures attached to a building or other structure.

6. Transportation and installation charges.

7. Any other expenditure required to place the asset into service.

Costs Subsequent to Acquisition

After capital assets are in use, additional costs are incurred that range from maintenance to significant additions. These costs should be capitalized **if any of the following conditions exist:**

- The useful life of the asset is increased.
- The quantity of services produced from the asset is increased.
- The quality of the units produced is enhanced.

Obviously, proper routine maintenance is intended to prolong the useful life of an asset. However, routine maintenance will normally only help to insure that the asset will last through its estimated useful life. Certain forms of routine maintenance activity can be quite expensive. Large expenditures for maintenance do not, by themselves, justify capitalization of these costs. The following are major types of expenditures that **should be** capitalized:

- Additions
- Improvements (betterments) and replacements
- Reinstallations

Capital Asset Valuation

1. **Historical Cost (Actual Cost):** capital assets are valued at historical cost. Historical cost includes the purchase price as well as other costs incurred to prepare the asset for its intended use such as freight and insurance. See Acquisition Cost for more examples.

2. **Estimated Original Cost:** when historical costs are unavailable, capital asset costs are estimated by using the cost of similar items acquired around the same time. The historical cost may also be estimated by establishing the current replacement cost for the asset and back-trending the cost to the year of acquisition or construction.

3. **Donations:** gifts and donations are valued at fair market value at the time of the donation.

Depreciation

Capital assets acquired and used by the City will be depreciated over their useful life on a straight-line basis. In the year of acquisition a half year of depreciation is recorded and a half year of depreciation is recorded in the year of disposal.

Salvage Value

It is the policy of the City to exhaust the usefulness of a capital asset before its disposition; therefore, salvage value on all assets is considered to be insignificant and is generally exceeded by the cost of disposition.

Should the occasion arise where an asset is disposed of prior to the exhaustion of its useful life and since the book value is determined by the cost of the asset spread over its useful life less salvage value, appropriate adjustments will be made to account for the proper gain or loss on the sale of the asset at the time of disposition.

Note: Detailed procedures, i.e. proper tagging, documentation, coding, etc., are available from the Finance Office.