

ORDINANCE 2007 - 3

AN ORDINANCE ESTABLISHING A FIXED
ASSET CAPITALIZATION POLICY

ORDAINED by the Board of Trustees of the Jennings Northwest Regional Utilities (hereinafter "JNRU"), a regional water and sewer district (hereinafter "District") that:

WHEREAS, the Board of Trustees is the governing body of JNRU, in Jennings County, Indiana; and,

WHEREAS, the Board of Trustees of JNRU so desires to establish a capitalization policy for the District and its various Departments and Utilities (hereinafter "Enterprise Funds").

BE IT, THEREFORE, ORDAINED by the governing body of JNRU, Jennings County, Indiana, as follows:

Section 1. Definitions and Provisions.

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

Tangible Assets. Assets that can be observed by one or more of the physical senses. They may be seen and touched and, in some environments, heard and smelled.

Fixed Assets. Tangible assets of a durable nature employed in the operating activities of the unit and that are relatively permanent and are needed for the production or sale of goods or services are termed property, plant and equipment or fixed assets. These assets are not held for sale in the ordinary course of business. This broad group is usually separated into classes according to the physical characteristics of the items (e.g. land, buildings, improvements other than buildings, machinery and equipment, furniture and fixtures).

Capital Outlays. Expenditures which benefit both the current and future fiscal periods. This includes costs of acquiring land or structures; construction or improvement of buildings, structures or other fixed assets; and equipment purchases having an appreciable and calculable period of usefulness. These expenditures resulting in the acquisition of or addition to the government's general fixed assets.

LAND. JNRU will capitalize all land purchases, regardless of cost.

Exceptions to land capitalization are land purchased outright, as easements, or rights-of-way for infrastructure. Examples of infrastructures are water distribution lines, sewer collection lines, treatment plants, pump stations.

Original cost of land will include the full value given to the seller, including relocation, legal services incidental to the purchase (including title work and opinion), appraisal and negotiation fees, surveying and costs for preparing the land for its intended purpose (including contractors and/or district workers [salary and benefits]), such as demolishing buildings, excavating, clean up and/or inspection.

A department will record donated land at fair market value on the date of transfer plus any associated costs.

Purchases made using Federal or State funding will follow the source funding policies and above procedures.

MACHINERY AND EQUIPMENT. The definition of machinery and equipment is apparatus, tool or conglomeration of pieces to form a tool. The tool will stand alone and not become a part of a basic structure or building.

The District will capitalize and tag items with an individual value equal to or greater than One Thousand Dollars (\$1,000). Machinery combined with other machinery to form one (1) unit with a total value greater than the above-mentioned limit will be one (1) unit.

Shipping charges, consultant fees, and any other cost directly associated with the purchase, delivery or set up (including contractors and/or District works [salary and benefits]), which makes such equipment operable for its intended purpose will be capitalized.

Improvements or renovations to existing machinery and equipment will be capitalized only if the result of the change meets all of the following conditions:

1. total costs exceed One Thousand Dollars (\$1,000);
2. the useful life is extended two (2) or more years; and,
3. the total costs will be greater than the current book value and less than the fair market value.

Examples include:

A work truck being equipped with screens, lights or radios for use as a single unit throughout its life expectancy is considered one (1) unit.

A department's computer (CPU, monitor, keyboard and printer) is considered one (1) unit.

A department will record donated machinery and equipment at fair market value on the date of transfer with any associated costs.

Purchases made using Federal or State funding will follow the source funding policies and above procedures.

BUILDINGS. A department will capitalize buildings at full cost with no subcategories for tracking the cost of attachments. Examples of attachments are roofs, heating, cooling, plumbing, lighting or sprinkler systems, or any part of the basic building. The department will include the cost of items designed or purchased exclusively for the building.

A department's new building will be capitalized only if it meets the following conditions:

1. the total cost exceeds Five Thousand Dollars (\$5,000); and,
2. the useful life is greater than two (2) years.

A department improving or renovating an existing building will capitalize the cost only if the result meets all of the following conditions:

1. the total costs exceeds Five Thousand Dollars (\$5,000);
2. the useful life is extended two (2) or more years; and,
3. the total cost will be greater than the current book value and less than the fair market value.

Capital building costs will include preparation of land for the building, architectural and engineering fees, bond issuance fees, interest cost (while under construction), accounting costs if material, and any costs directly attributable to the construction of a building.

A department will record donated buildings at fair market one the date of transfer with any associated costs.

Purchases made using Federal or State funding will follow the source funding policies and above procedures.

IMPROVEMENTS OTHER THAN BUILDINGS. The definition of this group is improvements to land for better enjoyment, attached or not easily removed, and will have a life expectancy of greater than two (2) years.

Examples are water distribution mains, lines, meters, pump stations, sewer collection mains, lines, pump stations, walks, parking areas and drives, paths, fencing, retaining walls and other similar items.

The District will capitalize new improvements other than buildings only if it meets the following conditions:

1. the total cost exceeds Five Thousand Dollars (\$5,000); and,
2. the useful life is greater than two (2) years.

A department will capitalize improvements or renovations to existing improvements other than buildings only if the result meets the following conditions:

1. the total cost exceeds Five Thousand Dollars (\$5,000);
2. the asset's useful life is extended two (2) or more years; and,
3. the total cost will be greater than the current book value and less than the fair market value.

A department's donated improvements other than buildings will be recorded at fair market value on the date of transfer with any associated costs.

Purchases made using Federal or State funding will follow the source funding policies and above procedures.

Historical Cost. The cash equivalent price exchanged for goods or services at the date of acquisition. Land, buildings, equipment and most inventories are common examples of items recognized under the historical cost attribute.

Enterprise Funds. Those funds used to account for operations (a) that are financed and operated in a manner similar to private business enterprise - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred and/or net income is appropriate for capital maintenance, public policy, management control, accountability and other purposes.

The enterprise funds of JNRU shall include the district's water and sewage utilities "funds." Operation of these utilities shall require enterprise fund accounting and reporting.

SECTION 2. RECORDING AND ACCOUNTING.

The District and its various departments shall classify capital expenditures as capital outlays within the fund from which the expenditure was made in accordance with the Chart of Accounts of Special Districts Accounting manual. The cost of property, plant and equipment includes all expenditures necessary to put the asset into position and ready for use. For

purposes of recording fixed assets of the District and its Departments, the valuation of assets shall be based on historical cost or where the historical cost is indeterminable, by estimation for those assets in existence.

The District's utilities shall record acquisition of Fixed Assets in accordance with generally accepted accounting principles. When an asset is purchased for cash, the acquisition is simply recorded at the amount of cash paid, including all outlays relating to its purchase and preparation for intended use. Assets may be acquired under a number of other arrangements, including:

1. Assets acquired for a lump-sum purchase price;
2. Purchase on deferred payment contract;
3. Acquisition under capital lease;
4. Acquisition by exchange of nonmonetary assets;
5. Acquisition by issuance of securities;
6. Acquisition by self-construction;
7. Acquisition by donation or discovery.

Some of these arrangements present special problems to the cost to be recorded, for example, in utility accounting, interest during a period of construction has long been recognized as a part of the asset cost. Reference to an intermediate accounting manual will illustrate the recording of acquisition of assets under the aforementioned acquisition arrangements. For purposes of recording fixed assets of the utilities the valuation of assets shall be based on historical cost.

In addition, an asset register (prescribed form 369) shall be maintained to provide a detail record of the capital assets of the district.

SECTION 3. SAFEGUARDING OF ASSETS.

BE IT ORDAINED that the accounting controls be designed and implemented to provide reasonable assurances that:

1. Capital expenditures made by the District, its various departments and utilities be in accordance with district's authorization as documented in the minutes.

2. Transactions of the utilities be recorded as necessary to permit preparation of financial statements in conformity with generally accepted principles.

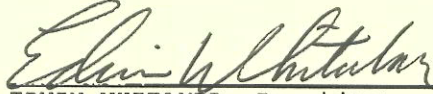
3. Adequate detail records be maintained to assure accountability for district and Utility owned assets.

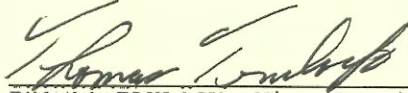
4. Access to assets be permitted in accordance with district's authorization.

5. The recorded accountability for assets be compared with the existing assets at least every two (2) years and appropriate action be taken with respect to any differences.

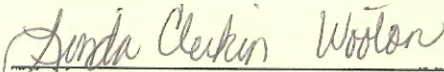
ORDAINED and PASSED by the Board of Trustees of JNRU, this 19 day of November, 2007.

JENNINGS NORTHWEST REGIONAL UTILITIES

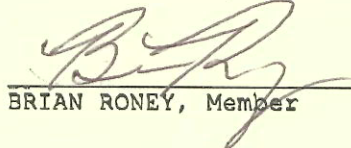

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