EXHIBIT I

FIXED ASSET ACCOUNTING SYSTEMS MANUAL

POLICIES AND PROCEDURES

CITY OF PAINESVILLE

PREPARED BY
FINANCE DEPARTMENT

Adopted: October 20, 2003
Resolution No. 60-03
Effective: January 1, 2003
INTRODUCTION
This manual is the capital asset accounting policy issued for the City of Painesville. The capital asset system is an accounting and management system that coordinates policies and procedures with various methods for recording and reporting monetary amounts associated with fixed asset acquisitions, transfers and dispositions. The capital asset system is an integrated module within the City’s financial management package and is maintained independent from the financial data of the City.

Each department and/or division of the City of Painesville is required to maintain an independent subsystem of the fixed assets it controls or owns. Quarterly, the subsystem of the individual departments/divisions must be reconciled to the capital asset system maintained by the Department of Finance to ensure accuracy of the financial records.

PURPOSE
The capital asset management system is designed to facilitate:

a. Financial statement information
b. Control and accountability
c. Accounting for depreciation
d. Audit compliance
e. Track information technology hardware and software for management purposes only

DEFINITION OF A FIXED ASSET
A fixed asset is defined as a financial resource that meets all of the following characteristics:

1. Tangible or intangible in nature, possesses physical substance or a contract agreement outlining a defined scope; and
2. Expected useful life of three (3) years or more.

REPORTING THRESHOLD
For purposes of budgetary reporting, fixed assets are:
A. Equipment and vehicles with a cost of $5,000.00 or more; and
B. Infrastructure with a cost of $10,000.00 or more.

For purposes of management control reporting, fixed assets are:
A. All computer hardware costs; and
B. Computer software costs with a value of $1,000.00 or more.

REPORTING POLICY
Fixed asset purchase of $5,000 or more are reasonable and represent at least 80% of the total value of assets owned by the City of Painesville. Assets having values under $5,000, regardless of their useful life, will not be reported as a fixed asset on the financial reports of the City as they do not meet the reporting threshold. Land and land improvements, buildings and building betterments are always a fixed asset. The term “nominal asset” will be used for assets purchased and tracked in the capital asset system that do not meet the reporting threshold established by the City. Nominal assets may or may not be tracked and will be reported separate from fixed assets. The tracking and reporting of nominal assets is for management control or insurable purposes.
Capital assets should be reported using the definitions outlined below and the thresholds above. The cost of a capital asset should include capitalized interest and ancillary charges necessary to place the asset into its intended location and condition for use. Ancillary charges include costs that are directly attributable to asset acquisition – such as freight and transportation charges, site preparation costs, and professional fees.

**DEFINITIONS OF FIXED ASSET INFRASTRUCTURE**

Infrastructure assets are 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.

A network of assets is composed of all assets that provide a particular type of service for a government. A network of infrastructure assets may be only one infrastructure asset that is composed of many components.

A subsystem of a network of assets is composed of all assets that make up a similar portion or segment of a network of assets.

**FIXED ASSET CLASSIFICATIONS**

1. **Land** – includes all land parcels acquired for municipal or resale purposes.

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 infrastructures associated with City owned utilities (water, sanitary sewers, and electrical distribution).

4. **Machinery and Equipment** – includes all motor vehicles (licensed and non-licensed), trailers, construction and maintenance equipment and furniture and fixtures.
   - **A. Office Machinery & Equipment** – includes all office equipment such as typewriters, computers, printers, terminals, calculators, etc. which meet the criteria previously established for classification as a fixed asset and furniture and fixtures.
   - **B. Licensed Vehicles** – includes all motor vehicles that are licensed for on-road use such as automobiles, trucks, vans, buses, etc.
   - **C. Non-Licensed Vehicles** – includes vehicles such as tractors, mowers, backhoes, graders, rollers, etc.

5. **Construction in Progress** – includes all partially completed projects except roads and bridges. Buildings of various types will be the main component in this area. Upon completion, these assets are transferred to one of the other fixed asset classifications.

6. **Computer Purchases** – All computer purchases must comply with the computer standards sheet (see appendix A). In order to have system consistency and compatibility with the existing system/network, all computer purchases must be approved by the information consultant. Please refer to the city purchasing policy for proper procedures.
NETWORKS AND SUBSYSTEMS

Roadway Network consist of roads, right of ways, bridges, ramps, and state routes all located within the city limits. Subsystems of the roadway network include the curb, gutter, pavement, base and land that make a street, roadway, or state route.

Electric Distribution Network system includes infrastructure improvements essential to the production and distribution of electricity at the City’s electric generating facility. Subsystems of the electric distribution network include residential and industrial transformers, poles, wires, and voltage regulators.

Water Distribution Network system includes infrastructure improvements required for delivery of potable water which is produced at the City’s water treatment facility. Subsystems of the water distribution network include the water main, fire hydrant assembly, valves, fittings, service connections and meters.

Sanitary Sewer Network system includes infrastructure improvements required for the transportation of sanitary sewers, pumping facilities, taps, etc. Subsystems of the sanitary sewer network include sanitary storm sewers, forced mains, and pump stations.

Storm Sewer Network includes infrastructure improvements required for the transportation of storm sewer and drains. Subsystems of the storm sewer network include open drainage ways, piped drainage, roadside drainage ditches, flood control facilities, storm drains, and open drainage swales.

FIXED ASSET VALUATION

1. Historical Cost – fixed 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, fixed asset costs are estimated by using the cost of similar items acquired around the same time.

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

ACQUISITION COST

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

1. Purchase costs before trade-in allowance and less discounts; or a qualified appraisal of value at the time of acquisition 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 make the asset functional (ready to be placed in 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 put the asset into its intended state of use.

Each Department must complete a Fixed Asset Acquisition Form to report the purchase of a Fixed Asset to the Department of Finance (see Appendix B).
ASSETS PURCHASES UNDER A CAPITAL LEASE

In accordance with FASB Statement No. 13, any non-cancelable lease agreement which meets one or more of the following criteria should be capitalized:

1. The lease transfers ownership of the property to the City at the end of the term of the lease.
2. The lease contains a bargain purchase option. A bargain exists where the cost of acquisition is less than market value.
3. The lease term is equal to 75% or more of the estimated economic life of the lease asset.
4. The present value of the minimum lease payments equals or exceeds 90% of the fair value of the leased asset.

When none of the criteria for a capital lease are met, the lease is an operating lease. If the operating lease is material, a note disclosure must be made in the notes to the financial statements.

If a capital asset is acquired under a capital lease agreement, the capital asset must be identified in the same manner as purchased assets. Lease agreements must be analyzed by the Department and coordinated with the Finance Department through the Capital Improvement Plan for the Department. The capital asset should be capitalized based upon the same determination, as of the date originally placed in service. The present value of the amounts owed by the City for future lease payments will be used as the capitalized value.

COSTS SUBSEQUENT TO ACQUISITION

After fixed 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.

The distinction between an expense and a capital expenditure is not always readily apparent and may require careful consideration and analysis before a decision can be made. Proper routine maintenance is considered a normal operating expense necessary for the continued efficient operation of a fixed asset during its estimated useful life. Certain forms of routine maintenance activity require large expenditures, but cost alone does not justify capitalization. For example, the replacement of major section of tubing in a boiler which will allow the boiler to continue efficient operation during its useful life is a maintenance expense and should not be capitalized.

Another important consideration is the determination of the property unit with which costs are associated. When a fully equipped fire pumper is recorded as a single fixed asset item in the fixed asset system the replacement of a pump may represent a maintenance expense. However, if the pump is initially considered a separate property unit (a separate fixed asset in the system) then its replacement would be capitalized.

The following are major types of expenditures that should be capitalized:

- Additions – Any additions to assets are capitalized because a new asset with a distinct useful life has been created which will increase the ability to provide service.
- Improvements (betterments) and replacements – Represents the substitution of one asset, typically a better or improved asset, for another asset already in use.
Reinstallation’s and rearrangements – Costs associated with moving and reinstalling a fixed asset in a new location or rearrangement of fixed asset components which results in an improved operation should be capitalized.

TRANSFER OF FIXED ASSETS

Transfer of property within the same fund is merely a change in location, department responsibility, etc. The transfer of an asset will not change the depreciation schedule. The fixed asset will be disposed by the originating department and acquired by the new department at its book value. An item will remain on the fixed asset list of the original department until the transfer is fully documented for the new department.

Transfers of property between funds are fully disposed at book value. The new department will receive the fixed asset at current fair market value at the date of transfer. The transfer of a fixed asset will change the depreciation schedule for both departments.

Transfers will be documented and recorded on the respective ledgers of the Transferor and Transferee Departments at the time of transfer. Transferor Department must complete a Fixed Asset Transfer Form to report the transfer to the Department of Finance (see Appendix C). Transferee Department must complete a Fixed Asset Acquisition Form (see Appendix B).

DISPOSAL

Fixed Assets are retired through several means including sale, trade-in, and loss by theft, etc. All disposals by any means must be reported on a Fixed Asset Disposal Form to the Department of Finance (see Appendix C).

Assets disposed of by sale at auction will be itemized in a full report of the auction results and the related fixed assets disposed of in the ledger.

COMPOSITE GROUPING FOR ASSET VALUATION

Fixed assets that are purchased in larger quantities may be grouped as one item if the cost of the individual item is more than $5,000.00.

1.  In order for assets to be grouped when recorded on the fixed asset system they must also meet the following criteria:
   - All items must be exactly the same (Make, Model, Color)
   - All items must have the same cost
   - All items must have been purchased at the same time or within six months of one another.
   - All items must be physically located in the same area
   - All items must be the responsibility of one Department/Division.

2.  Items bought under a composite group purchase will be recorded at the allocated purchase cost for one item.

CONSTRUCTION IN PROGRESS

Construction in Progress (CIP) is used to account for expenditures accumulated at the statement of net assets or balance sheet date relative to the construction of capital assets. Work in Progress (WIP) has a meaning similar to Construction in Progress. Construction in Progress refers to a specific Capital Asset that is a Fixed Asset recorded on the ledger. Work in Progress refers to Capital Projects that are not substantially completed (greater than 70%) and not in use as a fixed asset. Expenditures include construction cost, contractor payments, interest costs (incurred applicable to the period of construction) and other costs required to finish the project.
Construction in Progress is an accounting valuation of assets that are typically supported by capital projects to track and record construction expenses until such time as the asset is substantially completed (greater than 70%) and placed into service. Completed and placed into service refers to the date at which all contingencies and retainages are resolved.

**DEPRECIATION**

Depreciation expense should be measured by allocating the net cost of depreciable assets (historical cost less estimated salvage value) over their estimated useful lives in a systematic and rational manner. It may be calculated for (a) class of assets, (b) a network of assets, (c) a subsystem of a network, or (d) individual assets.

Composite depreciation methods refer to depreciating a grouping of similar assets or dissimilar assets of the same class using the same depreciation rate. Initially, a depreciation rate for the composite is determined. Annually, the determined rate is multiplied by the cost of the grouping of assets to calculate depreciation expense. A composite depreciation rate may also be calculated based on an assessment of the useful lives of the grouping of assets. This assessment could be based on condition assessments or experience with the useful lives of the grouping of assets.

The composite depreciation rate is generally used throughout the life of the grouping of assets. However, it should be recalculated if the composition of the assets or the estimate of average useful lives changes significantly. The average useful lives of assets may change as assets are capitalized or taken out of service.

Depreciation will be calculated in the first year for a half year, in the final year for a half year and all other years will be for one full year. Each Department will be responsible for accurately reporting the date the fixed asset is placed in service. All depreciation is calculated using the straight-line method.

**SALVAGE VALUE**

It is the policy of the City of Painesville to exhaust the usefulness of a fixed asset before its disposition; therefore, salvage value on all assets is considered to be insignificant and is generally not 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.

**TAGGING OF FIXED ASSETS**

All fixed assets will be assigned a unique fixed asset number by the originating department/division that will not change during the time that the asset is the property of that department. After an asset is disposed, the fixed asset number will not be reassigned to a newly acquired asset.

All fixed assets with the exception of the following categories should be physically tagged by the originating department:

- Land
- Land Improvements
- Buildings
- Live Animals
- Vegetation
- Equipment of a sensitive nature, in cases where the tag might impair the functional ability of the asset.
- Works of art
- Any other fixed assets on which it is physically impossible to affix the tag
There may be cases in which a tag cannot be affixed to the fixed asset; however, the fixed asset number can be either marked or imprinted on the asset. This should be done whenever possible.

**PHYSICAL INVENTORY OF FIXED ASSETS**

A periodic physical inventory of fixed assets is necessary for accountability and control. It confirms the reliability (or lack of reliability) that can be placed on the capital asset system by verifying the actual existence of the items represented by the fixed asset ledgers.

A detailed ledger of fixed assets will be maintained by each department and reconciled on a regular basis to the detailed ledgers maintained by the Department of Finance in the capital asset system. If a discrepancy occurs between the departmental ledger and the capital asset system it will be resolved and the proper adjustments will be made to both ledgers to keep them in agreement. The ledgers of the capital asset system will be given to the auditors as the record of fixed assets maintained by the City of Painesville.

**FIXED ASSET SYSTEM CODING**

All fixed assets will be recorded by the Department/Division on a Fixed Asset Acquisition Form (see appendix B) and submitted to the Department of Finance for entry of the fixed asset. Any fixed asset being transferred or disposed of will be recorded on a Fixed Asset Transfer or Disposal form (see appendix C) and submitted to the Department of Finance.

A set of codes must be established to uniquely identify each element in the fixed asset accounting system. This section of the manual has been divided into the following codes.

1. Physical location of the fixed asset
2. Division responsible for the accountability of the fixed asset
3. Fixed asset categories and useful lives
4. Condition of the fixed asset
5. Acquisition code which defines the method of acquisition
6. Value code which defines the method of valuation
7. General Ledger account number for the asset and the related depreciation
8. Source of funding used to acquire the asset

The list of current codes utilized can be obtained from the capital asset system maintained within the Department of Finance and is keep current for all the codes listed above.
**APPENDIX A**

**COMPUTER STANDARDS SHEET**

*Please note all specifications must be followed for new computer requirements*

<table>
<thead>
<tr>
<th>Case Type:</th>
<th>MiniTower</th>
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<tbody>
<tr>
<td>CPU:</td>
<td>Intel P4/1.7GHz or faster</td>
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<tr>
<td>Ram:</td>
<td>256mb</td>
</tr>
<tr>
<td>Keyboard:</td>
<td>Standard</td>
</tr>
<tr>
<td>Mouse:</td>
<td>Standard with mouse pad</td>
</tr>
<tr>
<td>Video:</td>
<td>16mb ATI Rage Ultra, or integrated on Motherboard</td>
</tr>
<tr>
<td>CD-ROM:</td>
<td>48x CD-ROM</td>
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<tr>
<td>Sound:</td>
<td>Integrated Sound</td>
</tr>
<tr>
<td>Network:</td>
<td>Integrated 10/100 Network Connection</td>
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<tr>
<td>Operating System:</td>
<td>Microsoft Windows 2000 or Windows XP Professional</td>
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<tr>
<td>Monitor (if needed):</td>
<td>17&quot; Color Monitor with built in speakers</td>
</tr>
<tr>
<td>Warranty:</td>
<td>3 yrs Next Business Day On-Site Warranty; Parts and Labor</td>
</tr>
<tr>
<td>Surge Protector (if needed):</td>
<td>APC Personal 7 outlet Surge Protector</td>
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*All computer purchases should be approved by CBI Z to ensure connectivity and reliability of system purchased.*

*All requisitions should be signed off by CBI Z.*
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<tr>
<th></th>
<th>Description</th>
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<tr>
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<td>3</td>
<td>P. O. #:</td>
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<td>4</td>
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<td>5</td>
<td>Description:</td>
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<td>Resolution #:</td>
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<td>30</td>
<td>Check Number:</td>
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<td>31</td>
<td>Lessee:</td>
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<tr>
<td>32</td>
<td>Method of Val.:</td>
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Department Head:

Signature of Department Head: ______________________________________
Date: __________
Title: ______________

THIS SECTION FOR THE FINANCE DEPARTMENT USE ONLY

Processed By: ____________________________ Date: __________
Entered By: ____________________________ Date: __________
APPENDIX C

CITY OF PAINESVILLE

FIXED ASSET TRANSFER OR DISPOSAL FORM

I hereby request relief from accountability for the fixed asset described below:

1. Tag #: ____________________________ 2. Serial #: ____________________________
3. Description: ____________________________
6. Reason for Disposition: ____________________________

__________________________________________________________________________

__________________________________________________________________________

__________________________________________________________________________

7. Estimated Value: $ ____________________________

______________________________________________________
Deptmt Head: ____________________________

Signature of Department Head Date Title: ____________________________

Signature of City Manager Date

THIS SECTION FOR THE FINANCE DEPARTMENT USE ONLY

The fixed asset described above has been disposed of in the following manner:

Sold to: ____________________________ Proceeds: $ ____________________________

Traded in for: TAG NUMBER ____________________________ Trade-in Value: $ ____________________________

Destroyed or Scrapped: ____________________________ Date of Transaction: ____________________________

Transferred to: ____________________________ Other: ____________________________

Director of Finance ____________________________ Date: ____________________________