

**Village of Johnsburg**  
**Capital Asset Policy and Procedures**  
**Adopted: February 20, 2018**

**A. Purpose**

The Capital Asset Policy and Procedures provides guidelines to establish and maintain capital asset records that comply with governmental financial reporting standards, provides for adequate stewardship over Village resources, and provides centralized documentation for insurance and asset management purposes.

**B. Definitions**

1. *Accumulated Depreciation* – the total reduction in value over time of an asset since its acquisition, which is recorded for financial statement purposes.

2. *Acquisition Costs* - assets should be recorded and reported at historical costs, which include the vendor's invoice, initial installation cost, modifications, attachments, accessories or apparatus necessary to make the asset usable and render it into service. Historical costs also include ancillary charges such as site preparation costs and professional fees.

3. *Capital Assets* - capital assets are tangible and intangible assets acquired for use in operations that will benefit the Village for more than a single fiscal period.

4. *Construction in Progress* - an asset that is comprised of the substantially incomplete construction costs of, typically, a road, water system or building. Depreciation is not applied to construction in progress.

5. *Depreciation* – a method for allocating the acquisition cost of capital assets over time. Generally Accepted Accounting Principles (GAAP) requires that the value of capital assets must be written off as an expense over the useful life of the asset.

6. *Disposition* - the final status of an asset when it is removed from the capital asset account and is no longer physically located on the Village's property. This can be upon sale, scrap or donation.

7. *General Capital Asset Group* - general fixed assets are those capital assets which are acquired or constructed through governmental fund resources and used to provide general government services. As a result of GASB 34 pronouncement, these assets which meet the minimum capitalization threshold are capitalized and depreciated over the estimated useful lives.

8. *Infrastructure* - infrastructure shall include roads (including curbs and gutters), bridges, water and sewer mains, pumping stations, lift stations, traffic lights, streetlights, etc.

9. *Leased Equipment* - leased equipment should be capitalized if the lease agreement meets any one of the following criteria:

a.) The lease transfers ownership of the property to the Village by the end of the lease.

b.) The lease contains a bargain purchase option.

c.) The lease term is 75 percent or more of the estimated economic life of the leased property.

d.) The present value of the minimum lease payments at the inception of the lease, excluding executor costs, equals at least 90 percent of the fair value of the leased property.

10. *Net Book Value* – the difference between the acquisition cost and accumulate depreciation.

11. *Proprietary Capital Assets* - assets acquired or constructed by proprietary funds (Water and Sewer Fund) and meet the minimum capitalization threshold, are capitalized and depreciated over their estimated useful lives. Depreciation is computed using the straight-line method.

12. *Surplus equipment* – An item or items that are no longer needed or required.

13. *Useful Life* – The period over which a capital asset has utility to the Village in performing the function for which it was purchased.

**C. Capitalization Threshold**

The capitalization threshold or minimum value of an asset at the time of acquisition is established at \$5,000 for all assets. The threshold is applied on an individual basis. All tangible and intangible capital assets that exceed the threshold will be capitalized and depreciated over the asset’s useful life.

**D. Depreciation Method**

All capital assets are depreciated using the straight line method. All assets are depreciated based on the date the asset is placed in service with the exception of infrastructure, which is depreciated with a full year of depreciation in the year the asset is placed in service. If an asset is not fully depreciated upon disposal, the depreciation is calculated to the date of disposal for all assets other than infrastructure, for which no depreciation is recorded in the year of disposal.

**E. Useful Lives**

Useful lives will be reviewed annually by the Finance Department. The Village depreciates over the following useful lives:

	<u>Assets Years</u>
Land Improvements	15 – 20
Furniture, Fixtures & Equipment	5 – 10
Buildings, Wells and Improvements	20 – 50
System and Roadways Infrastructure	20 – 50
Roads, Bridges & Other Equipment	20 – 50

**F. Intangibles**

The Village is in possession of assets that may be considered intangibles assets, including computer software. The Village will account for intangibles in accordance with GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. Computer software will be capitalized if the acquisition cost meets the capitalization threshold.

**G. Improvement, Repair and Maintenance Expenses**

Routine repair and maintenance costs will be expensed as incurred and will not be capitalized.

Street regrinding, patching, etc. is considered maintenance and will not be capitalized.

Repairs of water and sewer assets will not be capitalized unless the repairs materially extend the life of the original asset.

## **H. Department Responsibilities**

Departments are responsible for protecting and controlling the use of Village assets assigned to their department. The department will be responsible for completing an Asset Control Sheet upon acquisition, disposition or transfer of an asset. All Asset Control Sheets must be submitted to the Finance Department with supporting documentation.

## **I. Capital Asset Additions**

The Village may acquire assets through purchase, lease or donation. When an asset is purchased or leased, the department will forward a copy of the invoice to the Finance Department for payment. The Finance Department will identify assets that meet the capitalization requirements. The Finance Department will assign a unique inventory control number to the asset, assign an inventory ID tag (if applicable) and start an Asset Control Sheet which will be forwarded along with the inventory tag to the responsible department for completion. The Department is responsible for completing the Asset Control Sheet and returning to the Finance Department. The Finance Department will then enter the information into the capital asset tracking system. Individual assets as well as infrastructure are included as entries in the capital asset tracking system.

The Village may also acquire assets through donations (e.g., developer conveyance).

Prior to acceptance, the Village must obtain documentation of the value of the asset being donated.

When a donation is accepted through the Village ordinance or resolution process, the Finance Department will obtain the supporting documentation and enter the information into the capital asset tracking system.

Inventory tags are to be used when feasible. The tags should be placed on the principal body of the asset and removed only when the item is sold, scrapped, or otherwise disposed of.

## **J. Sales and/or Retirements of Assets**

Disposal, sale or retirement of an asset may only occur after the asset is declared surplus and approved by the Village Board. When a capital asset is disposed of, its cost and accumulated depreciation are removed from the Village's books and a gain or loss, if any, is recognized.

The department head will document the disposal on the Asset Control Sheet and forward to the Finance Department. The Finance Department will remove the item from the capital asset tracking system and record the disposal in the general ledger.

## **K. Physical Inventory**

The Village and each department will conduct a physical inventory at least once per year. The Finance Department will provide each department with an inventory worksheet identifying all capital assets under their control. Each department will be responsible for completing the physical inventory of the items, verifying the existence and condition of each item on the worksheet, and making note of any additions, deletions, or leases of property that are not reflected on the list. The

final list will be reviewed by the department head, who will sign as acknowledgement of their approval and then returned to the Finance Department.

The inventory should be performed by a team including at least one representative from the department and one individual from an independent department not responsible for the safeguarding of assets.

The Finance Department will perform a sample verification of the physical inventory items and reconcile the listings to the capital asset tracking system.

#### **L. Small Inventory Asset Procedures**

Assets that do not meet the capitalization requirements, but qualify as a small asset for inventory tracking, shall be expensed when purchased. Small assets include all computer equipment, office equipment, and any other department specific items that are designated as small asset items by the Department Head. These items will be maintained in the capital asset tracking system for inventory tracking purposes only. The item will be noted on a Small Inventory Asset Control Sheet for processing. The department heads will be responsible for completing a Small Inventory Asset Control Sheet and submitting this to the Finance Department along with the invoice for payment. The Finance Department will enter the information into the capital asset tracking system, but designate the item as a non-capital asset inventory item. The departments will maintain control over their small inventory asset listing.

#### **M. Year End Accounting**

At year-end the Finance Department will generate the following reports from the capital asset tracking system:

1. Property Accounting Summary – this report summarizes the original cost, accumulated depreciation and book value in a summarized format. Separate reports are generated for the governmental funds and proprietary funds.
2. Net Changes Summary – this report summarizes the additions and disposals in a summarized format.
3. Depreciation Detail – this report includes the beginning accumulated depreciation, current year depreciation and ending accumulated depreciation in detail.

The Finance Department will prepare the necessary journal entries to record changes in capital assets and depreciation. In addition, the Finance Department will prepare all journal entries necessary to present the general fixed asset account group in the government-wide financial statements, in accordance with GASB Statement No. 34.