VILLAGE OF WINFIELD

FIXED ASSET POLICY AND PROCEDURES

August 20, 2020

A. Purpose

The purpose of this policy is to provide guidelines for maintaining capital asset records that comply with governmental financial reporting standards, provide for adequate stewardship over Village resources, and provide centralized documentation for insurance and asset management purposes. Maintaining a complete and accurate accounting for capital assets is essential for effective property management and control, and is of the utmost importance to sound financial administration.

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, and 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. *Capital Improvement Plan (CIP)* – a plan that describes the capital projects and associated funding sources the Village intends to undertake in the current year plus four additional future years, including the acquisition or construction of capital facilities and assets, and the maintenance thereof.

5. *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.

6. *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.

7. *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.

8. *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.

9. *Infrastructure* - infrastructure shall include roads (including curbs and gutters), bridges, water and sewer mains, pumping stations, lift stations, streetlights, stormwater, right of ways, easements, commuter parking lots, etc.

10. *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.

11. *Net Book Value* – the difference between the acquisition cost and accumulated depreciation.

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

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

14. *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 of an asset at the time of acquisition is established at $10,000 and 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. All items with an original value less than the threshold will be recorded as an operating expenditure.

D. Depreciation Method

All capital assets are depreciated using the straight line method. A full year of depreciation will be recognized in the year of acquisition and no depreciation expense will be recorded in the year of disposal. Land, permanent easements, and construction in progress will not be depreciated.

E. Useful Lives

The Village depreciates capital assets over the following useful lives:

Asset Category	Years
Buildings	50
Improvements	5-50
Infrastructure - Bridges	20-50
Infrastructure - Roads	20-50
Infrastructure – Water & Sewer	50-100
Infrastructure – Commuter Parking Lots	20-50
Vehicles and Equipment	5-15

F. Intangibles

The Village is in possession of assets that may be considered intangibles assets, including computer software and easements. 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. Easements will be accounted for as follows:

1. A temporary easement will not be recognized as a capital asset.

2. A permanent easement will be recognized as a capital asset subject to all the following conditions:

   a. The easement is evidenced by a final plat of subdivision and acceptance of related improvements, if appropriate. Any final plat of subdivision should include the total acreage of easements accepted by the Village**.**

   b. A permanent easement will be valued at 10% of the current land-cash fee rate for improved land of equivalent acreage.

   c. A permanent easement will be capitalized if it has a value of $10,000 or more. Easements will be aggregated within a general area (e.g., a subdivision) for the purposes of determining whether the $10,000 threshold is met.

   d. A permanent easement associated with a proprietary fund activity will be recorded in the appropriate proprietary fund. Other permanent easements will be recorded in the general fixed asset account group for inclusion in the Village's government-wide financial statements.

   e. The value of a permanent easement will not be amortized.

G. Improvement, Repair and Maintenance Expenses

Routine repair and maintenance costs will be expensed as incurred and will not be capitalized. Street patching, crack sealing, street resurfacing, and parking lot repairs only (type 1) involving hot asphalt mix of two inches or less are considered maintenance and will be not 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. Each Department assigns asset identification numbers to each asset and maintains a complete listing of assets in their department. Department Heads will also be responsible for submitting requests for the capital improvement plan and evaluating overall asset needs as part of the annual budget process.

I. Capital Improvement Plan (CIP)

The purpose of the Capital Improvement Plan is to identify, plan, schedule, finance, track and monitor capital projects to ensure cost-effectiveness as well as conformance to established policies. The Budget Officer (Village Manager), working with the Department Heads, will submit a five-year CIP as part of the annual budget process. The CIP shall provide the following:

1. A statement of objectives of the CIP and the relationship to the Village funds.
2. An estimate of each project's cost, anticipated sources of revenue for financing the project, and an estimate of the impact of each project on Village revenues and operating budgets.
3. Projects should not be considered in isolation. One project's impact on others should be recognized and costs shared between projects where appropriate.
4. A schedule of proposed debt requirements, if applicable.
5. The first year of the adopted capital plan will be the capital budget for that fiscal year.
6. The CIP will be updated annually in conjunction with the annual budget process.

The Village will monitor projects to ensure their timely completion or the adjustment of the CIP as approved by the Village Board if a project is delayed or deferred. Status of significant projects will be presented as part of the quarterly financial update.

The performance and continued use of capital infrastructure is essential to delivering public services. Deferring essential maintenance or asset replacement can negatively impact service delivery and increase long term costs. As such, the Village will assess the condition of assets and infrastructure and appropriately include required maintenance and asset replacement in the CIP.

The Village's objective is to incorporate "Pay-As-You-Go" funding in the CIP to the extent possible. This will supplement funding from other sources such as grants, impact fees, intergovernmental agreements, and bonds. Where there is a need to finance with bonds or lease financing, this revenue sources will be used for those projects with longer lives, thereby promoting intergenerational equity.

J. 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 obtain the asset identification number and update the financial records accordingly.

The Village may also acquire assets through donations. 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 update the financial records.

K. Disposal 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 finance department will remove the item from the capital asset supporting schedules and record the disposal in the general ledger.

L. Physical Inventory

The Village will conduct a physical inventory at least once every 5 years. 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.

M. Year End Accounting

At year-end, 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.