

Village of Deer Park
Capital Asset Policy and Procedures

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, e.g. engineering and architecture 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, demolition 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, gutters and storm sewers), bridges, water and sewer mains, pumping stations, lift stations, traffic lights, streetlights, storm water, right of ways, easement, etc.

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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 accumulated depreciation.
11. *Proprietary Capital Assets* – assets acquired or constructed by proprietary funds (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 assets 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 \$50,000 for infrastructure and easements and \$10,000 for all other 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 place in service. If an asset is not fully depreciated upon disposal, the depreciation is calculated to the date of disposal for assets other than infrastructure, for which no depreciation is recorded in the year of disposal.

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E. Useful Lives

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

<u>Assets</u>	<u>Years</u>
Building and improvements	50
Water, sewer & storm water infrastructure	65
Bridges	50
Other infrastructure, e.g. streets)	10-20
Land improvements	20
Machinery and equipment	5-30
Computer software	5-20
Water & sewer systems	20-50

F. Intangibles

The Village is in possession of assets that may be considered intangible 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 license or temporary easement will not be recognized as a capital asset.

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. Capital Asset Additions

The Village may acquire assets through purchase, lease or donation. When an asset is purchased, the Treasurer will obtain the invoice and identify assets that meet the capitalization requirements.

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.

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I. 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.

J. Year End Accounting

At year-end the Treasurer will generate the following reports:

1. *Capital Asset Schedule* – this report lists the original cost, book value, additions and disposals, current year depreciation and ending accumulated depreciation. This report contains data for Land, Buildings, land Improvements, Machinery & Equipment and Intangibles.
2. *Infrastructure Inventory and Property Record* – this report list the original cost, book value, additions and disposals, current year depreciation and ending accumulated depreciation. This report contains date for Infrastructure, Storm Drainage, Roads and Water Control

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