



Mayor & Village Board Standard Operating Procedure – No. 005

Date Adopted: December 27, 2011
Date(s) Revised: January 8, 2013

Mayor and Village Board Standard Operating Procedure No. 005, having been first adopted by the Mayor and Village Board on December 27, 2011, shall:

1. Be updated on at least an annual basis;
2. Be administered by the Mayor and Village Manager; and
3. Be a procedure for a Fixed Asset Policy.

Signed: _____

Date: January 29, 2015

PROCEDURE FOR FIXED ASSET POLICY.

It is understood that the following shall be the procedure for a fixed asset policy.

This Fixed Asset Policy is established to safeguard the Village of Homer Glen's assets and has been developed to meet the requirements set forth in the Governmental Accounting Standards Board (GASB) Statement No. 34. Effective April 30, 2005, GASB No. 34 required changes in the financial reporting of capital assets. GASB changes include the elimination of the General Fixed Asset Account Group (GFAAG), the reflection of capital assets in the governmental-wide financial statements, along with the inclusion of infrastructure. The Village of Homer Glen elected early implementation of GASB 34 with the first audited financial statements for the period ending April 20, 2002.

SAFEGUARDING OF VILLAGE ASSETS

The responsibility for control of the fixed assets will reside with the Department Head in the department where the fixed asset is located. The Finance Director shall ensure control is maintained by establishing a fixed asset inventory. This inventory shall include the following for each asset:

- Asset description
- Asset serial number/model number

SAFEGUARDING OF VILLAGE ASSETS - CONTINUED

- Asset type (i.e. Building, Machinery and Equipment)
- Acquisition date
- Vendor name
- Cost and purchase order number (if applicable)
- Assigned location
- Estimated useful life
- Assigned department
- Account number

This list will be maintained, updated and reviewed by the Finance Director on a regular basis. Village Departments are to report any acquisition, disposal, and transfer of fixed assets to the Finance Director, or designee, to reflect changes in a timely fashion in the inventory records. Asset purchases, which fall under the capitalization threshold, will be included in the inventory if the item is over \$10,000.00. Items under the capitalization threshold will not be included in the inventory, based upon the management decision that the costs associated with the tracking of these assets outweighs the benefits derived from that tracking. However, the cost of the asset will be expensed and not capitalized, and therefore, not depreciated.

CAPITALIZATION

Capital fixed assets are to be reported at historical cost, and are to include all incidental costs to the acquisition (i.e. freight, Legal fees, etc) and preparation (i.e. installation) for use of the asset. When the historical cost information is unavailable, the replacement value indexed back to the acquisition year, or a realistic estimate, will be used. Donated assets will be recorded at fair market value as of the donation date. Additions or improvements will only be capitalized if the addition or improvement extends the life of the asset and increases its service potential. The costs of normal maintenance to infrastructure will not be capitalized, but expensed. As an example, building a new road would constitute an addition. The cost of land is recorded as a fixed asset, but is not depreciable. The asset category for land will also include retention/detention ponds, right of ways, as well as the land under the streets. The price of these will be determined based upon actual cost, if that information can be obtained, otherwise, it will be determined based upon a realistic cost estimate.

Capital asset depreciation is to be computed on a straight-line basis over the assets estimated useful life, with no salvage value allowance. Depreciation expense is to be recorded based upon the date of acquisition. Should a capital fixed asset be retired prior to the end of the estimated useful life of that asset, the remaining cost of the asset shall be expensed in the period of retirement. If an asset continues to be used in operations after the expiration of the estimated useful life of that asset, no more depreciation expense will be recorded on that asset.

DEFINITIONS

Supplies – Items that have a useful life of two years or less, which need to be replenished periodically and which have a value of less than \$10,000.00 per unit. Supplies are not on the inventory listing and are to be expensed in the fiscal year of purchase. Internal controls should be established for supplies in each department to protect the Village from losses due to theft or misuse.

DEFINITIONS - CONTINUED

Fixed Assets – Fixed assets shall include: land, land improvements, easements, buildings, building improvements, vehicles, machinery and equipment, furniture and fixtures, works of art and historical treasures, infrastructure and all other tangible assets that have a useful life of more than two years and that have a value of \$10,000.00 or more per unit. This group is distinguished from *Supplies* by the longevity of usefulness and a monetary value.

Infrastructure – Long-lived capital assets that normally are stationary in nature and can normally be preserved for a significantly greater number of years than most capital assets. Examples of infrastructure include, but are not limited to, roads, bridges, tunnels, drainage systems and lighting systems.

Capital Fixed Assets – Fixed assets that are reported on the financial balance sheet. All capital assets are fixed assets, but not all fixed assets are capital assets. A monetary criterion and capitalization threshold is used to determine whether a given fixed asset should be capitalized and reported on the balance sheet. Ancillary costs should be included in the cost of the capital fixed asset.

Ancillary costs – costs relating to placing the capital fixed asset into service.

- Land – Legal and title fees; professional fees for engineers, attorneys, appraisers financial advisors; surveying fees; appraisal and negotiation fees; damage payments; site preparation costs; and costs related to demolition of unwanted structures.
- Infrastructure – Professional fees of engineers, attorneys, appraisers, financial advisors, etc.; surveying fees; appraisal and negotiation fees; damage payments; site preparation costs; and costs related to demolition of unwanted structures.
- Buildings and Improvements - Professional fees of engineers, attorneys, appraisers, financial advisors, etc.; damage payments; costs of fixtures permanently attached to a building or structure; insurance premiums, interest and related costs incurred during construction; and any other costs necessary to place the building or structure into its intended location.
- Other Capital Fixed Assets – installation costs; extended maintenance/warranty contracts at time of purchase; any other normal or necessary costs required to place the asset in its intended location and condition for use.

Controlled Fixed Asset – Fixed assets that have a value of \$10,000.00 or more per individual unit, but are under the capitalization threshold. Controlled fixed assets will be included on the fixed asset inventory listing, but will not be capitalized nor included on the balance sheet. They will be expensed in the fiscal year in which they have been placed into service.

Capitalization Threshold – The monetary criterion that determines whether a fixed asset should be capitalized and reported on the balance sheet and depreciation expense calculated and recorded in the schedule of expenses in the Village's Comprehensive Annual Financial Report.

Depreciation expense – The process of expensing the purchase price of a capital fixed asset over the useful life of the asset.

DEFINITIONS – CONTINUED

Straight-line Depreciation Method – This method assumes an asset provides a constant benefit. If an asset has a useful life of ten years, then each year 1/10th of that asset's depreciable value expensed based on the month it went into service.

Additions – Any acquisition over \$10,000.00 will be included in the fixed asset inventory listing. Any fixed assets above the capitalization threshold will be added as capital fixed assets and will be depreciated. Additions shall be substantiated by a purchase order and paid invoice.

Deletions – The responsibility for reporting the disposal or sale of assets rests with the Village department that controls the asset. The department should contact the Finance Director to coordinate the disposal of the fixed assets. **Fixed assets can only be sold, donated, transferred to an outside agency, or otherwise disposed, by Village Board authorization.** Any fixed asset that is disposed should be deleted from the fixed asset database.

Transfers – The department that is initiating the transfer shall notify the Finance Director of any assets transferred from one department to another.

Maintenance and Repair – The costs associated with general maintenance and repair that do not add value to an asset or materially extend the assets useful life are expensed in the period incurred, and are not capitalized. Major repairs and/or rehabilitation, which materially extend the useful life of an asset, are capitalized and depreciated over the remaining life of the related asset.