



**Accounting, Auditing and Financial Reporting
Capitalization of Fixed Assets**

Policy 8.1.0

(Replaces Policy 8.1.0, 9.1.0 and Practice 2.9.0)

Policy. Capital assets include land, improvements to land, water rights, easements, buildings, building improvements, vehicles, machinery, equipment, right to use, infrastructure, construction in process (CIP), and all other tangible or intangible assets that are used in District operations that have initial useful lives of three years or more and meet defined capitalization thresholds.

1.0 Classification of Capital Assets. The District classifies capital assets in the following groups for financial reporting:

- Land
- Buildings and structures
- Venue Improvements
- Service Infrastructure
- Equipment and Vehicles
- Right to Use
- Construction in progress

2.0 Capitalization Thresholds. The District's capitalization threshold shall be as follows:

<u>ASSET CLASS</u>	<u>CAPITALIZATION THRESHOLD</u>
Land.....	All
Right to Use.....	All
Building and Structures	\$25,000
Venue Improvements	\$10,000
Service Infrastructure.....	\$ 25,000
Equipment and Vehicles.....	\$ 10,000

2.1 Capitalization thresholds are typically to be applied to individual items. Thresholds may be applied to a network or group of items when:

- 1) Similar types of assets are grouped together as a class (example: golf carts when they are components of a fleet; banquet facility furnishing)
- 2) The items represent components of a system or network



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(components of a computer/telephone network; snow-making system)

In cases where any asset is established to be a group of items, rather than being capitalized individually, the District will document justification to support the grouping of the assets.

3.0 Cost Basis. Capital assets purchased by the District are recorded at cost, and shall include purchase price, constructions cost, value of donated goods and/or services, and ancillary charges.

3.1 Ancillary charges mean incidental costs necessary to place a capital asset into its intended location, condition, or use. Examples include title fees, attorney or architect fees, freight charges, taxes, and site preparation costs. Ancillary charges are capitalized in addition to the purchase price and/or construction cost of capital assets.

3.2 Capital assets donated to the District are recorded at fair value on the date accepted.

4.0 Useful Life of Capital Assets. Assets should only be capitalized if they have an estimated useful life of three years or more.

4.1 Capital assets are depreciated using the straight-line method over the following estimated useful life:

<u>Asset Class</u>	<u>Years</u>
Building and Structures	10-40
Venue Improvements	10-25
Service Infrastructure	5-40
Equipment and Vehicles	3-20

Note: The Accounting Division will maintain Schedule of Useful Life for specific assets.



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5.0 Criteria for Capitalization of Fixed Assets

- 5.1. Capital projects will be capitalized if they meet one of the following criteria:
- 1) The project is creating a new asset for the District
 - 2) The project extends the useful life of an asset beyond what was originally established as the estimated useful life for that asset, and/or
 - 3) Significantly increases the service capacity of the asset
- 5.2 Right to Use assets represent leased equipment and will be capitalized using the current value of all future lease payments per GASB 87. If the lease does not have a stated interest rate to determine current value with, an imputed rate will be determined by other similar leases.
- 5.3 Expenditures that simply maintain a given level of service or repair an item to its intended function should be expensed.
- 5.4 Three major categories of costs subsequent to original construction or acquisition are incurred relative to capital assets:
- 1) Capital Improvements - an improvement is the substitution of a better component for which possesses superior performance capabilities, whereas a replacement is the substitution of a similar component.
 - 2) Capital Replacement - a replacement, which is a substitution of a component of the asset with one of similar quality is to be expensed. On rare occasions, a replacement can be considered improvements and be capitalized if it meets criteria for capitalization (5.1).
 - 3) Capital Maintenance - activities budgeted as capital projects will be expensed as repair and maintenance expenses if they meet one of the following criteria:



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- a. The activity is performed on a regular and recurring basis to keep the District's assets in their normal operating condition over the course of the originally established useful life.
- b. The project represents a repair activity that restores an asset to its original function.

6.0 Capital Project Phases. Major capital projects, as defined in Board Policy 12.1.0, will be managed through defined project phases. These may include:

- Feasibility
- Planning
- Design
- Construction

6.1. Costs incurred in pre-planning phases, including Master Plans and Project Feasibility Studies, which explore potential capital projects are to be expensed. Once a master-planning or feasibility study results in a defined project, with a specific scope and cost estimate, and the Board determines that a funding plan is to be developed for inclusion in the District's Capital Improvement Budget, costs associated with advancing the capital project are to be capitalized.

6.2 To facilitate the tracking of capital project costs to be expensed versus capitalized, the District will establish separate capital project codes to distinguish between phases where costs will be expensed and those capital project phases where costs are to be capitalized.

6.3 Capital project costs to be capitalized will be reported as Construction-In-Progress until the capital project is completed and the capital asset is placed into service.



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7.0 Responsibility and Roles

- 7.1 The Board of Trustees approves District policy governing capital classes, thresholds, and useful lives.
- 7.2 The Senior Accountant will capitalize assets, process monthly depreciation, and perform year-end reconciliation of capital assets.
- 7.3 The Controller is responsible for approving items to be capitalized, modified, or disposed.

Note: The disposal of capital assets are to be accounted for consistent with the procedures detailed in the District's Policy and Procedures Manual for Accounting and Financial Control (Section IX.5.0)

Incline Village General Improvement District Capital Asset Policy and Procedures Manual

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Introduction

Why Maintain Capital Asset Records?

There are numerous reasons for maintaining capital assets records. The following are a few that apply to IVGID directly:

There is a very definite possibility that the financial statements can be either overstated or understated without proper capital asset inventories.

Improper capital asset records can lead to qualified Auditor's Reports which can play a significant role in getting bond issues placed.

The ability to take a physical inventory is greatly compromised if capital assets are not maintained on a regular basis.

Without fixed asset records, planning and scheduling of preventive maintenance and capital asset replacement is difficult.

Accurate capital asset listing and valuation is necessary to determine the appropriate amount of property insurance coverage.

With an accurate and current capital asset inventory, you can prevent unnecessary purchases that create duplications.

A proper capital asset listing will prevent grant violations and unwanted audit exceptions.

Without adequate capital asset records and resultant controls of assets, surplus property will not be disposed of promptly or sold for an appropriate price.

Last, but not least, is public scrutiny. A well-maintained capital asset inventory system demonstrates to the public the expenditures of tax dollars are being wisely spent.

Policy

It is IVGID's policy to safeguard, control, and account for all the capital assets for which we are responsible.

I. Capital Assets Defined:

Capital assets include land, improvements to land, water rights, easements, buildings, building improvements, vehicles, machinery, equipment, right to use, infrastructure, construction in process (CIP), and other tangible or intangible assets that are used in District operations that have initial useful lives of five years or more and meet defined capitalization thresholds.

For example:

1. A single tangible item valued at \$10,000 or more and having an estimated service life of more than five years is classified as a capital asset and expenditures for these items are generally charged to capital outlay accounts. In general, the \$10,000 limitation applies to a single item purchased, therefore, 10 chairs with a cost of \$1,000.00 each would not be classified as a capital asset. However, new guidance requires capitalization when the collective acquisition cost is significant in the aggregate. So, using the above example, if 1,000 chairs were purchased at \$500 each, the collective cost could be considered significant, and the purchase should be capitalized. The service life of more than five years would still be applicable to purchases that are considered significant.

Capital assets actual cost is recorded as an expenditure at the time of purchase in the Departments budget and (except for Business Type Assets) the underlying asset is recorded in the Government-type Asset Group. The Capital Asset Inventory may also include items of lesser value which are subject to pilferage.

Capitalization Thresholds. The District's capitalization threshold shall be as follows:

<u>ASSET CLASS</u>	<u>CAPITALIZATION THRESHOLD</u>
Land	All
Right to Use	All
Building and Structures.....	\$ 25,000

Venue Improvements	\$ 10,000
Service Infrastructure	\$ 25,000
Equipment and Vehicles	\$ 10,000

Capitalization thresholds are typically to be applied to individual items.

Thresholds may be applied to a network or group of items when:

- 1) Similar types of assets are grouped together as a class (example: golf carts when they are components of a fleet; banquet facility furnishing)
- 2) The items represent components of a system or network (components of a computer/ telephone network; snow-making system)

In cases where any asset is established to be a group of items, rather than being capitalized individually, the District will document justification to support the grouping of the assets.

A. Capital Assets-Government and Business Type

1. Capital Assets may be acquired by outright purchase, construction, lease purchase agreement, installment purchase contract, eminent domain, tax or special assessment foreclosure, or gift. Capital assets purchased by the District are recorded at cost and shall include purchase price, constructions cost, value of donated goods and/or services, and ancillary charges. Ancillary charges mean incidental costs necessary to place a capital asset into its intended location, condition, or use. Examples include title fees,

attorney or architect fees, freight charges, taxes, and site preparation costs. Ancillary charges are capitalized in addition to the purchase price and/or construction cost of capital assets.

2. Donated capital assets are recorded at their estimated fair market value on the date donated.
3. Leased Machinery and equipment are capitalized when any of the following criteria is satisfied:
 - a. The lease transfers ownership of the property to the lessee by the end of the lease term.
 - b. When the value of the lease agreement exceeds 75% of the Market Value of the underlying asset the item is deemed a Capital Lease.
 - c. The lease term contains a bargain purchase option. (For example: IVGID has the option to purchase the item for \$1.00 at the end of the lease.
These are known as capital leases. Leases which are merely rentals (operating leases) are not charged to capital outlay. Department Heads should work with Purchasing as they are not allowed to bind IVGID to a financial agreement. Once lease is obtained a copy of such lease agreements should be provided to the Finance Department. (Examples include capital leases on copiers which should also include Information Technology department involvement.)
4. Public domain (infrastructure) Business Type Assets, consisting of sewer lines, water lines, submerged pumps, and down hole pumps and motors are not visible capital assets, but are capitalized.
5. Business Type assets are recorded at cost in the capital asset accounts of that fund.

B. Work in Progress

Work in progress is a capital asset classification used to account for capital outlay expenditures accumulated during a construction or implementation period, and capitalized once the asset is placed in service. Asset is considered "placed in service" when the asset is for all intents and purposes, in use by the public or employees of IVGID.

II. Depreciation:

A. Governmental-Type Assets:

Depreciation of capital assets is calculated over the estimated service life and accounted for in the Government Wide Governmental Activities of the ACFR.

Useful Life of Capital Assets. Assets should only be capitalized if they have an estimated useful life of five years of more.

Capital assets are depreciated using the straight-line method over the following estimated useful life:

<u>Asset Class</u>	<u>Years</u>
Building and Structures	10-40
Venue Improvements	10-25
Service Infrastructure	5-40
Equipment and Vehicles	3-20

Note: The Accounting Division will maintain Schedule of Useful Life for specific assets.

B. Business Type Assets:

Depreciation of capital assets is calculated over the estimated service life and accounted for in each Business Type Fund of the ACFR.

C. Convention for applying depreciation in the year of acquisition and the year of disposal:

a. Depreciation -will be expensed from the date of acquisition or when an item is considered "in use". For capital projects budgeted \$1,000,000.00 or more, an assessment of work in progress should be done in order to make sure that substantially complete components of a project get capitalized in the period they are put into use.

b. In the year of disposal, depreciation will be prorated according to the disposal date.

III. Determination of Capitalization of Fixed Assets

- A. Capital projects will be capitalized if they meet one of the following criteria:
- o The project is creating a new asset for the District
 - o The project extends the useful life of an asset beyond what was originally established as the estimated useful life for that asset, and/or
 - o Significantly increases the service capacity of the asset
- B. Right to Use assets represent leased equipment and will be capitalized using the current value of all future lease payments per GASB 87. If the lease does not have a stated interest rate to determine current value with, an imputed rate will be determined by other similar leases.
- C. Expenditures that simply maintain a given level of service or repair an item to its intended function will be expensed.
- D. Three major categories of costs subsequent to original construction or acquisition are incurred relative to capital assets:
- Capital Improvements - an improvement is the substitution of a better component for which possesses superior performance capabilities, whereas a replacement is the substitution of a similar component.
 - Capital Replacement - a replacement, which is a substitution of a component of the asset with one of similar quality is to be expensed. On rare occasions, a replacement can be considered improvements and be capitalized if it meets criteria for capitalization (A).
 - Capital Maintenance - activities budgeted as capital projects will be expensed as repair and maintenance expenses if they meet one of the following criteria:
 - o The activity is performed on a regular and recurring basis to keep the District's assets in their normal operating condition over the course of the originally established useful life.
 - o The project represents a repair activity that restores an asset to its intended function.

IV. Determination of Capitalization Cost:

In addition to the actual cost to acquire a capital asset, ancillary cost associated with preparing the property for its intended use will be capitalized. The following ancillary costs are included in determining the capitalization cost of the asset:

1. Land
 - a) Title search costs
 - b) Attorney's fees
 - c) Liens assumed
 - d) Taxes assumed
 - e) Grading costs
 - f) Land Improvements with an indefinite life

2. Buildings
 - a) Attorney's fees
 - b) Architect's fees
 - c) Inspection and building permits

3. Machinery and Equipment
 - a) Freight and shipping cost
 - b) Outside installation cost

The following costs are not included as part of the capitalized cost of the asset:

1. In-house labor
2. Training expenditures
3. Service or maintenance contracts
4. Replacement parts

With regard to building improvements (see differentiation between building improvements and building repair and maintenance below), if the project totals \$5,000.00 or more whether it is from one or more vendors, the improvement is charged to capital outlay. When more than one vendor is involved, the department will request a project number and that number will be on each purchase order or claim/invoice by the Department in which the document originated.

V. Building Repair and Maintenance vs. C/O: Building Improvement Expenditures:

Capital expenditures for building improvements meet the following two criteria:

1. A minimum total project cost of \$5,000.00, and
2. Either a building addition or a major remodeling to an existing asset where the service life of that asset is extended or its value is enhanced.

Expenditures for any alterations to buildings such as heating, air conditioning, partitions, etc. are to be capitalized as Building Improvements and accounted for separately from the equipment account. All buildings repairs (not improvements), both routine and major, will be charged to the services and supplies account.

VI. Capital Project Phases:

Major capital projects, will be managed through defined project phases. These may include:

- Feasibility
- Planning
- Design
- Construction
 1. Costs incurred in pre-planning phases, including Master Plans and Project Feasibility Studies, which explore potential capital projects are to be expensed. Once a master-planning or feasibility study results in a defined project, with a specific scope and cost estimate, and the Board determines that a funding plan is to be developed for inclusion in the District's Capital Improvement Budget, costs associated with advancing the capital project are to be capitalized.
 2. To facilitate the tracking of capital project costs to be expensed versus capitalized, the District will establish separate capital project codes to distinguish between phases where costs will be expensed and those capital project phases where costs are to be capitalized.
 3. Capital project costs to be capitalized will be reported as Construction-In-Progress until the capital project is completed and the capital asset is placed into service.

VII. Responsibility and Roles

1. The Board of Trustees approves District policy governing capital classes, thresholds, and useful lives.
2. The Senior Accountant will capitalize assets, process monthly depreciation, and perform year-end reconciliation of capital assets.

3. The Controller is responsible for approving items to be capitalized, modified, or disposed.

VIII. Finance Department Responsibilities:

A. New Acquisitions:

1. Adding new acquisitions to the Capital Asset Inventory Listing
2. Assigning either a IVGID Capital Asset Tag for all new acquisitions except computer hardware/software
3. Issuing IVGID Capital Asset Tags to the acquiring Departments on a timely basis

B. Inputting changes (additions, transfers, deletions) to the Capital Asset Inventory Control System including those for computer hardware/software

C. Capital Assets Listing

4. Providing updated Capital Assets Listings to each Department on an annual basis or upon request.
5. Providing, upon request, special capital Asset Inventory Listings which are sequenced in a variety of formats

D. Periodic Audits

Capital Assets are subject to periodic audits by the following:

1. The Finance Department
2. Independent Auditors

IX. Department Responsibilities:

Monitoring and maintaining control over all Capital assets assigned (according to the Capital Asset Inventory Listing) to its location.

1. Each Department Head is responsible for the capital asset assigned to his/her location (see attached Location List)
 - a) Capital Assets will be safely housed (when possible) and secured.
 - b) Capital Assets will be adequately maintained and used in a manner which will maximize its service life.
2. The Department Head will be required to sign-off on his/her annual departmental physical capital Asset Inventory.
3. When a capital asset status change (i.e. transfer to another location, transfers from Surplus, abandonment, loss, trade-in, theft, etc.) occurs, the Department Head is responsible for reporting this change on the Fixed Asset Inventory Status Change Form (FAISC) and submitting it to the Finance Department. All changes must be adequately explained on the FAISC Form.
4. All proposed deletions of Capital Assets will be put before the Board of Trustees on an annual basis for the final authorization to remove the Capital Assets from the Capital Asset Inventory Listing.
5. If there is an error in the Capital Asset Inventory Listing, Finance will be notified by short memo immediately.

Designating a Capital Asset Inventory Coordinator

1. The Department head will designate a staff member to be a Capital Asset Inventory coordinator to be responsible for maintaining and updating all Capital Asset records for the Department including the preparation of the Capital Asset Inventory Status Change Form.

- A. Reporting all changes on a timely basis to ensure Capital Asset Control System Data is current.

- B. Maintaining Supplementary Records
 - 1. The Inventory Coordinator in each Department will maintain sufficient supplementary records to precisely locate every item on the Fixed Asset Inventory Listing. He/she will monitor departmental FAISC to ensure that the required corrective action has been accomplished by Finance.

- C. Taking Physical Capital Assets Inventory on an Annual Basis

- D. Notifying the Finance Department of all capital asset donations and providing asset description and cost information
 - 1. FAISC Forms must specify in the “Comments Section”, that such assets are donated.

X. Instructions for Fixed Asset Inventory Status Change Forms:

A. Uses – Transaction Types

1. Departments

- a. Donated Capital Assets
- b. Transfers to another Department
- c. Transfers to or from Surplus
- d. Dispositions

2. Finance

- a. New Acquisitions

B. Preparation- fill in only the items specified for each transaction type:

- 1. Donated Capital Assets
 - a. Transaction Code – use “1”

- b. Location (To) – use your Department location Number (see Location Listing)
 - c. Capital Asset Description and Serial number (see “XV” below)
 - d. Date acquired
 - e. Cost – actual cost or estimated fair market value. Please provide all supporting documentation to Finance.
2. Transfer to Another Location (Department)
- a. Transaction Code – use “2”
 - b. Location (From) – use your Department location number (see listing)
 - c. Location (To) – use location number of the Department for which you are transferring the Capital Asset
 - d. Capital Asset Description – (optional) a brief description here may be used as a check against a Capital Asset number typed in error.
3. Transfer from Surplus
- a. Transaction Code – use “3”
 - b. Asset Number- if tag is missing, please provide a detailed asset description
 - c. Location (From) – use “90” for Surplus
 - d. Location (To) – use your Department location number (see Listing)
4. Disposition – also see “XV” below
All dispositions of Capital Assets must be coordinated with the Finance Department.

- a. Transaction Code – use “4”
- b. Asset Number
- c. Location (From) – use your Department location number (see listing)
- d. Capital Asset Description – (optional) a brief description here may be used as a check against a Capital Asset number typed in error.
- e. Explanation/Comments – describe the nature of the transaction (i.e. sale, trade in, theft, damage, etc.)

(1) In the event of a theft or property damage (no matter how minor), a report must be filed with Local Law Enforcement, and a notice of Loss/Accident Form must be completed and remitted to the Insurance Administration.

C. Authorization

1. All Department FAISC Forms must be approved and signed by the Department Head before they are submitted to Finance.
2. In the case of transfers, the receiving department must also sign the FAISC Form (before it is submitted to Finance) in the space provided in acknowledgement of the receipt of the transferred Capital Asset.
3. In the case of Capital Asset disposal, the FAISC Form must also be approved and signed by the Purchasing Agent before they are submitted to Finance

XI. Capital Assets Inventory:

A. Annual Physical Inventory:

An annual physical inventory of all capital assets will be taken by the individual departments based on the Capital Assets Inventory Listing provided by the Finance Department at year end. Each department must verify that the capital assets attributed to it are on hand at year end or provide an explanation for its absence. Physical inventories must be completed and capital Asset Inventory Listings must be signed by each Department Head and returned to Finance within 30 days after receipt of the listing. The IVGID Manager will be notified of missing or unaccounted for capital assets. All proposed deletions will be put before the Board of Trustees on an annual basis for

authorization for removal of the Capital Assets from the IVGID Capital Asset Inventory Listing.

B. Change of Department Head/Acting Department Head:

When a change of Department Head and/or acting Department Head is made, an inventory will be taken by the Department within 30 days of such change and a report will be submitted to the Finance Department which has been certified by both the incoming and outgoing Department Head.

XII. Surplus Capital Assets Defined:

Capital Assets no longer used by the assigned Department may be transferred to Surplus for assignment to another Department or sold.

XIII. Disposal of All IVGID Capital Assets:

1. All disposals of IVGID Capital Assets will be coordinated by the Finance Department. The requesting Department will provide the Finance Department with available information on the sale or the disposal of the capital assets including the following:

- a. Capital Asset number
- b. Capital Asset description
- c. Sale price
- d. Date of disposal

2. Any Department receiving Capital Assets from Surplus are responsible for notifying Finance of this transaction.

XIV. Removal of Capital Assets from the Capital Asset Inventory Control System:

Capital Assets may be removed from the accounting system only after formal approval of the Board of Trustees.

XV. Grant Assets:

Grant Assets may require special treatment depending on Grant Contract provision and therefore, must not be transferred, traded in, sold, etc. without first notifying the Finance Department of the proposed action. Please contact Finance if you have any questions on the treatment of Grant Assets. EXAMPLE: For any assets purchased with grant funds that are ultimately sold, the net proceeds must be returned to the granting agency in the same percentage that the grant was given. Also, Grant Assets must be used in the manner specified in the Grant Agreement.

XVI. Asset Descriptions:

Proper Capital Asset description facilitates the identification of capital assets. Asset descriptions used on the Capital Asset Inventory Listing for the new acquisitions are generally taken from those used on the purchase order or claims and the vendor invoices. At times neither document provides adequate identifying data must be provided by the acquiring department on FAISC Form to the Department to be completed and returned in a timely manner. Additional information required may include the following:

- 1. Serial or Other Identification Number
- 2. Model Number
- 3. Color and/or Size
- 4. Accessories