Fixed Assets Policy Date of Adoption: March 15, 2006 Date of Amendments: 12/11, 04/18	**POL#2018-005**

Asset Valuation

Fixed assets of the county are to be valued according to the following criteria:

Donated Assets - For those assets acquired by gift, donation, or payment of a nominal sum which is not reflective of the asset's true market value, the cost assigned is to be the fair market value at time of acquisition plus all appropriate ancillary costs. If the fair market value is not practicably determinable due to lack of sufficient records, estimated cost is to be used.

Purchased Assets - Valuation of purchased assets is to be made on the basis of historical costs including all nonrefundable purchase taxes (e.g., sales taxes), and all appropriate ancillary costs less any trade discounts or rebates. If the historical cost is not practicably determinable, then estimated cost is to be used.

The cost of extended maintenance/warranty contracts is included in the valuation of the fixed asset provided the contract is purchased at the same time (or soon thereafter) as the fixed asset. These contracts are depreciated over the useful life of the asset. Payments for contracts not purchased at the same time as the fixed asset are not to be capitalized.

Self-Constructed Assets - When an agency constructs an asset for its own use, the following policy is to govern the valuation of the asset:

- All direct costs associated with the construction are to be included.
- Agency project management costs may be capitalized directly, when practicably discernible and directly associated with the project, or through the application of a percentage of total budgeted project costs. The application rate may or may not be designed to recover total agency project management costs. Indirect costs are to be excluded unless they are increased by the construction.
- Interest costs (if material) incurred during the period of construction should be included in the capitalized cost of the asset.

Identification Policy

Upon receipt and acceptance, all inventoriable fixed assets of the county are to be marked in such a manner as to identify that the property belongs to Lenawee County. These tags include the name of Lenawee County and a unique control number. They are issued and controlled by the Administrator's Office.

Capitalized Assets (Assets capitalized for financial statement purposes.

All land acquisition, regardless of cost (including ancillary costs), is to be capitalized. All other fixed assets with a unit cost (including ancillary costs) of-$10,000 or greater are to be capitalized unless otherwise noted.

For governmental and expendable trust fund type accounts, asset capitalization is to be recorded in the General Fixed Asset Account Group and will be included on the Government-Wide Financial Statements. For proprietary and similar trust fund type accounts, the value of the asset is to be recorded in the account itself. Only capitalized fixed assets are to be considered reportable for financial statement purposes.

New acquisitions - Fixed assets which have no relationship to the addition or improvement to, or the repair or replacement of a component of, existing fixed assets; and meet the $10,000 threshold stated above are to be capitalized.

Extraordinary repairs, betterments, or improvements - Outlays that increase future benefits from an existing fixed asset beyond its previously assessed standard of performance are to be capitalized if they cost $10,000 or more. Increased future benefits typically include:

- An extension in the estimated useful life of the asset.
- An increase in the capacity of an existing fixed asset.
- A substantial improvement in the quality of output or a reduction in previously assessed operating costs.

Replacement - Acquisition of a fixed asset to replace a part of another fixed asset is capitalized when the cost of the replacement is $10,000 or more **and** equal to at least the lesser of 10 percent of replacement value of the asset or $100,000.

EXAMPLE: A $9,000 replacement of a heating boiler (which did not meet any of the criteria listed in the previous paragraph) in a building having a replacement value of $120,000 would not be capitalized. The cost, in this case, is not equal or greater than 10 percent of the building's replacement value. Had the building's replacement value been less than $90,000, the $9,000 boiler replacement would have been capitalized.

EXCEPTIONS to this policy are:

- Replacement roof coverings are not capitalized (whether or not the replacement is with superior materials) unless the replacement extends the useful life of the entire building.
- Replacement floor coverings and window coverings are not capitalized.
- Costs to remodel (convert) a building to a different use, where the remodeling does not extend the useful life of the structure itself, are not capitalized.

The cost and accumulated depreciation of the replaced fixed asset are to be removed from the accounting records if the amounts are determinable and the replacement is capitalized. For proprietary and similar trust fund type accounts, the removed amounts are offset by entries to Revenue "Gain or Loss on Sale of Fixed Assets.

Addition - A $10,000 or more expansion of or extension to an existing capitalized fixed asset is capitalized.

Bulk Purchase - Bulk purchases of like fixed assets with unit costs of less than $10,000 may be capitalized as a group where the allocation of costs for the bulk assets over time is matched to the corresponding revenue generated by the bulk assets.

Computers and Computer Networks

A network is determined to be where individual components may be below the $10,000 but are interdependent and the overriding value to the county is on the entire network and not the individual assets. The components that are a part of the computer network and have a useful life **less than** 5 years would not be capitalized unless the individual computers and related equipment has a cost greater than $10,000.

EXAMPLE: A personal computer that is part of the county's network and cost $2,000 would not be capitalized because its expected life is less than 5 years. However, components such as cabling or modems that have an expected life of at least five years and are considered part of the network and will be capitalized and depreciated as part of that asset for financial statement purposes.

Capital Leases

A capital lease is a lease that transfers substantially all the benefits and risks inherent in the ownership of property to the county. A lease must meet one or more of the following four criteria to qualify as a capital lease:

- By the end of the lease term, ownership of the leased property is transferred to the county; or
- The lease contains a bargain purchase option; or
- The lease term is equal to 75 percent or more of the estimated useful life of the leased property; or
- The lease qualifies as a capital lease if, at the inception of the lease, the present value of the minimum lease payments, excluding executory costs (usually insurance, maintenance, and taxes paid in connection with the leased property, including any profit thereof) is 90 percent or more of the fair value of the leased property. The interest rate to be used in the computation of the present value may be the rate detailed in the lease agreement if available or a reasonable current market rate.

Capital leases with a net present value of the future minimum lease payments or fair value, whichever is less, of $10,000 or more are to be accounted for as an acquisition of a capitalized asset and the incurrence of a liability. If such a lease involves the acquisition of more than one asset, each asset is to be considered capitalizable if its fair value is $10,000 or more. Capital leases with a net present value of less than $10,000 are to be accounted for as operating leases. If title to these assets transfers to the county at the conclusion of the operating lease, at title transfer they are to be capitalized and/or inventoried pursuant to their cost to transfer if that amount meets th $10,000 threshold.

Construction in Progress

Assets that are constructed by or for the county are not added to the Fixed Asset system until they are substantially complete (estimate 90% complete). The amount to be capitalized includes all costs of the project including any interest on debt relating to the project while under construction. Any residual amount spent after the initial capitalization will be added to the base asset. The amount to be capitalized will be determined by the Administrator's Office.

Depreciation Policy

Depreciation is to be calculated and recorded for all capitalized fixed assets with the exception of land, construction in progress, and library resources, museum and art collections.

Depreciation is to be calculated, using the straight-line method:

$$\text{Annual Depreciation} = \frac{\text{Cost - Salvage Value}}{\text{Asset Useful Life}}$$

Useful Life - Use of estimated useful life in Schedule A is optional. A shorter or longer estimated life may be used depending on factual circumstances, replacement policies, or industry practices. Proposed deviation in useful life from Schedule A (for fixed assets acquired in new condition) requires prior written approval from the County Administrator's Office.

Inventory Policy

The following fixed assets are to be considered inventoriable assets and carried on the property records of the county:

- Land.
- Fixed assets with a unit cost (including sales tax and ancillary costs) of $10,000 or greater, unless otherwise noted.
- Assets identified as Tracked Assets.

Departments are responsible to take inventory annually and report any unrecorded disposals or acquisitions to the Administrator's Office on the appropriate Acquisition/Disposal form. See attached forms.

Library resources, including books, films, documents, or other audiovisual material, which are under the control of a recognized cataloging system, are to be recorded on the property records of the agency as a single item. Primary control of this type of asset is to be maintained through the cataloging system.

Departments have the option to develop written policies for identifying and controlling small and attractive assets. Some items that departments may consider small and attractive include: Communications Equipment, Public Safety equipment, Audio and video, Optical Devices, Binoculars, Telescopes, Infrared Viewers, and Rangefinders, Cameras and Photographic Projection Equipment, Record Players, Radios, Television Sets, Tape Recorders.

Fixed Assets Policy *(continued)*

Infrastructure

Infrastructure includes public domain general fixed assets that are immovable and of value only to the county. Such assets normally do not impact the value of the land on which they are located. Infrastructure includes certain improvements other than buildings such as roads, bridges, curbs, gutters, streets, sidewalks, drainage systems, lighting systems, and similar assets. All land and improvements within the operating right-of-way of the county's transportation system are considered infrastructure.

When streets, sidewalks, lighting systems, and other similar fixed assets are located in a confined setting such as a campus, park, or compound and they meet the county's capitalization policy, they are capitalized and inventoried under the classification of Improvements Other than Buildings.

Infrastructure with a historical cost (or value if donated) of $50,000 or more is to be capitalized for financial statement purposes.

Records Requirements

The County is to maintain a fixed asset system which includes records for all inventoriable assets. (Assets with a cost of $10,000 or more.)

Removal of Assets from Inventory

Fixed assets are to be removed from active inventory based on the completion and approval of a Property Disposal Request.

Agencies are to maintain records of fixed asset dispositions in accordance with approved agency records retention schedules.

Passed by roll call vote of the Lenawee County Board of Commissioners at a regular meeting held Wednesday, April 11, 2018, in the Old County Courthouse, Adrian, Michigan.

David Stimpson, Chair

Roxann Holloway

Roxann Holloway, County Clerk

Schedule A:

Asset Type	*Life In Years*
Buildings	50
Equipment/Furnishings	5
Copiers	5
Comm Equip	10
Printing Equip	7
Equipment/Computer	3
Land Improvements	40
Vehicles	
Sheriff Patrol Cars	2
Sheriff Unmarked	6
All Other	6