CLINTON COUNTY

CAPITAL ASSET MANAGEMENT POLICY

1. **PURPOSE:** The purpose of this policy is: (1) to describe the policies and procedures utilized in the County's capital asset management system; (2) put in place guidelines for accounting for and depreciating the County's capital assets.

   The primary goals of this policy are:

   - To ensure that the County's capital assets are accounted for in conformance with generally accepted accounting principles; and

   - To establish a consistent and cost–effective method for accounting of the County's capital assets.

   This capital asset policy is in accordance with generally accepted accounting principles and closely conforms to capital asset accounting practices as recommended by the Government Finance Officers Association. The Government Finance Officers Association (GFOA) recommends that every state and local government consider the following applicable guidelines in establishing capitalization thresholds for capital assets:

   - Capital assets should be capitalized only if they have an estimated useful life of at least two years following the date of acquisition.

   - Capitalization thresholds should be applied to individual assets rather than to groups of similar items (e.g., desks, tables). (For assets that qualify for capitalization and depreciation under the "group method" however, see third paragraph under the heading "THRESHOLD" for discussion of the appropriate threshold application).

   - As a general rule, capitalization thresholds should be designed to encompass approximately 80% of a government's total non-infrastructure assets.

   - In no case should a government establish a capitalization threshold of less than $5,000 for any individual item.

   - Governments should exercise control over their non-capitalized capital assets by establishing and maintaining adequate internal control procedures at the department level.

2. **AUTHORITY:** The Clinton County Board of Commissioners

3. **APPLICATION:** This policy applies to all County Department heads with the exclusion of the Clinton County Road Commission, Tri-County Community Mental Health, Clinton-Gratiot Family Independence Agency, Mid-Michigan District Health Department and

agencies operating under service agreements and contracts with Clinton County Board of Commissioners.

4. **RESPONSIBILITY:** The County Administrator and/or designee shall be responsible for implementation of this policy.

5. **DEFINITIONS:** See attachment entitled “Glossary of Terms”.

6. **POLICY:**

6.1. Threshold

Effective January 1, 2002, the County will capitalize individual assets other than Buildings, Building Improvements and Land Improvements, and Infrastructure that cost $5,000 or more and have an estimated useful life of at least two (2) years. The capitalization threshold for Buildings and Building Improvements shall be $50,000 and for Land Improvements the capitalization threshold shall be $25,000.

However, assets acquired with debt proceeds may be capitalized regardless of cost. In addition, assets acquired prior to January 1, 2002 and capitalized at a lower threshold, may continue to be depreciated on the basis of past practice.

Effective January 1, 2003, infrastructure projects and improvements shall be capitalized so as to substantially account for the County’s investment in infrastructure and consider related debt.

Individual assets that cost less than $5,000, but that operates as part of a network system may be capitalized in the aggregate, using the group method, if the estimated average useful life of the individual asset is at least two years. A network is determined to be where individual components may be below $5,000 but are interdependent and the overriding value to the County is on the entire network and not the individual assets (e.g. computer systems and telephone systems).

6.2. Valuation

In accordance with generally accepted accounting principles, the County will value its capital assets at historical cost. Historical cost includes the cost or estimated cost at the time of acquisition, freight charges, installation and site preparation charges, and the cost of any subsequent additions or improvements, excluding repairs. If a capital asset is donated to the County the asset will be valued based on the fair market value at the time the asset is donated.

6.3. Capital Assets Inventory Report

As part of the financial audit, the Administrative Services/Accounting Department shall submit a capital asset report to the County’s external auditor on an annual basis. This report will include the following information:

- Type of asset (i.e. land, building, infrastructure)
- Date of acquisition
- Acquisition cost
- Estimated useful life
- Annual depreciation
- Accumulated depreciation

6.4. Depreciation

The County will use the Straight-Line Method as its "basic approach" (standard approach) to depreciate capital assets.

The Modified Approach, which does not require depreciation, may be used on infrastructure assets whenever applicable.

6.5. Estimated Useful Lives

The following ranges are guidelines in setting estimated useful lives for depreciating assets.

Building and Structures	20-50 Years
Vehicles	04-15 Years
Other Equipment	03-25 Years
Infrastructure	20-100 Years

6.6. Capital vs. Repair and Maintenance Expense

The following criteria are the basis for distinguishing costs as either capital or repair and maintenance expense:

1. With respect to improvements on non-infrastructure and infrastructure capital assets, under the **Basic Approach,** costs should be capitalized if the useful life of the asset is substantially extended, or the cost results in a substantial increase in the capacity or efficiency of the assets.

    i. Otherwise, the cost should be expensed as repair and maintenance.

2. With respect to improvements on infrastructure capital assets under the **Modified Approach,** costs should be capitalized if expenditures substantially increase the capacity or efficiency of an infrastructure.

    i. Otherwise, costs, including those that preserve the useful life of an infrastructure asset, are expensed.

6.7. Inventory

For internal control purposes, the County may maintain an inventory listing of certain assets (controlled equipment) that do not meet the above reference capitalization amounts. Controlled equipment includes items that should be specifically accounted for and inventoried periodically due to the high re-sale value of the equipment and potential risk of theft. Controlled equipment may include items such as computers, construction equipment, and other office equipment.

Each Department Head is responsible for all controlled equipment within their areas of responsibility.

6.8. Disposal and Transfer of County's Assets

Disposition of County assets will be performed in accordance with applicable County policies and procedures.

7. ADMINISTRATIVE PROCEDURES:

The County Administrator is authorized to adjust this policy where necessary.

December 5, 2002

CLINTON COUNTY

CAPITAL ASSET MANAGEMENT POLICY

GLOSSARY OF TERMS

1. **Capital Assets:** Capital assets include land, land improvements, buildings, building improvements, construction in progress, machinery and equipment, vehicles, infrastructure, easements, intangible assets (such as computer software), and works of art and historical treasures.

2. **Capitalization:** Capitalization of an asset occurs when the cost of the asset meets the "threshold" and the "estimated useful life" set in the organizational guidelines. Under capitalization, the cost of an item is initially recorded as an asset rather than an expense.

3. **Depreciation:** Depreciation is the process of allocating the cost of property over a period of time, rather than recognizing the cost as an expense in the year of acquisition. Generally, at the end of an asset's life, the sum of the amounts charged for depreciation in each accounting period (accumulated depreciation) will equal the original cost less salvage value.

4. **Donated Capital Asset:** Donated assets are those assets contributed to the County. The donated assets are treated like a capital asset (using the fair market value).

5. **Estimated Useful Life:** Estimated useful life means the estimated number of months or years that an asset will able to be used for the purpose for which it was purchased. In determining useful life, consideration is given to the asset's present condition, use of the asset, construction type, maintenance policy, and how long it is expected to meet service demands.

6. **Fair Market Value:** The amount that would be paid if the item were sold currently in a transaction between a willing buyer and a willing seller.

7. **Historical Cost:** The historical cost of a capital asset includes the cost or estimated cost at the time of acquisition, freight charges, installation and site preparation charges, and the cost of any subsequent additions or improvements, excluding repairs.

8. **Infrastructure Assets:** Infrastructure assets are long-lived capital assets that normally can be preserved for a significant greater number of years than most capital assets (non-infrastructure assets). Infrastructure assets are normally stationary in nature and are of value only to the government entity. Examples include the County drain system.

9. **Modified Approach:** The Modified Approach is the election *not* to depreciate infrastructure assets that are part of a network that meet two specific requirements.

The government entity manages the eligible infrastructure assets using an asset management system that has certain specified characteristics. To meet this requirement the asset management system should:

Have an up-to-date inventory of eligible infrastructure assets within the network for which the modified approach is adopted.

Perform or obtain condition assessments (physical assessment) on infrastructure assets and summarize the results using a measurement scale. The condition assessment must be performed at least once every three years. The condition assessments must be replicable (conducted using methods that would allow different measurers to reach substantially similar results).

Each year, the government entity must estimate the amount needed to maintain and preserve infrastructure assets at a condition level established and disclosed by the government entity.

The government entity documents that the eligible infrastructure assets are being preserved approximately at (or above) a condition level established and disclosed by that government entity.

If any of the above conditions are not met, reporting must revert back to the depreciation method.

10. **Salvage Value:** The salvage value of an asset is the value it is expected to have when it is no longer useful for its intended purpose. In other words, the salvage value is the estimated amount for which the asset could be sold at the end of its useful life.

11. **Straight-Line Method:** The straight-line method is the simplest and most commonly used for calculating depreciation. It can be used for any depreciable property. Under the straight-line method, the basis of the asset is written off evenly over the useful life of the asset. The same amount of depreciation is taken each year. In general, the amount of annual depreciation is determined by dividing an asset's depreciable cost by its estimated life.

12. **Threshold:** The threshold is the dollar amount that an asset must equal or exceed if that asset is to be capitalized. Otherwise, the item would be considered as an expense at the time of acquisition.