

SAMPLE POLICY
CAPITAL ASSET MANAGEMENT POLICY

NOTE: Text in BLUE represents guidance points; text in BLACK represents example policy language. The [BLACK] text in parenthesis requires editing to your specific circumstances.

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

The primary goals of this policy are:

- To ensure that the [GOVERNMENT NAME'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 [GOVERNMENT NAME'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).
- 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 [GOVERNMENT NAME] Board of [Commissioners/Trustees]
3. **APPLICATION:** This policy applies to all [GOVERNMENT NAME] Department heads

4. **RESPONSIBILITY:** The **[GOVERNMENT NAME]** 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 **[DATE]**, the **[GOVERNMENT NAME]** 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 **[DATE]** and capitalized at a lower threshold, may continue to be depreciated on the basis of past practice. Effective **[DATE]**, infrastructure projects and improvements shall be capitalized so as to substantially account for the **[GOVERNMENT NAME'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 **[GOVERNMENT NAME]** 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 **[GOVERNMENT NAME]** 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 **[GOVERNMENT NAME]** 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 **[GOVERNMENT NAME'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 **[GOVERNMENT NAME]** 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 **[GOVERNMENT NAME]** 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 [GOVERNMENT NAME's] Assets

Disposition of [GOVERNMENT NAME] assets will be performed in accordance with applicable [GOVERNMENT NAME] policies and procedures.

[GOVERNMENT NAME] 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 [GOVERNMENT NAME]. 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 be 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 (noninfrastructure assets). Infrastructure assets are normally stationary in nature and are of value only to the government entity. Examples include the **[GOVERNMENT NAME 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.

POLICY

FIXED ASSETS AND CAPITALIZATION

It is the policy of the Board of the **(Road Commission Name)** to set forth guidelines for physical and reporting controls of **(Road Commission Name)** fixed assets. It is the purpose of this policy:

- To define the capital asset and set thresholds
- That capital assets are properly recorded and depreciated, and comply with state and federal regulations and Generally Accepted Government Accounting Practices (GAAP) for accurate assets records.
- Provide necessary documentation for the effective use, maintenance, management and reporting of the asset.
- Ensure that the asset is adequately protected from loss, theft, etc.

Further, the Finance Director is responsible for establishing and maintaining a written set of Administrative Procedures in regard to the recording, inventorying, maintaining, and disposing of assets.

Asset Acquisition and Disposal:

Capital asset purchases are subject to fund availability and budget limitations.

Annually, the Board considers capital asset acquisitions as part of the budget process. Each asset represented in the capital budget should be individually identified with an estimated cost. Capital assets may be added or changed during the budget year, but each asset must be presented to the Board for approval.

Approved capitals asset acquisition shall be purchased in compliance with the **(Road Commission Name)** Purchasing Policy requirements. It shall be recorded and depreciated. Staff shall ensure appropriate insurance coverage is in place as required.

Any changes to an asset's condition or location will be reported to the Finance Department. Disposal of assets (transferred, sold, retired, lost or destroyed) must be reported to the Finance Department along with all available documentation regarding the identification of the asset and the details of the disposal.

Capital asset definitions and purchasing thresholds:

- 1) **Land** – All land owned as evidenced by a deed
- 2) **Buildings**
 - a) A structure that is permanently attached to the land, has a roof, is partially or completely enclosed by walls, and is not intended to be mobile.
 - b) A permanently attached fixtures, machinery, and other components that cannot be removed without damage resulting to the building.

- c) Cost minimum of \$15,000.00.
- 3) **Infrastructure /Roads and Bridges**
 - a) Infrastructure assets are long-lived capital assets that normally are stationary in nature.
 - b) Includes all expenditures within an identified project classification of "Construction" or "Preservation and Structural Improvements"
- 4) **Equipment , Vehicles and Tools with a Schedule C Equipment Rental Rate**
 - a) Equipment, vehicles and tools purchased and owned by the Road Commission for use on roadwork, public utilities, or similar activities.
 - b) Items with a Schedule C Equipment Rental Rate must be classified as a capital asset regardless of value.
 - i) Cellular telephones and other items may be excluded from this classification if the administrative costs exceed the value with approval of the Finance Director.
 - c) The Schedule C Equipment Rental Rates, classification code number, and depreciation tables are established by the Michigan Department of Transportation (MDOT).
- 5) **Computer Equipment**
 - a) Computers equipment (excluding external components) with a cost minimum of \$5,000.00. Examples of external components may include monitors, keyboards, mice, scanners, and external drive devices.
 - b) The expected useful life should extend beyond the depreciable years.
- 6) **Computer Software**
 - a) Single user application cost a minimum of \$5,000.00 per user
 - b) Multi-user or system applications cost a minimum of \$15,000.00
 - c) The expected useful life should extend beyond the depreciable years.
- 7) **Furniture, Fixtures, Machinery, Tools and Other Equipment**
 - a) Individual items with a cost minimum of \$5,000.00
 - b) The expected useful life should extend beyond the depreciable years.
- 8) **Groups of Assets** – A group of individual pieces if all of the following are true:
 - a) Collectively cost a minimum of \$15,000.00
 - b) Located in the same room
 - c) Used together
 - d) Similar purchase dates
 - e) The expected useful life should extend beyond the depreciable years.
- 9) **Renovations and Significant Repairs**
 - a) Renovations or repairs to equipment or buildings in excess of \$15,000.00 will be reviewed by the Finance Director or their designee to determine the nature of the classification.
 - b) The expenditure for reparations must extend the life of the base asset beyond its depreciable life and significantly add to the permanent value of the asset.
- 10) **Other Assets** – Assets not specifically addressed herein determined by the Finance Director or their designee.
- 11) **Non-capitalized assets:**
 - a) Items that are below the Policy threshold for capitalization.
 - b) Items that may be over the Policy threshold, yet the reasonable estimate of expected useful life is less than the approved number of years to be depreciated.

- c) Maintenance: The recurring work required to preserve or immediately restore a facility to such condition that it can be effectively used for its designed purpose. It includes work done to prevent damage to a facility. Examples: repainting a room; replacing a leaky faucet.
- d) Preservation/Restoration Costs: Expenditures associated with maintaining special assets in, or returning them to, a level of quality as close to the original as possible.

Adopted:

Enter Date

Amended:

Enter Date