MCLEOD COUNTY
CAPITAL ASSETS POLICY AND PROCEDURES

PURPOSE

The purpose of this policy is to ensure adequate control and appropriate use of capital assets. The procedures are intended to establish guidelines for budgeting, purchasing, using, financial reporting, inventory, transferring, depreciating, and disposing of assets.

The following policies are presented and adopted in response to the accounting and reporting requirements of the Governmental Accounting Standards Board (GASB) pronouncement 34 and later pronouncements. These policies provide the foundation for the collection and reporting of McLeod County financial information in accordance with these pronouncements. The establishment and maintenance of a Capital Asset System is essential to provide accurate capital asset figures for financial reporting, but also serves to provide management with data for the control of assets.

POLICY

It is the policy of McLeod County that capital assets be used for appropriate County purposes; accurately account for and report capital assets in financial reports issued to the County Commissioners, external reporting agencies, granting agencies and the public; maintain and safeguard its capital assets for the use and enjoyment of its citizens; and to protect against loss or theft.

A. It is the responsibility of the County Auditor-Treasurer's Office and the Department Heads to ensure capital assets will be tagged, inventoried on a regular basis and accounted for by fund, department and asset category.

B. It is the responsibility of the County Highway Department to ensure infrastructure assets are identified and inventoried on a regular basis.

C. It is the responsibility of the County Auditor-Treasurer's Office to ensure that infrastructure assets are accounted for by fund and asset category.

D. It is the responsibility of McLeod County Board of County Commissioners and Department Heads to ensure that proper budgeting and purchasing guidelines are followed, that capital assets are adequately controlled and used for appropriate County purposes, and to secure such capital assets.

SCOPE

The McLeod County Board of County Commissioners requires all departments to use this policy to protect and report on assets held by the county.

PROCEDURES

Definition of Capital Assets

Capital assets include: land, improvements to land, easements, buildings, building improvements, construction in progress, vehicles, machinery and equipment, works of art and historical treasures, infrastructure, and all other tangible or intangible assets. A capital asset is to be reported and, with certain exceptions, depreciated in governmental-wide financial statements. In the governmental-wide statements, assets that are not capitalized are expended in the year of acquisition.

Infrastructure assets are long-lived capital assets that normally can be preserved for a significant greater number of years than most capital assets and that are normally stationary in nature. Examples include streets, roads, sewer lines, water lines, sidewalks, traffic signals and bridges. Infrastructure assets do not include buildings, parking lots, or any other examples given above that are incidental to property or access to the property.

Capital Assets and Capitalization Thresholds

In general, all capital assets that have a cost equal to or greater than the established capitalization threshold and that have an estimated useful life extending beyond one year, will be subject to accounting and reporting (capitalization). Items acquired of lesser value will be recorded and inventoried for control purposes, but generally will not be included in financial statement reporting. The county reports capital assets under the following categories:

- Land
- Buildings
- Improvements Other Than Buildings
- Works of Art and Historical Treasures
- Infrastructure
- Construction Work in Progress
- Machinery and Equipment

For county wide financial statement purposes only, a capitalization threshold is established for each capital asset category as follows:

Capital Asset Category	Tracking and Inventory	Capitalize and Depreciate
Land	$1	Capitalize Only
Buildings	$1	$25,000
Improvements Other Than Buildings	$1	$25,000
Works of Art and Historical Treasurers	$100 - $4,999	$5,000
Infrastructure	$25,000	$50,000
Construction Work in Progress	$1	Capitalize Only

Machinery and Equipment	$100 - $4,999	$5,000
Leased Equipment	$100 - $4,999	$5,000
Vehicle	$100 - $4,999	$5,000

All costs associated with the purchase or construction should be considered, including ancillary costs such as freight and transportation charges, sales tax, site preparation expenditures, installation charges, professional fees, temporary and permanent easements, design engineering, construction management, inspection, permits, insurance, and legal costs directly attributable to asset acquisition.

The county may record and report items of value less than the threshold where the majority of similar items are greater than the threshold and the exclusion of the few items of less value would distort the financial picture.

The acquisition of individual items of office furniture and such, which are valued below the threshold, will not be reported. If the county acquires an office suite of furniture that exceeds the threshold; the suite may be reported, depending on the materiality and significance although the individual items may or may not be inventoried for control purposes. This approach will be followed for other classes of assets as well. Law library books will be capitalized as a group on an annual basis and will not be tracked on an individual basis for capital asset reporting purposes.

Land

Land is the surface or crust of the earth, which can be used to support structures. All land owned by the county is recorded at historical cost and remains at that cost until disposal. If land is donated or if cost cannot be determined, it is recorded at fair value when acquired. Inexhaustible land improvements are also included in the land category. Cost includes expenditures in connection with the purchase, including:

- Purchase price or fair market value at time of gift
- Appraisal and negotiation fees
- Architect fees
- Environmental assessments
- Title search fees
- Surveying fees
- Payment of damage claims
- Land excavation, fill, grading and drainage
- Demolishing or removing structures (less salvage)
- Removal, relocation or reconstruction of property of others (i.e. railroad, telephone, and power lines, etc.)
- Recording costs
- Accrued and unpaid taxes

All land is to be included in this classification regardless of its value for both tracking and reporting purposes. Right-of-way and easements acquired for road construction are not considered land for purposes of this classification. If there is a gain or loss on the sale of land, it is reported as a special item in the statement of activities. Land is to be capitalized but not depreciated.

Buildings

A building is 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 transportable or moveable. A building is generally used to house persons, property, and fixtures attached to and forming a permanent part of such a structure. Buildings and building improvements are recorded at acquisition cost or construction cost, which includes:

- Purchase price or cost of construction
- Expenses for remodeling, reconditioning, or altering a purchased building to make it ready for use for the purpose for which is was acquired
- Environmental compliance (i.e. asbestos abatement)
- Permanently installed fixtures
- Professional fees (legal, architect, inspections and/or engineering fees, etc.)
- Cost of permits and licenses connected with acquisition
- Payment of unpaid or accrued taxes on the building to date of purchase
- Payment of damage claims connected with acquisition
- Insurance premiums connected with acquisition
- Cancellation or buyout of existing leases
- Completed project costs of constructed buildings
- Additions to building (i.e. expansions, extensions, or enlargements)
- Installation or upgrade of heating and cooling systems
- Original installation or upgrade of wall or ceiling covering such as carpeting, tiles, or paneling
- Structural changes such as reinforcement of floors or walls, installation or replacement of beams, rafters, joists, steel grids, or other interior framing
- Installation or upgrade of window or doorframe, upgrading of windows or doors, built-in closet, and cabinets
- Interior renovation associated with casings, baseboards, light fixtures, ceiling trim, etc.
- Exterior renovation such as installation or replacement of siding, roofing, or masonry, etc.
- Installation or upgrade of plumbing and electrical wiring
- Installation or upgrade of phone or closed circuit television systems, networks, fiber optic cable, or wiring required in the installation of equipment (that will remain in the building)
- Other acquisition costs or costs required to place or render the asset into operation

Items to be considered maintenance and repairs and <u>not</u> capitalized as buildings are:

- Adding, removing, and/or moving of walls relating to renovation projects that are not considered major rehabilitation projects and do not increase the value of the building
- Improvement projects of minimal or no added life expectancy and/or value of the building
- Plumbing or electrical repairs
- Cleaning, pest extermination, or other periodic maintenance
- Interior decorations such as draperies, blinds, curtain rods, wallpaper, etc.
- Exterior decoration such as detachable awnings, uncovered porches, decorative fences, etc.
- Maintenance-type interior renovation such as repainting, touch-up plastering, replacement of carpet, tile, or panel sections, sink and fixtures refinishing, etc.
- Maintenance-type exterior renovation such as repainting, replacement of sections of deteriorated siding, roof, or masonry, etc.

Note: The lists of examples provided above are not intended to be all-inclusive. The County Auditor-Treasurer's Office with the help of the Building Services department should make determinations on a case-by-case basis.

For a replacement to be capitalized, it must be part of a major repair or rehabilitation project, which increases the value, and/or useful life of the building. A replacement may also be capitalized if the new item/part is of significantly improved quality and higher value compared to the old item/part. Determination will be made on a case by case basis.

Donated buildings should be recorded at fair value at the time of donation. Extensions of existing buildings or new and separate units added to a building complex are capital outlay and should be assigned a separate identity and depreciable life. Renovations, repairs and alterations should not be added to the value of the existing building, unless they materially increase the value or extend the life of the building.

The cost of buildings should be reduced by the sale or salvage of materials initially capitalized as part of the cost. These would include discounts, allowances and rebates secured, and amounts recovered through the surrender of liability and/or casualty insurance.

Buildings and building improvements with a cost in excess of $25,000.00 should be capitalized and depreciated for reporting purposes. Any building or building improvement with a value less than the required capitalization threshold will be expensed in the year of acquisition. A memo amount should be recorded in the fixed asset records to document cost.

<u>Improvements Other Than Buildings</u>

Improvements Other Than Buildings records the acquisition cost of permanent improvements, other than buildings, which add value to land. The following items on county-owned land are examples of improvements other than buildings: non-infrastructure utility installation, driveways, flagpoles, fences, retaining walls, sidewalks, parking lots and outdoor lighting. Land improvements can be further categorized as inexhaustible and exhaustible.

> Inexhaustible - Expenditures for improvements that do not require maintenance or replacement, expenditures to bring land into condition to commence erection of structures, expenditures for improvements not identified with structures, and expenditures for land improvements that do not deteriorate with use or passage of time are additions to the cost of land and are generally not exhaustible and therefore not depreciable. Inexhaustible land improvements are categorized as land.

> Exhaustible - Other improvements that are part of a site, such as parking lots, landscaping and fencing, are usually exhaustible and are therefore depreciable. Depreciation of site improvements is necessary if the improvement is exhaustible. Exhaustible land improvements are classified as improvements other than buildings.

Acquisition cost for Improvements Other Than Buildings includes the following expenditures:

- Purchase price, contract price or job order cost
- Professional fees (architects, engineers, appraisers, attorneys, etc.)
- Payment of damage claims connected with acquisition
- Insurance premiums connected with acquisition

The cost of Improvements Other Than Buildings should be reduced by the sale or return of any materials initially capitalized as part of the cost. Improvements Other Than Buildings with a cost of $25,000.00 or more should be capitalized and depreciated for reporting purposes. Improvements Other Than Buildings with a value less than the required capitalization threshold will be expensed in the year of acquisition. A memo amount should be recorded in the capital asset records to document cost.

Works of Art and Historical Treasures

Works of art and historical treasures should be capitalized at their historical cost at acquisition or fair value at the date of donation (if donated) unless they belong to a collection that meets the following criteria:

1. The collection is held for public exhibition, education or research in furtherance of public service, rather than financial gain.
2. The collection is protected, kept unencumbered, cared for, and preserved.
3. The collection is subject to an organization policy that requires the proceeds from the sales of collection items to be used to acquire other items for collections.

For collections not capitalized, a description of the collection and the reasons these assets are not capitalized should be documented.
The cost of capitalized works of art and historical treasures should be depreciated over the estimated useful lives unless the works of art and historical treasures are inexhaustible. An

inexhaustible capital asset is one whose economic benefit or service potential is used up so slowly that its estimated useful life is extraordinarily long.

Infrastructure

Infrastructure includes long-lived capital assets that normally are stationary in nature and normally can be preserved for a significantly greater number of years than most capital assets. Examples of infrastructure assets include roads, bridges, tunnels, drainage systems, water and sewer systems, dams and lighting systems. Acquisition cost for infrastructure includes the following expenditures:

- Construction costs (i.e. contract amounts, payroll, fringe benefits, rental value for equipment, etc.)
- Legal fees
- Engineering fees
- Right of way costs (easements)
- Payment of damage claims connected with construction
- Materials

GASB 34 requires that we begin to book infrastructure as assets. It requires us to record assets expensed in the past (retroactively) and book the current expenditures as assets as we move forward (prospectively). Infrastructure will be reported as a part of capital assets in the Statement of Net Assets in the Government Wide Financial Statements. When ownership of infrastructure is unclear, the government with the primary responsibility for managing the asset should report the asset.

McLeod County has the following categories (systems) of infrastructure:

- **Roads –** Roads include but are not limited to, road surface, sub-surface, water/sewer, drainage, signs and lighting for all County State Aid Highways and all County roads in McLeod County.

- **Bridges –** Bridges include all bridges on McLeod County roads as defined by the Minnesota Department of Transportation. Bridge costs include construction costs as shown by the contract for bridge work, guardrails, sidewalks, signage, and lighting. Labor, equipment, materials and overhead associated with the job will be capitalized if the highway department installs the bridge (culvert).

- **Easements –** Easements include easements and deeded property acquired for highway purposes. Costs may include purchase price from the landowner, cost of attorney fees in court cases, relocation fees, filing fees, deed tax, and reimbursement of pre-paid real estate taxes to the former landowner.

The Roads category is divided into the following subsystems: CSAH Regular, CSAH Municipal, and County Roads.

Retroactive reporting – All Categories: Infrastructure acquired after 1979 is reported at the acquisition, construction or project cost as shown in the Annual Highway Reports. A single value is recorded for each year for each road sub-system and for easements. Bridge costs are recorded by each individual bridge in the year constructed. This is the Group Identification Method as described in the Minnesota Guide to Local Government Capital Assets prepared by the Office of the State Auditor. Easements will be accounted for from 1980 going forward. Easements will not be depreciated.

Prospective reporting – Roads: The verified costs of all major construction contracts, exclusive of purchased right-of-way, will be capitalized. Overlays will be capitalized only if they represent a major increase in efficiency or extend the useful life. An overlay that gets the road to the end of its useful life will be expensed. In the event that a road is resurfaced or reconstructed before it is fully depreciated, the remaining value will be written off in the year the contract is finalized. Roads will be depreciated out using the straight-line method of depreciation with a fifty-year life and no residual value.

Prospective Reporting – Bridges: The cost of construction as verified by contract costs will be capitalized. Improvements will be capitalized only if they represent a major increase in efficiency or extend the useful life. An improvement that gets the bridge to the end of its useful life will be expensed. Bridges will be depreciated out using the straight-line method of depreciation with a seventy-five year life and no residual value.

Prospective Reporting – Easements: Easements shall only include permanent easements acquired for highway purposes. An easement is an interest in land owned by another that entitles its holder to a specific limited use or enjoyment (right to use the land). We will capitalize the purchase of the easement (right of way) using the cost definition listed above. Easements will not be depreciated.

Improvements to Infrastructure will be recorded as new infrastructure assets, each with their own value and life. No change will be made to the value or depreciation of the original asset unless it is completely destroyed or replaced in the improvement process.

The Highway Engineer should prepare records throughout the year to document all costs of infrastructure that are to be capitalized. Items to be capitalized should include new roads or bridges, changes in types of roads (i.e. paving a gravel road), and improvements to existing infrastructure that either extends its useful life or increases its load capacity. These records should be prepared for each individual project such as:

- Projects that are constructed through the use of county owned equipment and county personnel
- Projects that are constructed through the use of outside contractors
- State Aid Road Projects
- Federal Aid Road Projects

Adjustments should be made to the financial accounting records and capital asset records to properly record these expenditures as infrastructure.

Items not capitalized as infrastructure are drainage ditches including county ditches, joint ditches, and judicial ditches. Generally, a drainage ditch is on private property owned by the land owners of the watershed and are not considered of capital asset value to the county.

Trails (snowmobile, ATV, walking, and bicycle) bridges and structures associated with the trails that are owned by the county but rest on private property are reportable infrastructure value to the county if the county has maintenance and insurance responsibility for the structure.

Construction-in-Progress

Construction-in-Progress records construction costs of projects incurring costs, but not complete. The cost is accumulated the same for Buildings, Improvements Other Than Buildings, and Infrastructure. When the project is complete, the amount in Construction-in-Progress is moved to Buildings, Improvements Other Than Buildings, or Infrastructure.

Construction-in-Progress should be capitalized and not depreciated. It should be reported with land and other non-depreciating assets at the government-wide level. Unspent debt proceeds from capital asset related debt should be reported in the net assets section of the statement of net assets as "restricted for capital projects."

Machinery and Equipment

Assets such as furniture, machinery and equipment (that meet threshold levels), with an expected useful life of at least one year, should be identified and recorded. Items that meet or exceed capital asset thresholds will be capitalized. Items included are:

- Automobiles, including installed radios and lights
- Trucks
- Tractors
- Graders
- Heavy equipment, including scrapers, bulldozers, backhoes, loaders, cranes, and draglines
- Attachments such as clippers, mowers, blades, plows, and sprayers
- Trailers for transport of equipment
- Computers, including original software
- Printers
- Furniture (i.e. workstations, decks, chairs)
- Voting equipment
- Filing equipment
- Office equipment
- Appliances
- Library books

Note: This list is not all-inclusive.

The acquisition cost of machinery and equipment includes the following expenditures:

- Purchase price
- Delivery charges
- Installation cost
- Sales Tax
- Initial expenditures required to place the asset in its intended operating state

Some assets, individually, may fall below the capitalization threshold but may be purchased in large quantities by the county. Examples include library books, workstations, furniture, etc. The county will aggregate such assets and consider the materiality and significance of them and if material or significant, capitalize such items either individually or in the aggregate.

Donated items are recorded at fair value when acquired. The county may include property not in these guidelines, provided the policy is applied consistently.

Law library books are considered to have a useful life of greater than one year; they are considered capital assets and are depreciable. The books will be capitalized as a group on an annual basis and will not be tracked on an individual basis for capital asset reporting or tracking purposes.

Capital Asset Reporting

Capital assets should be reported at historical cost. The cost of a capital asset should include ancillary charges necessary to place the asset into its intended location and condition for use. Ancillary charges include costs that are directly attributable at asset acquisition – such as site preparation expenditures, design engineering, construction management, inspection, permits, insurance, freight and transportation charges, sales tax, installation charges, professional fees, and legal costs directly attributable to asset acquisition. Donated capital assets should be reported at their estimated fair value at the time of acquisition plus ancillary charges, if any.

When the historical cost of a capital asset is not practicably determinable, the estimated historical cost of the asset should be determined by appropriate methods and recorded. Estimated historical costs should be so identified in the record and the basis of determination established in the Capital Asset System.

Self constructed assets, the county will capitalize all direct costs associated with construction (labor and materials).

Department Responsibility

Department Heads are responsible for protecting and controlling the use of their assets. This responsibility may be delegated to someone else within his or her department. It is the department's responsibility to follow the procedures laid out in this policy to ensure accurate and timely reporting of capital assets to the County Auditor-Treasurer's Office.

Purchasing Capital Assets

The requested asset should have already been included in the current year's budget. The County has established a policy that the County Board before purchase approves any capital asset expenditure that exceeds $5,000 in total cost. The County Board approves construction or acquisition of infrastructure assets.

Coding

Generally, if a capital asset has a cost greater than $5,000.00 and has a useful life of more than one year, then the capital asset should be capitalized and coded to the following object numbers:

6610 -- Capital Asset $5,000 and over
6612 -- Capital Inventory under $100-$4,999

Note: If an individual invoice for a capital asset is under $5,000 but it is part of an asset that will in total be over $5,000 and will be capitalized it should be coded to 6610.

For the County Recorder's Office and County Auditor-Treasurer's Office, the capital asset could be capitalized and coded to the following object numbers:

6611 -- Capital Asset Reserves over $5,000
6612 -- Capital Inventory Reserves under $100-$4,999

Capital Asset Forms

Each department is required to complete the following capital asset forms:

- Acquisition Form for Inventory $100-$4,999 (Purple)
- Acquisition Form for Capital Assets $5,000 + (Pink)
- Addition/Improvement Form (Yellow)
- Disposal/Transfer Form (White)

Acquisition Form

This form will be used for new capital assets. The data elements consist of identifying characteristics that will be recorded for capital assets. It is important that the Departments initially identify the data elements to satisfy both internal and external reporting requirements.

New capital assets are recorded at historical cost, or if donated, fair market value at time of donation. This includes not only its purchase price or construction cost, but also ancillary charges necessary to place the asset in its intended location and condition for use. Ancillary charges includes, but are not limited to, costs such as: freight and transportation charges, sales tax, installation charges, testing costs, site preparation expenditures, professional fees, architect fees and legal fees directly associated with the acquisition or construction of an asset. Repairs to existing capital assets will generally not be subject to capitalization (see *"Acquisition of Asset."*).

This form shall be attached to the claim voucher and invoice when presented for payment. No invoice for capital assets will be paid until the capital asset form has been completed and submitted by the department to the Auditor-Treasurer's Office. Exception: when there are several invoices for various vendors that come at various times but are for one asset, the department purchasing the asset and Auditor-Treasurer's Office must coordinate when the forms should be sent.

The Acquisition form is also required for self-constructed assets. The department head is responsible for notifying the County Auditor-Treasurer's office of any assets that will be self-constructed. The Auditor-Treasurer's office and the constructing department will coordinate how and by whom the cost and supporting documentation will be obtained and recorded. Invoices and timesheets will be used to determine the cost. Information generated from the Highway Cost System may be used to determine self-construction costs associated with assets of the Highway department.

Addition/Improvement Form

This form will be used to capitalize expansions, extensions, or improvements to existing capital assets that increase future benefits from an existing capital asset beyond its previously assessed standard of performance.

Repairs to existing capital assets will generally not be subject to capitalization unless it extends the useful life of the asset. The criteria for determining whether an expense is a repair or improvement is listed in the following pages (see *"Acquisition of Assets"*).

Disposal/Transfer Form

This form should be completed prior to the disposal of any surplus property or transfer from one department to another department. Each department is required to complete this form and return it to the Auditor-Treasurer's Office. When transfers are made between departments, the form needs to be signed by both departments and returned to the Auditor-Treasurer's Office. Surplus property, can be sold at public auction, transferred from one department to another department, recycled, or disposed of as junk to a landfill or other appropriate waste removal facility.

Through second party vendors, vehicles, computers, printers, keyboard or other electronic equipment may be disposed via auction or recycled with County Board approval. The Departments that use second party vendors need to notify the Auditor-Treasurer's Office of any proceeds from the sale of capital assets. The proceeds received must be documented on the disposal form. Proceeds from the sale of capital assets should be receipted into object code *5920 i*n the general ledger.

An infrastructure asset is usually only disposed of in connection with its replacement or reconstruction. The Highway Department and the Auditor-Treasurer's Office must coordinate the identification of the new and old assets so the proper financial reporting may be accomplished.

Acquisition of Assets

The requested asset should have already been included in the current year's budget. The County has established a policy that the County Board before purchase approves any capital asset expenditure that exceeds $1,000 in total cost. The County Board approves construction or acquisition of infrastructure assets. *Refer to the Capitalization Threshold table on "Page 3"*

- New capital assets, new assets are recorded at historical cost, or if donated, fair market value at time of donation. This includes not only its purchase price or construction cost, but also ancillary charges necessary to place the asset in its intended location and condition for use. Ancillary charges includes, but are not limited to, costs such as: freight and transportation charges, sales tax, installation charges, testing costs, site preparation expenditures, professional fees, architect fees and legal fees directly associated with the acquisition or construction of an asset. Repairs to existing capital assets will generally not be subject to capitalization. Historical cost does not include any reductions in cost due to trade-in allowance received, therefore, any trade-in allowance received should not be deducted from the cost to arrive at the historical cost.

- Repairs and maintenance are not capitalized. Improvements will be capitalized if they meet the following criteria:

    1. The costs exceed the capitalization thresholds, and
    2. One of the following criteria is met:
        a. The estimated life of the asset is extended by more than 25%, or
        b. The cost results in an increase in the capacity of the asset, or
        c. The efficiency of the asset is increased by more than 10%.

    Otherwise, the cost should be recorded as a repair and maintenance expense within the appropriate expense function.

- Improvements, to existing capital assets will be presumed (by definition) to extend the useful life of the related fixed asset and, therefore, will be subject to capitalization only if the cost of the improvement meets the $5,000 threshold. In theory, an improvement to a fixed asset that had an original cost of less than $5,000, but now exceeds the threshold as a result of the improvement, should be combined as a single asset at the total cost (original cost plus the cost of the improvement) and capitalized.

- Leased Equipment, should be capitalized if the lease agreement meets any one of the following criteria:
    - The lease transfers ownership of the equipment to the lessee by the end of the lease term.
    - The lease contains a bargain purchase option.

    - The lease term is equal to 75 percent or more of the estimated economic life of the leased equipment.
    - The present value of the minimum lease payments at the inception of the lease, excluding executor costs, equals at least 90 percent of the fair value of the leased equipment.

  A lease that meets any one of the above criteria will be capitalized as an asset in the year the lease begins. It will be reported in the capital asset category it belongs in, usually Machinery and Equipment.

  Leases that do not meet any of the above requirements should be recorded as an operating lease and reported in the notes of the financial statements.

- <u>Self constructed assets</u>, the county will capitalize all direct costs associated with construction (labor and materials). The cost will be calculated based on invoices, timesheets, information obtained from the highway cost system, and any other sources available.

<u>Disposal of Surplus Property</u>

Surplus property, can be sold at public auction, transferred from one department to another department, recycled or disposed of as junk to a landfill or other appropriate waste removal facility. Property that is not sold at a public auction will be disposed of.

Through second party vendors, vehicles or computers, printers, keyboard, etc. or other electronic equipment may be disposed via auction or recycled with County Board approval. *(Reference Exhibit A and Exhibit B)*

An infrastructure asset is usually only disposed of in connection with its replacement or reconstruction.

The County currently has minimal amount of storage capacity available for surplus property. Because of the limited nature of space, it may be necessary for departments to retain surplus property until appropriate auction date.

Proceeds from the disposal of surplus property held by public auction will be allocated to the General Fund unless the property was originally purchased with monies from a specific Fund, in which case, the proceeds will be returned to that specific fund.

Proceeds from the sale of capital assets through a second party vendor will be allocated back to the appropriate department budget into object code *5920 i*n the general ledger. The proceeds received must be documented on the disposal form.

Departments are to adopt internal polices and procedures regarding the timely removal of capital assets from inventory, including procedures for the proper approval of disposal. Capital assets are to be removed from active inventory only after being declared surplus by the County Board of Commissions and sold at auction.

Departments are to maintain records of capital asset disposition. At minimum, records of asset removal must be kept until after the next annual audit by the independent Auditors.

Asset's Estimated Useful Life

The Capital Assets Useful Life Table is to be used as a guide only, it does not include useful lives for every situation and may change as circumstances arise.

Asset Type	**Years**
Non-Infrastructure	
Motor Vehicles/Boats	
Cars & light Trucks/SUV's	5
Squad Cars	4
Other Vehicles	5
Buses	8
Boats	10
Buildings	
Maintenance Facilities/Garages/Shops/Barns	30
Storage Sheds/Shelters	20
Office Buildings	40
Asset Type (continued**)**	**Years**
Residential Buildings	30
Building Improvements – determined on a case by case basis	5-30
Other Buildings	30
HVAC Systems – heating, ventilation, air conditioning	10-20
Roofing	10-20
Carpet Replacement	7
Electrical/Plumbing	30
Furniture	5
Office Equipment – copiers, faxes, postage meters	5
Computers	3
Kitchen Equipment – appliances	12
Radio, Communications Equipment – mobile, portable radios	
Telephone Equipment	10
Recreational/Athletic Equipment – weight machines, treadmills	10
Police Special Equipment	5
Law Library Books	10
Outdoor Equipment – playground, radio tower	20
Custodial Equipment – sweeper, floor scrubbers, vacuums, etc.	12
Grounds Equipment – mowers, tractors, snow blowers and attachments	10

Other Equipment	5
Docks/Piers/Ramps	15
Heavy Equipment – backhoes, dozers, front-end loaders, tractors, trucks	10
Land Improvements	
Fencing	10
Landscaping	10
Lighting	10
Parking Lots	20
Curbs, sidewalks, gutters	10
Paths/Trails	10
Other Land Improvements	10
Artwork – historical treasures	10
Infrastructure	
Roads	50
Bridges	75
Easements – no depreciation	
Other Infrastructure – determined on a case by case basis	

<u>Salvage Value</u>

The salvage value of an asset is the value it is expected to have when it is no longer useful for its intended purpose. The asset could be sold at the end of its useful life for this amount. The salvage value will be determined by the department purchasing the asset and will be entered on the asset acquisition form. This value may be based on: 1) General guidelines from professional organizations, 2) Information from other governmental entities, 3) Internal knowledge and experience, or 4) Professionals such as engineers, architects, etc.

- Buildings 20% salvage value
- Improvements Other Than Buildings 20% salvage value
- Infrastructure 30% salvage value
- Machinery and Equipment 10% salvage value

<u>Depreciation</u>

Depreciation expense is reported as a direct expense of the functional levels, with the exception of the Courthouse, North Complex, and Social Services buildings whose entire depreciation expense is reported within General Government. The functional levels are:

- General Government
- Public Safety
- Highways and Streets
- Sanitation

- Human Services
- Health
- Culture & Recreation
- Conservation of Natural Resources
- Economic Development
- Debt Service

Infrastructure depreciation is reported as a direct expense of the responsible function – primarily Highways and Streets. The Highway Department also calculates depreciation expense for cost and reimbursement purposes. The depreciation expense for cost accounting purposes may not be identical to the depreciation expense for GASB 34 reporting purposes. Depreciation is an allocation of costs over the expected useful life of an asset. The expected useful life is an estimate and therefore, actual results may differ from those estimates. The estimates also may change over time due to changes in condition.

The straight-line depreciation method will be used on capital assets, which allocates the cost evenly over the life of the asset. The full-month Convention will be used for depreciation on capital assets that are not acquired at the beginning of the year. Depreciation will begin the first day of the month of purchase and will be calculated using the straight-line method.

Significant gains or losses on the sale or disposition of capital assets will be recorded in general revenues or general government expenses not as a direct expense of the program or department. Insignificant gains or losses will be recognized as an adjustment in the current year's depreciation expense.

Non-depreciable capital assets include:

- Land
- Construction in progress
- Inexhaustible Collections or Works of Art

Tagging and Identifying Capital Assets

The purpose for tagging is to provide an efficient mechanism for inventorying capital assets. A tag is a bar coded label that is affixed to each asset that is to be inventoried. Identifying that the property belongs to the county, except as noted.

This identification should:

- Facilitate accounting for the asset
- Aid in its identification if the asset is lost or stolen
- Discourage theft
- Support inventory control

The capital asset should be marked permanently by affixing the identification to the asset by using a control numbered standardized adhesive tag provided by the Auditor-Treasurer's Office.

The assigned asset tag will then be forwarded on to the Department to attach to the asset located on the principal body of the asset, rather than a removable part, but accessible place on the asset.

Occasionally, it will be impractical or impossible to mark some inventorial capital assets according to these standards. For example, do not tag if the capital asset:

- Is stationary in nature and not susceptible to theft (such as land, infrastructure, buildings, and improvements other than buildings;
- Has a unique permanent serial number that can be used for identification, security, and inventory control (such as vehicles);
- Would lose significant historical or resale value by being tagged; or
- Would have its warranty negatively impacted by being permanently marked;

In some cases when there is an asset that a tag cannot be physically attached, the tag will be kept in another location (example: with copy of original paperwork) and the location (site) will be noted on the capital asset form.

When the capital asset form (Acquisition Form) from the department is received in the Auditor-Treasurer's Office, the capital asset information will then be entered into the Capital Asset System. A copy of the invoice and any other documentation is made and attached to the capital asset form and filed in the Auditor-Treasurer's Office. Reports will be sent out twice a year to the each department summarizing their assets. The department will verify the report and notify the Auditor-Treasurer's Office of any changes.

<u>Procedures for Inventory of Capital Assets</u>

All capital assets costing $5,000.00 or more must be inventoried and listed in the Capital Asset System. The departments will do a complete physical inventory once every year to ensure accuracy of the Capital Asset System except as noted below.

Due to the stationary nature of certain assets (such as land, infrastructure, buildings, and improvements other than buildings), performing a physical inventory every year is not required.

In order to ensure objective reporting of inventory items, personnel having no direct responsibility (custody and receipt/issue authority) for the inventory should perform the physical inventory. If it is not feasible to use such personnel for a part of the inventory, then those portions are at least to be tested and verified by a person with neither direct responsibility for that portion of the inventory nor supervised by the person directly responsible. The Department Head may use personnel from other departments to perform their inventory if possible.

The Auditor-Treasurer's Office will provide written physical inventory instructions, and capital asset report to each department to complete the inventory process. The instructions should describe:

- How and where to record each item
- What information to record

- What to do when they have a question
- What procedures to follow when they finish their assignments
- What procedures to follow when equipment is located but not listed
- The procedure by which the person counting the asset attest to the accuracy of the count, such as by signing his or her name at the bottom of each inventory page, or signing a cover page for a group of pages sorted by another method (equipment type, location, etc.) and
- How to record assets not being used or in an obviously unserviceable condition.

After the physical inventory count is completed, the department is to conduct the reconciliation process. Only when all differences have been identified and explained, is the inventory considered reconciled.

Departments should conduct the following steps during the reconciliation process:

- Search the inventory lists to determine whether inventory noted during the count as unrecorded is, in fact, listed on another portion of the inventory.
- Contacting the Auditor-Treasurer's Office to research Capital Asset System for other scenarios that may have occurred.
- If a significant number of unrecorded assets are located, a major problem with the asset recording procedures may exist. The Department Head should determine why the problem is occurring and correct it.
- Conduct a search in an effort to locate missing assets.
- For assets not located, follow the lost or stolen property procedures in this policy.

After the inventory is reconciled, the Department Head is to certify the reconciliation with a statement and signature that it is correct. The certification, together with the reconciliation and the inventory listing, serves as the support for the inventory balance and for accounting adjustments, if any, and must be retained by the Auditor-Treasurer's Office. The Department Head should also retain a copy of this documentation. At a minimum, the inventory records must be retained until after the next annual audit by the independent Auditors.

Departments are to adopt internal polices and procedures regarding the timely removal of capital assets from inventory, including procedures for the proper approval of disposal. Capital assets are to be removed from active inventory only after being declared surplus by the County Board of Commissions and sold at auction (including second party vendors). Departments are to maintain copies of capital asset disposition and the Auditor's Office will maintain all original records. At a minimum, the copies of asset removal must be kept until after the next annual audit by the independent Auditors.

When lost or stolen property is suspected or known losses of inventory occur, Departments should conduct a search for the missing property. The search should include transfers to other departments, storage, scrapping, conversion to another asset, etc. If the missing property in <u>not</u> found:

- Notify the Department Head and the Auditor-Treasurer’s Office.
- Have the individual deemed to be primarily responsible for the asset, as well as that individual’s supervisor, complete and sign a statement to include a description of events surrounding the disappearance of the property, who was notified of the loss, and steps taken to locate the property.
- Report known or suspected losses of assets to the State Auditor’s Office in accordance with M.S. 609.456

Remove the lost or stolen property from the department’s inventory and accounting records where applicable. At am minimum, maintain records for losses of inventoriable assets until after the next annual audit by the independent Auditors.

Small and Attractive Assets

Assets costing less that $5,000 and more than $100 must be tracked if they are considered small and attractive. Small and attractive assets are those assets that are particularly at risk or vulnerable to loss. The Department Head should implement specific measures to control and keep track of small and attractive assets in order to minimize identified risks.

Departments have discretion in setting their definition of small and attractive assets; however, departments must include, at a minimum, the following assets with unit costs of $100 or more as small and attractive:

- Communications Equipment; both Audio and Video
- Optical Devices, Binoculars, Telescopes, Infrared Viewers, and Range Finders
- Cameras and Photographic Projection Equipment
- Microcomputer Systems, Laptop and Notebook Computers
- Other data processing Accessory Equipment and Components (Scanners, Data Displays, Palm Pilots, etc.)
- Office Equipment
- Radios, Televisions, Tape Recorders, VCRs, and Video Cameras

The inventory procedures should follow the same guidelines as the capital asset inventory procedures from the previous pages.

MCLEOD COUNTY
ACQUISITION FORM

Asset Tag # ________ Acquisition Date ____________ Serial Number ________________

Description ____

Unit # ________

Acquisition Type: Purchase Trade Donation Vendor Name ________________

Manufacturer/Make ______________________________ Model Year ________________

Model ______________________________

Location of Tag ____________________ Condition New Good Fair Poor

Department ____________________ Location ____________________________

Employee assigned ____

Warranty Expiration Date ____________________ License # ____________________________

Is this item attached/linked to another asset? If Yes, what asset? ________________

Estimated salvage value ____________________ Account Code ____________________________

			Vendor #	Invoice #	Purchase Order #
Original Cost					
Additional Costs					

Less: Trade In allowance ____________ Item Traded: ________________

Total Cost ____________

Prepared By: ____________________ Approved By: ____________________________

PLEASE INCLUDE COPIES OF ALL INVOICES AND PURCHASE ORDERS

Auditor's Office Use Only:

Estimated Useful Life ________

Source of Funds ____

Asset Type Capital Asset Inventory Component Unit Master Tag # ________________

Asset Class Land Land Imp Bldg & Imp Road & Bridge EDP Furniture Mach/Equip

Office Equip Personal Equip Signage Parks Shop Equip & Tools Vehicles

MCLEOD COUNTY
ADDITION/IMPROVEMENT FORM

Asset Tag # ______ Acquisition Date ______ Serial Number ______
Description ______
Unit # ______
Vendor Name ______ Model/Year ______
Manufacturer/Make ______
Location of Tag ______
Department ______ Location ______
Account Code ______
Type of Improvement ______
What asset is being improved or added to? ______
Master Tag # ______

COST:

Description	Cost	Vendor #	Invoice #	Purchase Order #

Less: Trade In Allowance ______ Item Traded: ______
Total Cost ______

Prepared By: ______ Approved By: ______

PLEASE INCLUDE COPIES OF ALL INVOICES AND PURCHASE ORDERS

Auditor's Office Use Only:

Is the estimated life of the asset extended? Yes No How much? ______
Is the capacity of the asset increased? Yes No How much? ______
Is the effeciency of the asset increased? Yes No How much? ______
Source of Funds ______
Master Tag # ______
Asset Class Land Land Imp Bldg & Imp Road&Bridge EDP Furniture Mach/Equip
Office Equip Personal Equip Signage Parks Shop equip & Tools Vehicles

MCLEOD COUNTY
DISPOSAL/TRANSFER FORM

Tag # ______________________ **Description** ______________________

Location ______________________ **Department** ______________________

Serial # ______________________ **Make/Model** ______________________

Disposal Scrapped Traded Sale/Auction Transferred

Reason ____

<u>Fill In Information Below That Corresponds With The Disposal Type Above</u>

<u>Scrapped</u>

Date of Disposal ______________________

<u>Traded</u>

Date of Trade ______________________ Replacement ______________________

Trade in Amount ______________________

Vendor ______________________ Vendor # ______________________

<u>Sale/Auction</u>

Date of Sale ______________________ Sold to ______________________

Amount ______________________ Receipt # ______________________

Were bids obtained? Y N Photo Taken ☐ Yes ☐ No

(Please include copies of bids if they were obtained)

<u>Transferred</u>

Date of Transfer ______________________

New Department ______________________ Employee Assigned ______________________

Old Department Approval ______________________

New Department Approval ______________________