

Winona County
Financial Policies and Procedures Manual

<p>Policy: Fixed Assets</p> <p>Winona County Finance Policies and Procedures</p>	<p>Policy #: 4.01</p> <p>Board approval date: Revised date: 04/25/2017</p>
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I. Policy

Certain items purchased by the County have a significant cost and a useful life of two or more years. Therefore, these items are recorded as assets (capitalized) and depreciated over their estimated useful lives, in accordance with County guidelines.

II. Scope

This policy applies to all County staff in the proper recording of items purchased by the County, Grant and Private Sponsor funds.

III. Procedures

A. Capitalization Thresholds

Capital Asset Category	Tracking or Inventory	Capitalize and Depreciate of Financial Reporting
Land		Capitalize only
Construction in Progress		Capitalize when completed
Building and Building Improvements		\$50,000
Machinery and Equipment	\$1000	\$50,000
<input type="checkbox"/> Firearms	\$1	\$50,000
<input type="checkbox"/> Computer Equipment (EDP)	500	\$50,000
<input type="checkbox"/> Radio & Equipment (EDP)	500	\$50,000
<input type="checkbox"/> Titled Vehicles	\$1000	\$50,000
Infrastructure		Greater than \$5,000
Improvements other than Building		\$50,000

B. Establishing Depreciable Cost

The depreciable cost of an asset may be established using these methods:

- Establish original cost from purchase documentation.
- Use a defensible deflation method to estimate original cost.

C. Depreciation Conventions and Guidelines

All depreciation and amortization calculations shall use the “straight line” method. For financial statement purposes a full-month depreciation convention

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will be used. The addition of an asset will be recorded at the date of acquisition. Depreciation for the first year of services will be recorded as if the asset had been in service for the entire month it was purchased in. In the event of a disposal of an asset, depreciation on that asset will be recorded for the year of the asset's disposal as if the asset were in service for the entire month it was disposed in. The calculation of any gain or loss on disposal will include the effect of the depreciation for the year of disposal.

Land is not depreciated.

Capital Asset Category	Useful Life
Land	0
Building and Building Improvements	40- 100
Machinery, Furniture and Equipment	5-15
<input type="checkbox"/> Firearms and Computer Equipment	5
<input type="checkbox"/> Maintenance equipment	5
Transportation Equipment	5-40
<input type="checkbox"/> Vehicles	5-10
<input type="checkbox"/> Boats and Trailers	20
<input type="checkbox"/> Heavy Construction Equipment	15-30
Furniture and Fixtures	20
Infrastructure	
<input type="checkbox"/> Roads	50
<input type="checkbox"/> Bridges	75
Improvements other than Buildings	

D. Land

Land is capitalized at acquisition cost including assessments, legal, and recording fees; realtor and appraisal fees, draining, filling, other site preparation costs; judgments levied from damage suits; demolition (razing) costs of structures on land acquired as building sites. Land acquired by gift will be capitalized at Fair Market or Appraised Value at the time of acquisition. The acquisition cost of property, that includes structures not to be razed (torn down), will be allocated between land and buildings based upon appraised values.

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E. Acquisition by Purchase or Construction

Acquisition by Purchase: Buildings acquired by purchase will be capitalized at acquisition cost with the purchase price and associated closing costs allocated between land and buildings on the basis of current appraised values. Additional costs incurred for the purpose of renovating or modifying the building's structure in order to place it in service will also be capitalized.

Acquisition by Construction: Initial capitalization includes construction costs of the building structure, including all internal piping, wiring, and permanent fixtures associated with the distribution of utilities within the building. Costs should also include architectural and engineering fees, inspection fees and permits, bid advertisement expenses, construction financing interest expense, utilities, and insurance costs incurred during the construction period.

Machinery, Furniture and Equipment

F. Donations of Capital Assets

Donations of equipment and capital assets are recorded at fair market value as of the date of receipt. Official gift receipts are issued by the Finance Department/department receiving donation. If the donated value is more than \$50,000 and no published list price exists, an appraisal may be required. The cost of the appraisal shall be an operating expense of the County unless paid by the donor. This appraisal is for County accounting valuation only – all donors are to be advised that it is their responsibility to obtain a qualified appraisal for their personal tax use.

G. Leased Equipment

Leased equipment must be capitalized (recorded as an asset) if the leased asset value exceeds \$50,000 and the lease meets any of the following criteria as a capital lease:

- The lease transfers ownership of the property.
- The lease contains a bargain purchase option (bargain being lower than expected fair value).

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- ❑ The lease term is at least 75% or more of the estimated economic life of the property.
- ❑ The present value of the minimum payments equals or exceeds 90% of the fair value of the property.

All questions about lease accounting should be directed to the Finance Director to make the final determination of the proper accounting treatment.

H. Buildings and Building Improvements

Renovations and improvements may be added to the capitalized value of the existing structure being impacted. Such additions might include the following:

- ❑ Ramps, truck doors, fire escapes, and other accessories.
- ❑ Improvements requiring modifications of the structure to comply with current fire, health, access, and safety codes.
- ❑ Improvements undertaken to convert unusable floor space into usable floor space; or upgrade the use of floor space.
- ❑ Modernization of the structure as a whole, and not merely a rearrangement of selective office space.
- ❑ When the renovation project involves a significant razing of the existing structure, the cost of the portion that was razed should be removed from the asset. If the original cost figures are unavailable, a reasonable estimate of the original cost should be used.

If the modifications to the structure are determined to be complete, the structural improvement(s) may be depreciated over 40 years.

Renovations that do not meet the criteria above shall be expensed.

I. Infrastructure

Government Accounting Standards Board Statement No. 34 (GASB 34) requires that we book the County infrastructure as fixed assets. It requires us to record assets expensed in the past (retroactively) and book the current expenditures as assets as we move forward (prospectively). The following categories of infrastructure fixed assets have been identified: Roads, Bridges and Right-of-

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way. All amounts will be rounded to the nearest whole dollar. The County will account for each as follows:

Roads

Definition: Roads include, but are not limited to, road surface, sub-surface, drainage, signs and lighting for all County State Aid Highways (CSAH 1-54) and all County roads (CR 102-129) in Winona County. Road costs include, but are not limited to, construction labor, construction equipment time, materials signs, lighting, sewers, landscaping, and overhead.

Retroactively: We will value the road system at its current replacement value and deflate it using the Federal Highway Administration Price Indices (FHWA cpi index). This is an acceptable method used to determine the "year built" estimated cost by using current year costs and converting that cost back to the year the construction took place. Roads will be depreciated out using straight-line depreciation with a fifty-year life for bituminous, concrete and gravel roads with no residual value.

Prospectively: We will capitalize the cost of all competitively bid construction contracts as verified by actual project costs. In addition, external design work will be capitalized. All other costs will be expensed. Overlays will be capitalized only if they represent a major increase in efficiency or extend the useful life. An overlay, which 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.

Bridges

Definition: Bridges include all bridges on Winona County Roads as defined by the Minnesota Department of transportation. Bridge costs include, but are not limited to construction costs as evidenced by the contract for bridgework, approach work, guardrails, sidewalks, signage and lighting. In the event that the highway department installs the bridge (culverts), we will capitalize the labor, equipment, materials and overhead associated with the job. If the total bridge cost is over one hundred thousand dollars, we will value our share at full value. If not, we will list it at a zero value.

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Retroactively: We will value the bridge system at its current replacement value and deflate it using the FHWA cpi index. Bridges older than 75 years will be treated as fully depreciated. Bridges will be depreciated out using straight-line depreciation with a seventy-five year life with no residual value.

Prospectively: We will capitalize the cost of construction as verified by the contract price. In addition, external design work will be capitalized. All other costs will be expensed. Deck overlay and deck rehabilitation projects will be capitalized only if they represent a major increase in efficiency or extend the useful life. An overlay or rehabilitation that gets the bridge to the end of its useful life will be expensed. Bridges will be depreciated out using straight-line depreciation with a seventy-five year life with no residual value.

Right of way

Definition: Right of way shall only include permanent easements and deeded property acquired for highway purposes. Right of way cost will include, but not be limited to, the purchase price from the landowner, the 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. All other expenditures including appraisal fees and title opinions will be expensed.

Retroactively: We will value the right of way system at its current replacement value and deflate it using the FHWA cpi index. Right of way will not be depreciated.

Prospectively: We will capitalize the purchase of the right of way using the cost definition above. All other costs will be expensed. Right of way will not be depreciated.

Construction in progress

Construction projects that have been awarded and are taking one or more years to complete will be tracked in a “work-in-progress” category until such time as they are placed into service. Once it is “in service”, the total cost of the project would then be moved from work in progress and would begin to be depreciated.

J. Improvements Other Than Buildings

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This category includes costs of improvements to land owned or used by the County. The nature of many improvements is such that it is impractical to inventory these items for the purpose of assuring that the value of the improvements, or portions thereof, are removed from the accounts upon abandonment, replacement, or modification. Accordingly, various classes of improvements will be capitalized and depreciated for a period of 20 years. It shall also be the County's policy to capitalize all costs in this category that are incurred in conjunction with a major building project.

K. Asset Tags

All fixed assets with an original acquisition cost of \$50,000 or more and with a useful life of two years or more will be identified and tracked in the County's Fixed Asset System. This will be accomplished by attaching a pre-numbered tag to each asset.

Items classified as inventory shall use the same tags as fixed assets.

L. Fixed Asset/Inventory

To ensure that all capitalized assets and inventory have been properly recorded and tracked, Winona County will conduct a physical inventory of all fixed assets and reconcile the results of the inventory with the County's Accounting and Property Management records. Over the course of a two-year period, a physical inventory will be conducted on all fixed assets. In the years when a physical inventory is not scheduled a current listing of fixed assets will be sent to the department for verification.

M. Accounting for Asset Inventory

Since all fixed assets are tagged when they are acquired to help the County track their locations, it is imperative that the Department Head or designee advise the Finance Department of their movement or disposal. All fixed assets and inventory need to be declared excess by the County Board before disposal. Once declared the department can dispose in the least expensive way but must notify the Finance Department.

The timely and accurate reporting of asset disposals (along with any salvage proceeds) and moves will help ensure the accuracy of the County's accounting

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records and reduce departmental time in reconciling and reviewing exceptions generated from the physical inventory. Additionally, timely depositing of sale or salvage proceeds is required. Timely deposit of proceeds is defined in Cash Handling Policy 3.01.

Any moves within a building, between buildings or to/from temporary or permanent storage are to be reported to the Finance Department. In addition, if one department transfers an asset to another without the equipment physically moving from one room to another, the transfer must also be reported.

N. Grant Funded Equipment

In situations where grant funds, whether private or government, are used to purchase equipment, policies of tagging and inventorying the equipment are the same as for assets purchased with County funds.

O. Modular Furniture and Furnishings

Modular furnishings, by their nature, are designed to be used in different configurations and combinations and relocated with ease. Because each piece can be used or discarded and tracking by piece is not reasonable, modular furniture and furnishings will not be capitalized.