




# ADMINISTRATIVE DIRECTIVE

<b>DIRECTIVE NO:</b> 2026-02	<b>ISSUE DATE:</b>
<b>ISSUED BY:</b> D. McClary	<b>SIGNATURE:</b> 
<b>VILLAGE COUNCIL APPROVAL DATE:</b> 03/08/2004	
<b>REVISION DATES:</b> 00/00/2026	
<b>RESCINDS/REPLACES:</b>	
<b>CATEGORY:</b> FINANCIAL MANAGEMENT	
<b>SUBJECT:</b> Fixed Asset Capitalization and Reporting Policy	

## LEGAL AUTHORITY CITATION

This administrative directive is issued by the Village Manager pursuant to the following legal authority:

- Village Charter – Sec. 3.12 – Duties of administrative officers; performing such duties as are provided for such officers by state law, this Charter, the village ordinances, and the administrative directives of the Village Manager
- Village Council Resolution adopted on \_\_\_\_\_.

## PURPOSE

The purpose of this policy is to establish the capitalization criteria, depreciation methods, data requirements, reporting requirements, and physical inventory requirements for fixed assets.

## POLICY

### **Section 1. Definitions**

“Asset” means something that has value and can be used to create economic value. Assets can be tangible, like a physical item, or intangible, like data or software.

“Capitalization” means the provision of capital for a company or organization, or the conversion of income or assets into capital.

“Depreciation” means an accounting practice used to spread the cost of a tangible or physical asset, such as a piece of machinery or a fleet of cars, over its useful life. The amount an asset is depreciated in a given period of time is a representation of how much of that asset's value has been used up.

“Fixed asset” means an asset which is purchased for long-term use and is not likely to be converted quickly into cash, such as land, buildings, and equipment.

## **Section 2. Capitalization Criteria**

An asset will be capitalized if it meets the following criteria:

1. The asset has an extended useful life of more than one (1) year; and
2. The asset has a total value of \$2,500.00 or more.

Major additions or improvements to assets will be capitalized if they prolong the asset life or expand their usefulness (maintenance of an asset in its present condition should not be capitalized).

Assets can be grouped if they are purchased together and the resulting value of the asset group is at least \$2,500.00.

## **Section 3. Depreciation Methods**

All fixed assets will be depreciated using a straight line, half year convention method.

The fixed asset will be valued at total cost (or fair market value if donated).

The following fixed asset classifications will apply:

1. 5-Year Life – computers, telephones, electronic equipment, police vehicles, DPW light weight vehicles
2. 7-Year Life – furniture
3. 10-Year Life – DPW heavy duty vehicles
4. 15-Year Life – land improvements (playground equipment, landscaping, signs, irrigation systems), water meters, building improvements (roof replacement), building mechanical systems
5. 25-Year Life – roads, parking lots, sidewalks, sanitary sewer pump stations
6. 40-Year Life – buildings and building additions
7. 50-Year Life – water, sewer, and sanitary sewer mains, manholes, and valves, fire hydrants

## **Section 4. Data Requirements for Each Asset**

The following data elements will be retained for each fixed asset:

1. Description
  - a. Property tag number
  - b. Description of asset
  - c. ID number (model number, serial number, VIN number, Parcel ID number)
  - d. Location

2. Acquisition Information:
  - a. Acquisition date and method (purchased, donated)
  - b. Vendor name, address, phone number, email address
  - c. Total value (includes shipping and installation, market value for donated assets)
  - d. Acquisition source documents (invoice, check)
3. Depreciation Information:
  - a. Depreciation method (straight-line, half year convention)
  - b. Fixed asset category and expected useful life
  - c. Fund/Account charged
  - d. Annual depreciation amount
4. Additions/Betterments Information:
  - a. Date and description of addition/betterment
  - b. Total cost of addition/betterment
  - c. Source documents (invoice, check)
5. Asset Retirement Information:
  - a. Retirement approved by
  - b. Disposal date and disposal method
  - c. Salvage value and source document (bill of sale, check)
6. Property Tag Information:
  - a. Property tags will include "Property of the Village of Lake Orion" and have a unique number and barcode
  - b. Location of placement of property tag – property tags will be positioned front, upper left on each asset whenever feasible (interior where possible on vehicles)
7. Fixed Asset Report Requirements:
  - a. The Clerk/Treasurer shall be responsible for maintaining all documents and reports relating to the fixed assets of the Village.
  - b. The Clerk/Treasurer shall, in addition to other documents and reports, maintain the following:
    - i. Property tag record for each individual fixed asset with data requirements listed in Subsection 6 above
    - ii. Fixed asset inventory list to support total value of fixed assets and accumulated depreciation on the General Ledger
    - iii. Annual depreciation expense calculations
    - iv. Annual reconciliation of capital improvement expenditures to the fixed assets list
8. Physical Inventory Requirements for Fixed Assets:
  - a. A biennial physical inventory of all fixed assets should be completed every even-numbered year in June.

- b. The Village Manager shall cause the physical inventory of fixed assets to be completed.
- c. The Clerk/Treasurer shall reconcile the physical inventory with the fixed asset inventory list and General Ledger accounts.