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RESOLUTION NO. 22-229:

Amend Fixed Asset Accounting and Policies Manual – Auditor

The County Commissioners do hereby approve the Amended Fixed Asset Accounting and Policies Manual – Auditor.

Fixed Asset Accounting And Policies Manual
Union County, Ohio

Union County Auditor
Andrea L. Weaver

Board of Commissioners
Steve Robinson
Dave Burke
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Revised June 29, 2022

Effective July 1, 2022

Introduction

These policies represent guidelines to be utilized in the maintenance of the county's fixed asset system. The intent of these policies is to provide structure in the processing of transactions and to assure a reasonable level of assurance that the information generated by the fixed asset maintenance system will be complete and accurate. In some circumstances, these procedures may not be strictly applicable.

Also, these policies take into consideration the limited time and resources for the County Auditor, and represent the minimum requirements to prepare audited financial statements in accordance with the generally accepted accounting principles (GAAP).

Definition of Fixed Asset

A fixed asset is tangible property obtained or controlled as a result of past transactions, events or circumstances, which is to be used in a productive capacity by the County and have a useful life of more than one year.

To qualify for inclusion in the County's fixed asset system; the following criteria must be observed:

1. The asset must have a cost or dollar value of **$5,000** or more.
2. The asset must have a useful life of one year or more.
3. The asset must be of tangible nature (possess physical substance).

The County has determined that assets having a value under **$5,000**, regardless of their useful life, will not be capitalized and will not be used for financial reporting purposes. *However, assets having a value of at least **$2,000**, but less than **$5,000** may be entered in the fixed asset inventory system for control purposes only.*

Classification of Fixed Assets

Union County conforms to GASB guidelines in classifying fixed assets in either the General Fixed Asset Account Group (Governmental Activities) or within individual Enterprise Funds (Business Type Activities). Fixed assets purchased from or acquired to benefit general, special revenue or capital project funds are accounted for in the General Fixed Asset Account Group. The General Fixed Asset Account Group is *only* an accounting entity, not a fiscal entity or a fund. It records no current assets and no liabilities of any kind. Further, it is concerned only with the source and applications of funds used for capital acquisitions. Conversely, fixed assets purchased from Enterprise funds are considered fund assets and are accounted for in these individual Enterprise funds.

Property Accounting Principles/ Types of Assets to be Included

Land:
This includes land currently in public use, being held for public use or available for sale.

Land is real property that generally includes both surface and content of the land. Land costs include the original contract price, along with liens assumed, legal and title fees, surveying, filling, grading, drainage and other costs of preparation for the use intended. Salvage receipts on demolition of an old building reduce the cost of the land. Acquisition of land through forfeiture is capitalized at the total amount of all tax liens and other claims surrendered. These include, but are not limited to the costs of acquiring ownership and perfecting title. Acquisition by donation is valued at the appraisal itself and should not be capitalized however. Special assessments incurred by the county are properly charged to the land account.

Land records should include the parcel number, lot or tract number, as well as the use and location.

Building:

Buildings consist of structure erected above or below the ground for the purpose of sheltering persons or property. Buildings are designed with a foundation, roof and may or may not have full enclosure. The costs for buildings include construction and purchase costs, cost of all fixtures permanently attached and made a part of the building. For constructed buildings, costs include contractor payments, in-house labor costs, attorney fees, insurance during construction and the like.

Building Improvements:

Building improvements consist of additions, improvements and replacements made to existing buildings. Building improvements increase the service potential of a building. They expand area, increase safety, improve climate control of the building or improve mobility within the building. Examples are the addition of a building wing, installation of a sprinkler system, central air conditioning or replacement of an elevator. A building improvement must have significant impact and be a material amount in order to be capitalized. For this reason, carpeting, partitions, installation of and/or renovations of an office all structure will generally be expensed. Building improvements are capitalized and depreciated separately from buildings.

Improvements Other Than Buildings:

This grouping includes all improvements outside a building or to a parcel of land.

Improvements to the land would consist of private driveways, walks, fences, parking lots and the like. These are recorded separately from land so they can be depreciated over their useful lives (if they are related to Proprietary funds).

Other examples in this category would include park development, yard, playground and picnic equipment, marinas, miscellaneous structures such as sheds, bleachers, etc, drinking fountains, irrigation systems, etc.

Sanitary Sewer System:

Sewer treatment plants should include above and below ground facilities. Basins and pits should be included as separate structures. Concrete tanks, treatment structures, digesters, etc, should be broken down by component for lifting purposes where practical. The sanitary sewer would also include underground piping, valves and lift stations. Pumps, etc. should be handled as equipment if they are not attached and remain moveable.

Furniture, Fixtures and Equipment:
This category is defined as personal property that is not attached to land, buildings or improvements and remains moveable. Items included in this category, but not limited to typewriters, computers, all vehicles, tables, chairs and the like. Costs associated with the direct purchase include tax and shipping costs, and related site preparation and installation charges unless these are nominal. Fixed asset records should include the department or location code and any identifying descriptions. For instance these identifying descriptions would be model and serial numbers, etc. **Use basic descriptions whenever possible.**

Equipment Under Capital Lease:
This should be considered separately or as a special component of furniture, fixtures and equipment.

In accordance with FASB 13, any non-cancelable lease agreement, which meets one or more of the following criteria, should be capitalized.

1. The lease transfers ownership of the property to the county at the end of the lease term.
2. The lease contains a bargain purchase option.
3. The lease term is equal to 75% or more of the estimated economic life of the leased asset.
4. The present value of minimum lease payments equals or exceeds 90% of the fair value of the leased asset.

Construction in Progress:
Construction in progress is used to account for expenditures accumulated to the balance sheet date relative to the construction of fixed assets. Expenditures include construction costs, contractor payments, interest costs incurred applicable to the period of construction, and other costs required to finish the project. For Governmental Fund construction projects, these amounts are not capitalized in the funds during the construction. The amounts are included in the Construction in Progress account of the General Fixed Asset Account Group. For Proprietary Fund construction projects, Construction in Progress should be recorded directly onto the balance sheet of the applicable, individual Proprietary Fund.

Asset Types to be Excluded:
Public domain infrastructure assets including roads, bridges, curbs and gutters, streets and sidewalks, drainage systems, lighting systems and similar assets. (Note the Proprietary Funds, generally oriented towards income determination, report all fixed assets acquired for use in their operations, including "infrastructure" assets).

Inventories of supplies to be consumed in the normal course of the county's operations. These items if material in amount are included on the county's balance sheet but are not intended to be accounted for on the fixed asset system.

Property Units:
Assets should be treated individually whenever feasible. If a situation arises that assets need to be grouped, consideration will be given based on professional judgement if the asset cost or value individually does not meet capitalization criteria, but does so if grouped or in cases where the assets are only capable of being used together or not intended to be used individually.

To maintain consistency standard uniform descriptions should be used wherever possible.

Depreciation:
Depreciation is required only for the County's Enterprise and any future Internal Service Fund assets. Depreciation for the Proprietary Fund fixed asset should be calculated through the fixed asset system and reported in the accounts of that fund. In the future the county may want to calculate depreciation on all fixed assets except for assets in land and construction in process. The ability to calculate depreciation for general fixed assets exists in the fixed asset system. Data elements required are cost, estimated life and acquisition date. These items are available whether or not the calculation for depreciation is made, and if so desired to calculate depreciation minimum effort is needed.

Pro Rate Convention:
Fixed assets are acquired throughout an accounting period and likewise are disposed of throughout an accounting period. The decision as to when depreciation begins or ends can be established many ways (for Proprietary assets and general fixed assets).

Options are available relating to depreciation issues and as to which one to use should be based on the ease of maintaining the fixed asset system, as well as its intended use. Union County depreciates assets based on the actual month of acquisition or disposal.

Depreciation Method:
Unless, otherwise stated all depreciation is calculated using the straight-line method, which is the method, used by most governmental units.

Useful Lives

Useful lives relate to the life expectancy of the fixed asset as used by the specific governmental unit. Listed below please find the useful lives the County has established for its fixed assets:

Description	Governmental Activities Estimated Lives	Business-Type Activities Estimated Lives
Land improvements	20 years	20 - 24 years
Buildings and improvements	6 - 40 years	6 - 50 years
Sewer Lines	N/A	50 years
Sewer Treatment Plant	N/A	50 years
Equipment	5 - 10 years	5 - 10 years
Furniture and fixtures	10 years	10 years
Vehicles	5 - 8 years	5 - 8 years
Property under capital lease	N/A	5 - 15 years

Useful lives are assigned to each asset unit or determined based on the average of the group. They are based on actual experience when possible or engineering evidence or practice if the County has no actual experience. The useful lives are expressed in terms of the probable total years of service to the specific government unit.

Coding System:
The coding systems for fixed asset records define the required data elements to establish and maintain the fixed asset information. Depending on the information available and the category of the asset, key data elements will include all or part of the following:

- Item description
- Funding source/source of money used for acquisition
- Asset category used
- Department code
- Acquisition method (purchase, donated, lease...)
- Voucher document or resolution
- Historical cost
- Asset identification or tag number
- Asset serial number
- Estimated useful life
- Estimated salvage value, if any
- Replacement cost
- Whether or not a maintenance agreement exists

Fixed Asset Valuation:
Fixed assets are generally valued at historical cost.

Sources of historical cost data can include: invoices, purchase orders, canceled checks, vouchers, contracts, board minutes, real estate closing documents, tax assessment records, price lists, etc.

Sources of replacement cost data can include: manufacturer's price lists, catalogs, trade journals, cost estimate manuals, cost engineering, consulting and appraiser's libraries.

Examples of the costs to be included in the capitalized amounts of the following assets, assuming direct purchase are:

Land:
Include purchase price, legal and title fees, appraisal fees, damage payments, site preparation and demolition.

Buildings, Building Improvements and Improvements other than Buildings:
Include purchase price, contract price, fees, claims, interest and related costs during construction.

Furniture, Fixtures and Equipment:
Include purchase or assembled cost, freight and installation.

If a fixed asset is acquired under a capital lease arrangement, the capitalized asset must be so identified. The capital lease agreement must be analyzed and its liability determined at the inception of the lease agreement, based on the computed present value of the future minimum lease payments. The fixed asset should be capitalized, based on the same determination, as of the date originally placed in service. If no interest rate is stated in the lease, the discount rate applied should be the incremental borrowing rate for the County. If the asset acquired is a general fixed asset, the present value of the amounts owed by the county for future lease payments will be accounted for in the General Long Term Obligations Account Group. If the asset acquired is a Proprietary Fund asset, both the capitalized asset, along with the remaining capital lease liability, will be reported directly on the Proprietary Fund's balance sheet.

Donations of assets can occur in a government setting, with assets being acquired as gifts from individuals or organizations. Valuation should be based on the fair market value on the date of the gift.

Special care must be given when determining if an outlay qualifies for capitalization as an improvement. Expenditures relating to fixed assets are made throughout the useful life of the assets. Whether these costs should be capitalized or charged to the current period as incurred is difficult to determine. Generally, significant expenditures that result in additional asset service, more valuable asset service or extensions of the useful economic life of an asset should be capitalized. Expenditures to repair assets or simply maintain assets in good operating condition should not be capitalized, but charged to the current period as an operating cost.

Construction in progress is an accounting valuation of assets (typically buildings or utility plant in-service) currently being built or assembled, in terms of the cumulative costs incurred up to the balance sheet date. The construction accounts are typically supported by capital projects or construction funds and should be used to accumulate and record construction-related transactions and costs until such time as the asset is complete and placed into service. It is at this point that the construction accounts would be closed to the appropriate fixed asset accounts and the fixed asset(s) obtained recorded on the fixed asset accounting system.

Transfers of property between Governmental Funds are merely a change in location, department responsibility, etc., of general fixed asset. A transfer of property from a Governmental Fund to a Proprietary Fund, with no monetary consideration involved, is a capital contribution that should be valued, in the Proprietary fund, at the fair market value of the transferred asset on the date of the transfer. Likewise, a transfer of the property from a Proprietary fund to a Government fund, with no monetary consideration involved, should be considered as a donated asset in the General Fixed Asset Account Group for its fair market value on the date of the transfer.

Exchanges or trade-ins of fixed assets sometimes take place in the course of asset acquisitions. When this occurs, the fixed asset property records are updated to reflect the fixed assets exchanged or traded in for new assets. The valuation procedure depends on whether the asset is part of the General Fixed Asset Account Group or a Proprietary Fund. The former does not record a gain or a loss. The value of the new asset is calculated as the trade-in or exchange value allowed for the old asset, plus any cash paid. The capitalized cost of the new asset is not to exceed its fair market value.

Gains and losses are recognized on the exchange or trade-in of fixed assets in Proprietary Funds. When dissimilar assets are exchanged, the asset received is valued at its fair market value. The gain or loss is the difference between the fair market value of the new asset and the book value of the old asset, plus any cash paid.

All relevant information regarding exchanges or trade-in must be noted on the related purchase order and communicated to the fixed asset manager at the time the acquisition or disposal is reported.

Fixed Asset System Maintenance

As required by the ORC section 305.18, each county officer or department shall make an annual inventory on the second Monday in January of all the materials, machinery, tools and supplies of the county. One copy is to be filed with the County Auditor and the second copy with the Board of Commissioners.

The ongoing maintenance for the County's fixed asset records is the responsibility of the County Auditor, but more specifically the person designated as the fixed asset system manager. This individual has the responsibility for establishing and maintaining all fixed asset records for the County. Fixed asset maintenance includes periodic updating of fixed assets records to reflect acquisitions, disposals, transfers, adjustments, etc.

At a minimum, the following general fixed asset schedules should be prepared for inclusion in the County's Comprehensive Annual Financial Report (CAFR), if one is prepared:

- Schedule of general fixed assets by source at yearend.
- Schedule of general fixed assets by function and activity at yearend.
- Schedule of changes in general fixed assets by function and activity at yearend

It is also the responsibility of the fixed asset manager to ensure the amounts reported on the fixed asset system reports reconcile with one another, and are verifiable and traceable to source documents and departmental records.

Physical Inventory:
Establishing the fixed asset system, along with identifying, tagging and building the initial fixed asset records, necessitates a complete physical inventory. A periodic physical inventory is necessary for accountability and control.

The fixed asset manager initiates the inventory taking process. Union County conducts their physical inventory toward the end of each year.

Advance notice of the inventory process should be provided to appropriate county personnel in all locations.

When items are listed on the inventory forms, abbreviations should be avoided and generic names used whenever possible. Proper headings should be indicated on all inventory sheets (including the name of the inventory taker, the date of inventory, the location, etc.). If the fixed asset manager is not personally conducting the inventory, the manager must still maintain contact with those taking the inventory and is responsible for reconciling inventory collection data to existing fixed asset records, reviewing any discrepancies and coordinating any adjustments.

Tagging:
The county has determined that by tagging fixed assets as a means of identification, inventories are made easier and quicker. Tags should be placed on the assets so they are not easily removed or destroyed by asset use, but in clear view for ease in the physical inventory process.

The tags will be assigned to assets in consecutive order, without regard for the type of asset or the location. The use of consecutive numbering allows each asset to carry the assigned number throughout its entire life, regardless of its location. Once disposition has occurred, the number should be retired.

Tag numbers are to be assigned by the county's fixed asset manager in the County Auditor's department. For new acquisitions, the staff of the particular department may do the actual attachment of the tag to the fixed asset.

*Assets with a value of **$500** or more will have a tag number issued.*

Acquisitions:
When new fixed assets are acquired, the county's fixed asset manager issues a purple copy of the purchase order to the purchasing department. This purple copy requests the department to fill in the serial and model numbers and any other pertinent information. The tag for the newly acquired item is attached to the purple copy of the purchase order. Once the purple sheet is returned to the fixed asset manager, the completed information is entered into the fixed asset system. If a purple form is not issued, the department is to notify the fixed asset manager of the acquisition by completing the new inventory form, see Appendix 1.

The fixed asset manager should also be on the alert for fixed assets that appear to have been purchased out of inappropriate expenditure codes. Departments should be notified if they are using incorrect codes and action taken to correct the error.

Donated or constructed fixed assets may entail somewhat longer of a delay in being reported to the fixed asset manager.

Disposals:
County fixed assets are disposed of by several means, including sale, destroyed, etc. All disposals by any means must be reported to the fixed asset manager using the prescribed asset disposal form, see Appendix 2.

An asset to be disposed of by sale, which has a current value in excess of a prescribed amount, may have to be sold at auction (based on state statute and/or local ordinances). The fixed asset manager shall be informed of such auctions and shall be provided with a full report of all assets to be sold. This report should include a description of the item, along with the tag number, which has been assigned to the fixed asset throughout its life.

The manner of removing assets from the fixed asset subsystem records differs for those assets appearing in the General Fixed Asset Account Group as compared to those within the Proprietary Fund Types. This section recaps and defines the general guidelines for each.

Fixed Asset Policy Effective December 1, 2011

General Fixed Asset Account Group (Governmental Activities):
Gains and losses are not recognized for retirements within the General Fixed Asset Account Group. If an asset is sold, the appropriate record is removed from the account group, along with the applicable "investment in general fixed asset" record (on the general ledger). The cash received is posted to the appropriate Governmental Fund in the current period as another financing source—"proceeds from the sale of fixed assets." For assets exchanged for replacements, refer to section on exchanges or trade- ins in this documentation.

Proprietary Fund Types:
Retirement of assets within Proprietary Fund Types incorporates gains and losses due to the income determination nature of these funds. If an asset is sold, the gain or loss basis is book value. The asset record and its related accumulated depreciation are removed from the individual proprietary fund general ledger to retire the fixed asset.

For assets exchanged for replacements, refer to section on exchanges or trade-ins in the documentation.

Transfer:
Generally, transfers only involve updating specific information associated with a fixed asset record (location code, department code, etc.) and do not involve any changes to an assets' useful life, cost, etc. Since transfers constitute changes in fixed asset records, all changes must be reported to the fixed asset system manager using the appropriate forms, see Appendix 1 or 2.

Policy Maintenance

The fixed asset system manager is responsible for the ongoing maintenance and revisions of these policies. These policies for Union County are intended to outline and explain the County's handling of fixed assets. Periodic reviews may need to be scheduled to review the most important aspects of these policies to determine if they are achieving their intended purposes.

A motion was moved by Christiane Schmenk and seconded by Steve Robinson to approve this Resolution and was carried by the following vote:

Steve Robinson, Yea
Dave Burke, Yea
Christiane Schmenk, Yea

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