COUNTY AUDITOR'S OFFICE
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CAPITAL ASSETS ACCOUNTING POLICIES FOR FINANCIAL REPORTING

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OVERVIEW

The County has a significant investment in capital assets, such as land, buildings, land improvements, infrastructure, and construction-in- progress, machinery and equipment (including leased items, subscription-based information technology agreements, furniture and fixtures) and vehicles. In a major effort to improve financial reporting, accountability, and operational efficiencies in managing these assets, the County Auditor has established policies on the accounting and reporting of capital assets.

Complete and accurate capital asset records can help managers identify under-utilized surplus assets that can be reassigned for more productive use. Accurate records of capital assets and their associated accumulated depreciation can also help identify potentially needed replacement and renovation of existing assets. This type of management information is useful in making budgetary decisions for specific requests and long-term capital planning. Furthermore, detailed capital asset records for equipment and vehicles can assist in the development of a preventive maintenance program.

Section 117-2-02 of the Ohio Revised Code requires all local public offices to maintain "fixed asset records including such information as the original cost, acquisition date, voucher number, the asset type (land, building, vehicle, etc.), asset description, location, and tag number. Local governments preparing financial statements using generally accepted accounting principles (GAAP) will want to maintain additional data." Major County policies regarding capital asset stewardship are established at the discretion of the County Auditor and the Ohio Auditor of State.

Section 319.11 of the Ohio Revised Code charges the County Auditor with the responsibility of issuing the County's official annual financial report. The Auditor of State requires the County to prepare its annual financial report in accordance with GAAP. The law further states that County departments shall furnish the County Auditor such financial information as is required for the report.

This document outlines in detail the information on capital assets (other than highway- and bridge-related infrastructure) that County departments must furnish to the County Auditor each year for the County to meet its legal responsibilities regarding external financial reporting. The County Auditor addresses highway- and bridge-related infrastructure reporting requirements in a separate policy document that is solely applicable to the County Engineer.

Statements of Principle

These policies provide a basis for maintaining and reporting *auditable* information on the County's capital assets in conformity with generally accepted accounting principles for state and local governments. Section 1400, "Reporting Capital Assets," *Codification of Governmental Accounting and Financial Reporting Standards* (the Codification), as amended by Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, outlines the following three basic statements of accounting principle.

Principle 1—Reporting Capital Assets

A clear distinction should be made between general capital assets and capital assets of proprietary funds. Capital assets of proprietary funds should be reported in both the government-wide and fund financial statements. All other capital assets of the governmental unit are general capital assets.

They should not be reported as assets in governmental funds but should be reported in the governmental activities column in the government-wide statement of net assets.

Principle 2—Valuation of Capital Assets

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. Donated capital assets should be reported at their estimated fair value at the time of acquisition plus ancillary charges.

Principle 3—Depreciation of Capital Assets

Capital assets should be depreciated over their estimated useful lives unless they are either inexhaustible or are infrastructure assets using the modified approach. Inexhaustible assets such as land and land improvements should not be depreciated. Depreciation expense should be reported in the government-wide statements of activities and the proprietary fund statement of revenues, expenses, and changes in fund net assets.

Financial Reporting of Capital Assets

Because of the unique nature of governmental financial operations, a clear distinction must be made between the County's general capital assets and capital assets of proprietary funds. In keeping with the first basic statement of principle of reporting capital assets, as outlined in Section 1400 of the Codification, the County reports general capital assets and capital assets of proprietary funds separately.

General Capital Assets

General capital assets include assets the County acquires or constructs using resources accounted for in its governmental fund types.

In its fund financial statements for governmental funds, which are prepared on the modified accrual basis of accounting with a measurement focus on the flow of current financial resources, the County excludes general capital assets from the related governmental fund's balance sheet, and accordingly, the County does not report depreciation expense in the statement of revenues, expenditures, and changes in governmental fund balances.

However, in the County's government-wide financial statements, which are prepared on the accrual basis of accounting with a capital maintenance measurement focus, the County reports 1) its general capital assets, net of accumulated depreciation, under the governmental activities column in the statement of net assets and 2) the related depreciation expense by program/function under the governmental activities section of the statement of activities.

Capital Assets of Proprietary Funds

The County accounts for its proprietary fund capital assets in the proprietary (*i.e.*, enterprise) fund type. The proprietary fund type operates on an accrual basis of accounting with a measurement focus on the flow of economic resources.

In its fund financial statements, the County reports capital assets associated with proprietary fund operations, net of accumulated depreciation, on the proprietary fund's balance sheet, and depreciation expense on the statement of revenues, expenses, and changes in proprietary fund net assets.

In its government-wide financial statements, the County reports 1) its proprietary fund capital assets, net of accumulated depreciation, under the business-type activities column in the statement of net assets and 2) the related depreciation expense by program/function under the business-type activities section of the statement of activities.

Capital Assets of Independently Audited Organizations

The financial statements of some organizations consolidated in the County's annual financial report are independently audited in conformity with generally accepted government auditing standards. Each independently audited organization establishes its own capital asset accounting policies and capitalization thresholds. For consolidation in the County's financial statements, the County Auditor accepts the separately issued financial report of each organization and the capital asset-related disclosures therein on the provision that the respective report has received an unqualified opinion from the organization's independent auditor.

FUNDAMENTALS FOR IDENTIFYING CAPITAL ASSETS

Definition

When cited in governmental accounting and financial reporting standards, the term "**capital assets"** includes land, improvements to land, easements, buildings, building improvements, vehicles, machinery, equipment, infrastructure, and all other tangible and intangible assets that are used in operations and that have initial useful lives extending beyond a single reporting period.

Infrastructure assets are 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. Buildings, except those that are an ancillary part of a network of infrastructure assets, should not be considered infrastructure assets.

Cost Valuation

In keeping with the second basic statement of principle of reporting capital assets, as outlined in Section 1400 of the Codification, the County's capital assets should be reported at **historical cost**. Historical cost is the cash or cash equivalent price paid at the time of purchase or acquisition. The cost of a capital asset should include ancillary charges necessary to place the asset into its intended location and condition for use such as freight and transportation charges, site preparation costs, and professional fees. If historical cost is not available, the asset should be reported at estimated historical cost. Donated capital assets should be reported at their estimated fair value at the time of donation plus ancillary charges, if any.

Significant Value and Useful Life Concepts

The identifying characteristics of a capital asset are **significant value** and **useful life**. In setting its capitalization policy, the County has established benchmarks to identify what the minimum cost of an asset should be (*i.e.*, its significant value) to justify the time and expense of maintaining the information required for reporting it in the County's financial statements.

For a capital asset that does not fall under the asset classifications of land and infrastructure assets, the County considers its costs to be of a significant value when they exceed $10,000.
Finally, if an asset meets the test of significant value and has an **estimated useful life of at least two years following the date of acquisition**, the County reports it as a capital asset.

Establishing Capitalization Thresholds for Capital Assets

It is incumbent upon County managers to maintain adequate control over all County assets, including capital assets, to minimize the risk of loss or misuse. However, not all capital assets are required to be reported on the County's balance sheet. Specifically, capital assets with extremely short useful lives and capital assets of small monetary value are properly reported as an "expenditure" or "expense" in the period in which they are acquired. Capital assets that are reported on the balance sheet are said to be "capitalized." The monetary criterion used to determine whether a given capital asset should be reported on the balance sheet is known as the "capitalization threshold."

Capitalization is primarily a financial reporting issue, apart from the need for the County to maintain control over all capital assets. The County's principal concern in establishing specific capitalization thresholds is the anticipated information needs of the users of the County's external financial reports.

The County has adopted these guidelines in establishing capitalization thresholds for its capital assets:

1. Capital assets should be capitalized only if they have an estimated useful life of at least two years following the date of acquisition.
2. Capital assets' capitalization thresholds should be applied to individual capital assets unless a group of assets in the aggregate are significant. (Example: Computers or furniture may not meet the capitalization threshold policy on an individual basis, yet could be considered significant collectively).
3. As a general rule, capitalization thresholds should be designed to encompass at least 80 percent of the County's total non-infrastructure assets.
4. In no case will the capitalization threshold be less than $10,000 for any individual item.

The County should maintain control over its noncapitalized capital assets by establishing and maintaining adequate control procedures at the departmental level.

(Reference GFOA Recommended Practices: "*Establishing Appropriate Capitalization Thresholds for Fixed Assets*" issued in 1997, and "*Amendment to Appropriate Capitalization Thresholds for Fixed Assets*" issued in 2000).

CRITERIA TO DEFINE CAPITAL ASSETS

Major Classes of Capital Assets

The major classes of assets reported in the County's annual financial report are:

- **Land**.
- **Buildings** that cost more than $10,000 each and any associated renovations and improvements thereon that cost more than $10,000 per building component.
- **Land improvements**, including renovations and improvements thereon, that cost more than $10,000 each;
- **Machinery and equipment** (including leased items, software licenses, subscription-based information technology agreements, and furniture and fixtures) costing more than $10,000;
    - Group licenses would be reported as one capital asset.
- **Vehicles** (including trailers that are not self-propelled) costing more than $10,000;
- **Infrastructure assets** of the County Engineer. The County capitalizes all highway- and bridge-related infrastructure assets acquired or constructed prior to January 1, 2003, regardless of cost, and all highway- and bridge-related infrastructure assets acquired or constructed since January 1, 2003.
- **Construction-in-progress** that is expected to meet the criteria for inclusion in the County's annual financial report when completed.

As indicated in the general definition given below, the identifying characteristics of a capital asset are "significant value" and "useful life." Capital assets are stated at historical cost. Historical cost is the cost (cash or cash equivalent price) of obtaining the asset and bringing it to the location and condition necessary for its intended use. If historical cost is not available, the capital asset should be recorded at estimated historical cost.

In setting its capitalization policy, the County determined what the minimum cost of an asset must be (*i.e.*, its significant value) to justify the time and expense of maintaining the information required for financial reporting purposes. The County has determined that **a cost of more than $10,000 is a significant value for a capital asset.** Therefore, if an asset meets the test of significant value (a cost of more than $10,000) and has a **useful life of two years or more,** it is included in capital assets in the ACFR. An exception to this policy is land, which is reported in the ACFR regardless of its original cost.

The County's capitalization policy for capital assets as stated above is for GAAP financial reporting purposes only. It does **not** supersede the statutory and managerial requirements of the County's elected officials for maintaining internal records on tangible personal property.

CAPITAL ASSETS CLASSES AND VALUATION

Capital assets are broken into classifications based on class. The asset classes are defined below:

- Land
- Buildings
- Land improvements
- Machinery and equipment
- Vehicles
- Infrastructure
- Construction-in-progress

Land

Land is considered real property. Land costs include the land's initial cost, surveying fees, appraisal and negotiation fees, legal and title fees, damage payments, and assumption of any liens, mortgages, or encumbrances on the property. The demolition of unwanted structures at the time of acquisition of the land, with the intention of using *cleared* land, is considered a part of land costs. Each "parcel" of land owned by the County is recorded as a separate asset. Land should be reported as an acquisition when the County receives title to the land.

Land upon which infrastructure is constructed is also part of the *Land* capital asset account, as are any easements or right-of-way costs associated with infrastructure assets.

Buildings

Buildings are permanent structures designed with a foundation and roof and are enclosed, at least partially, with walls. Buildings may not necessarily be fully enclosed. The cost of a building includes its construction or purchase costs and the costs of all fixtures **permanently** attached and made a part of the building. *Permanently attached* means removal of the fixtures alters the intended use of the building. Buildings should be reported as acquisitions when they are ready for occupancy.

The cost of a constructed building includes contractor payments, in-house labor costs, professional fees for architects, appraisers, and financial advisors, demolition costs of buildings that previously occupied the site, site-preparation costs that are directly related to the building site (*e.g.*, clearing, filling, leveling, and excavating), and damage claims and insurance. Other costs incurred during the period of construction, including any other expenditures required to prepare the asset for its use, should also be included in a building's cost.

Prefabricated structures that can be emplaced or displaced by a crane and do not require a foundation should be classified as land improvements rather than buildings.

Normally, works of art are considered part of a building when they are permanently affixed to a building. Therefore, fixed works of art are included in the inventory of buildings. The term, *fixed works of art*, includes, but is not limited to, items such as murals, bronze plaque reliefs, historical monuments, acropodium, statues attached thereto, ornate finishes, millwork, marble and stonework, plaster work, bronze grilles, and gates and doors.

A building may be recorded as a number of "component" assets. Component assets have significant and separately identifiable costs associated with them. The separate recording of building components helps facilitate the partial retirement of buildings due to renovations. Retiring components, as renovations are performed, results in a more accurate and useful capital asset value. Examples of building components are provided in Appendix 4.

Land Improvements

The costs of improvements, which are not attached to, mounted on, or in a building, should not be classified as land or buildings. Assets falling under this classification include sidewalks, retaining walls, underground and aboveground storage tanks, yard lighting, fencing, alleys, landscaping, storm sewers, various kinds of towers (*e.g.*, communication towers), and parking lots (including curbs and gutters) that are related to County buildings and facilities. Site preparation costs (clearing, filling, leveling, and excavating), which are related to the site of the land improvement, should be included in the costs of the land improvement. The County capitalizes costs of improvements in the same manner as buildings.

Unlike buildings, land improvements should be separately reported as a single asset with no components. For example, a parking lot should be reported as an asset separately from the land upon which it is built. Curbs and gutters associated with parking lots should be included as land improvements.

Another major exception to the general policy for reporting land improvements applies to land improvements associated with the highway network that the County Engineer owns and operates. The County considers these assets to be part of county road system, and accordingly, the County classifies them as infrastructure assets.

Machinery and Equipment

Machinery and equipment are tangible assets, which

- Are not attached permanently to land, buildings, or land improvements;
- Have unique serial numbers;
- Are capable of being moved (although some disassembly may be required); and,
- Can be acquired under a capital lease.

For example, machinery bolted to a floor should be classified as equipment. However, fixtures, which are attached to land, buildings, or land improvements in such a way that **removal alters the intended use of the facility or site,** should not be reported as machinery and equipment. Rather, County departments should report such assets as an ancillary part of the land, building, or land improvement to which they are attached.

Costs of machinery and equipment include the total purchase price, net of purchase discounts, plus any trade-in allowances, transportation charges, installation costs, taxes, and any other costs required to prepare the asset for its intended use. Machinery and equipment assets should be reported as acquisitions when the County department physically receives the asset, **not** at the time when it pays the vendor for the acquisition.

Examples of machinery and equipment include, but are not limited to:

- Computers, telecommunications, and electronics, including any integrated software for which the vendor has not separately identified its cost;
- Copying equipment;
- Office furniture and components; and,
- Construction-related machinery.

Each piece of machinery and equipment acquired that is determined to be a capital asset should be recorded as a separate asset. Furniture and fixtures should be included in the asset class of machinery and equipment.

Vehicles and trailers that can be licensed for over-the-road use should not be classified as machinery and equipment, but should reported under the *vehicles* asset classification.

Vehicles

Vehicles that are capable of being licensed through the Ohio Department of Public Safety's Bureau of Motor Vehicles and are intended for over-the-road transportation use should be capitalized. This includes trailers that are not self-propelled.

Vehicle costs include the total purchase price after any purchase discounts, plus any trade-in allowances, transportation charges, taxes, and any other costs required to prepare the vehicle for its intended use. Vehicles should be reported as acquisitions when the County legally takes title to the asset.

Infrastructure

Infrastructure assets are 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. Infrastructure assets exist primarily for public use even though the County owns and manages the assets.

Reporting Issues at Transition — GASB 34

In conformity with Governmental Accounting Standards Board Statement No. 34 (GASB 34), *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, which first became effective for fiscal year 2003 for Fairfield County, the County must report all infrastructure assets that the County Engineer owns and manages. The County Engineer is the only County department that qualifies as having material amounts of infrastructure assets to report in the County's financial statements.

The County classifies and reports all of major infrastructure assets that the County Engineer builds and maintains in two networks — highways and bridges.

Construction-in-Progress

Labor, material, equipment, and overhead costs of a project under construction (*e.g.*, buildings and building improvements, land improvements, and infrastructure) should be temporarily reported in the account, **Construction-in-Progress**. When a project is completed, costs in this account should be transferred and allocated to one or more of the other major asset classes. A project is generally considered complete when it is ready for its intended use. Costs should be capitalized as construction work is completed. Construction for a project is complete when the building is substantially finished and occupied. This would include a building that, although technically not completely finished, is occupied under a temporary occupancy permit.

Computer Software

Computer software is an **intangible** asset since it represents competitive advantages developed or acquired by an organization. Therefore, computer software does not meet the County's capitalization criteria.

Capital Asset Costs

Purchased capital assets should be capitalized based on historical cost or estimated historical cost if historical cost is not known.

Capitalized costs **include**, but are not limited to, the following:

- The purchase price of the capital asset, net of purchase discounts plus any trade-in allowances.
- Freight and handling, including shipping insurance.
- Internal labor directly chargeable to a capital project that would not have been incurred during the period in the absence of activity associated with the project.
- Allocation of fringe benefit and overhead expenses, calculated as a percentage of direct labor based on actual approved fringe benefit and indirect cost rates.
- Installation and inspection costs.
- Various fees incurred in the acquisition of land, such as title, legal commission, and survey fees.
- External architectural, engineering, and design costs directly related to the asset.
- Temporary relocation and rearrangement of existing machinery, equipment, and any other movable fixtures while pending completion of an improvement, renovation, or new construction.

Costs **excluded** from capitalization include, but are not limited to, the following:

- A permanent relocation and rearrangement of existing machinery and equipment.
- Start-up time including the cost of "debugging" problems associated with the completion of a project.
- Licensing and registration fees for vehicles and operational equipment.
- Costs incurred for assets not acquired, such as surveying, title searches, legal fees, and other expert services incurred for a prospective land purchase that did not transpire.

- Extraordinary costs incidental to the construction of capital assets such as those due to strike, flood, fire, or other casualties.
- Asbestos removal, soil remediation, and other environmental clean-ups, unless the result increases the useful economic life of the asset.
- Costs related to the conceptual process involved in the selection of software, as well as training and data-conversion costs.
- Costs related to the training of personnel in the use of capital assets.

Group Purchases and Multiple Units

Each piece of machinery and equipment acquired that is determined to be a capital asset is recorded as a separate asset. The item may be considered a capital asset when the aggregate total of the item is significant in value. (Example: A county department purchases 100 new laptops costing $1,500 each. While the individual laptop value is below the $10,000 capital asset threshold, the aggregate total of $150,000 is considered significant.)

Determining Unit Cost With Group Purchases

Group purchases of assets, prior adoption of this policy effective January 1, 2023, were not recorded in the aggregate. Effective January 1, 2023, capital assets purchased in quantities of two or more are capitalized when the aggregate total is considered significant. For GAAP financial reporting, individual assets are recorded as capital assets if the aggregate (combined) cost of the group purchase when divided by the number of units purchased results in aggregate significant value, and the assets have an expected useful life of two years or more.

Capital Assets Composed of Multiple Units

A key consideration in defining a capital asset is the definition of an asset in those cases where property is composed of a group of distinguishable sub-units.

Asset systems are a group of interdependent parts acquired to be used together in the normal operations of the County. Examples of asset systems are computer network systems. For financial reporting, each asset within the system is subject to the $10,000 threshold. For example, two computer terminals tied into a server are three separate assets, each subject to the $10,000 threshold.

In contrast to asset systems, an asset with associated component parts that are necessary to the functioning of the asset is considered to be all one asset when the life and utility of the component parts are mainly dependent on that of the asset. For financial reporting, the cost of the asset and its component parts are together subject to the $10,000 threshold. For example, an office cubicle system consisting of desk tops, shelves, and file drawers can be considered an asset with component parts. Assets with associated component units that qualify for financial reporting are reported as one asset, and the component parts are included in the description of the asset.

In addition to asset systems and assets with associated component parts are assets with associated attachments. Attachments purchased at the same time as the asset are considered part of the asset because their life and utility coincide with that of the asset (*e.g.*, a collator installed in a copy machine). Attachments obtained subsequent to the purchase of the asset are not considered to be associated with that asset and therefore are accounted for as separate assets if they meet the capitalization criteria. For example, if a copier with a cost of $26,000 and a collator with a cost of $12,000 are purchased at the same time, they are considered to be associated. Since their combined cost exceeds the $10,000 threshold, the copier is reported at a cost of $38,000, and the collator is included in the description of the asset. By way of contrast, the same assets purchased at different times are not considered to be associated and therefore the copier is reported at a cost of $26,000 for financial reporting, and the collator is reported separately since its cost also meets the $10,000 threshold for financial reporting.

ACQUISITION METHODS AND VALUATION

Direct Purchase

Acquisition costs and costs to place the asset in use should be capitalized.

Construction

The amount capitalized for a constructed asset should include all costs incurred in constructing the asset and placing it in service. Refer to the "Capital Asset Costs" section on pages 12 and 13.

Exchanges or Trade-ins with Outside Parties

This section covers direct exchanges of assets, whether similar (*e.g.*, assets within the same major class, such as one parcel of land for another similar parcel) or non-similar, between a County department and a party external to the County's primary government (*i.e.*, vendors, non-profit organizations, general public, etc., which are legally separate from the County).

When no consideration is involved in the exchange of **similar** assets, the asset received should be reported at the net book value (*i.e.*, historical cost net of accumulated depreciation) of the asset traded or exchanged. When the exchange is for **dissimilar** assets, however, the fair value of the newly acquired asset should be used for reporting the cost of the asset.

When consideration is either given or received in the exchange of **similar** assets, then the asset received should be recorded at its fair value. Fair value in this case is defined as the sum of the cash paid plus the **lesser** of either the trade-in value given for the relinquished asset or the net book value of the relinquished asset at the time of the trade. When the exchange is for **dissimilar** assets, however, fair value is defined as the sum of the cash paid plus the trade-in value of the relinquished asset at the time of the trade.

Exchanges with Other County Departments

When a County department transfers capital assets to another County department, regardless of whether consideration was or was not exchanged between the two departments, the buying/receiving department should record the capital asset at the same net book value that the selling/donating department recorded in its records. This is true regardless of whether the transfer involves only governmental funds, proprietary funds, or both.

Donations

Capital assets may be acquired by gift from individuals or organizations that are external to the County. In such cases, donated assets should be valued at their estimated fair value at the time of acquisition plus ancillary charges.

Capital Assets Acquired through Grants, Contributions, or Other Nonexchange Transactions

Capital assets acquired through grants, contributions, or other nonexchange transactions should be reported at historical cost or fair value and depreciated, as appropriate. Related revenues should be reported as either program revenues or general revenues in the government-wide statement of activities. When the County reports related revenues in the proprietary funds, the capital contributions should be reported after nonoperating revenues and expenses in the proprietary fund statement of revenues, expenses, and changes in fund net assets.

Leased Capital Assets

Annually, the County Auditor's Office, Finance Section requests departments to report information regarding additions, changes, and terminations made during the fiscal year for leased capital assets. Departments are expected to complete a lease form for each piece of equipment or vehicle under a lease agreement with a stated noncancelable period. The equipment or vehicle must also meet capital asset criteria.

A lease is defined as a contract that conveys control of the right to use another entity's nonfinancial asset (the underlying asset) as specified in the contract for a period of time in exchange or exchange-like transaction. Lease agreements are classified as either capital (those which do meet the criteria for inclusion as capital assets) or operating (those which **do not** meet the criteria for inclusion as capital assets) for accounting purposes. A lease is an agreement between two parties in which a lessee makes periodic payments to a lessor, generally the owner, for the right to use property for a stated period of time. The County Auditor considers installment purchases to be lease agreements The County Auditor will comply with *Governmental Accounting Standard Board – Statements 87 and 96 when determining leased assets or subscription-based technology agreements.*

CAPITAL ASSET RENOVATIONS AND IMPROVEMENTS

Renovations and Improvements

Renovations made to buildings, land improvements, machinery and equipment, and vehicles are reported if they meet the established capital asset capitalization criteria. A renovation enhances an already existing asset to a condition beyond that which results from normal maintenance repair, and/or increases the useful life of the asset. Examples of renovations include a roof replacement or the installation of a better electrical system in a building.

Improvements are additions to buildings, land improvements, machinery and equipment, or vehicles that did not previously exist while, as defined above, renovations add to, update, or repair an existing asset. Improvements should be reported as capital asset additions separately from renovations, and although associated with an existing asset, improvements should be reported as separate capital assets. Examples of improvements include the installation of an air conditioning system in a building that did not have one previously and the placement of a color synthesizer in a black-and-white printing press to enable it to print in color.

Cost thresholds for renovations and improvements apply to each building component for a given building, or to a project for a land improvement or piece of equipment, although the project may stretch over multiple years. In these cases, the amount of the unfinished renovation or improvement should be reported as construction-in-progress until completed.

Although associated with an existing asset, improvements and additions are recorded as separate capital assets on the County's capital assets system.

A department should record renovations and/or improvements that cost less than the stated capitalization threshold amounts for capital assets for management purposes.

Leasehold Improvements

Renovations and improvements made to assets under leases (*i.e.*, leases for capital assets that do not meet the County's capitalization criteria), commonly referred to as **leasehold improvements**, should be reported when they meet the capitalization criteria established for renovations and improvements. However, the estimated useful life of a leasehold improvement cannot exceed the remaining period that the lease covers.

> **Example:**
> A County department leases a floor in a five-floor building. None of the provisions in the lease meet any one of the four capitalization criteria described in the "Leased Capital Assets" section

on page 16. Accordingly, the lease falls under the category of a **lease***,* and the County department capitalizes no asset.

In the confines of the leased floor space of the building, the County department installs a raised floor and secured walls to accommodate a computer. If the cost of the improvement exceeds the capitalization threshold established for such assets (*i.e.*, greater than $10,000 for individual classes of building components), and the improvement has an estimated useful life of two years or more that does not exceed the remaining time period covered under the lease, then the County department should report the **leasehold improvement** as a capital asset.

Leasehold improvements should only be recorded as capital assets when the County pays for the cost of the improvement. If the lessor pays the cost of the improvement under the terms of the lease agreement, then the lessor, not the County, should report the leasehold improvement as a capital asset, even though the cost of the improvement may be passed onto the County through lease payments.

Capitalized Additional Expenditures—Renovations

A renovation to a building, land improvement, piece of machinery or equipment, or vehicle should exceed the capitalization threshold of $10,000 before a County department capitalizes the renovation for financial reporting purposes.

Maintenance and Repair Costs

Maintenance and repair costs should be reported as operating costs in the period incurred. These ordinary costs are either required throughout the life of an asset to keep it in efficient operating condition or for necessary repair. A discussion of some types of maintenance and repair costs follows.

- **Maintenance activities** (*e.g.*, painting, minor repairs, etc.) restore an asset to its former condition or make it possible for the asset to be utilized for its estimated useful life. In other words, maintenance activities keep an asset in good working condition throughout its estimated useful life. Maintenance may be distinguished from renovation and improvements by the fact that maintenance does not extend the useful life of the asset. For example, service contracts for elevators are considered maintenance. Therefore, these kinds of costs should not be recorded separately or in conjunction with capital asset information.

- **Custodial services** should not be included under the category of asset maintenance. Custodial services (*e.g.*, cleaning) or activities such as lawn mowing do not generally maintain an asset in efficient operating condition or extend an asset's useful life. Therefore, these types of costs should not be recorded separately or in conjunction with capital asset information. Appendix 5 contains additional examples to distinguish renovations and improvements from maintenance activities and custodial services.

- **Rearranging and moving costs** normally should be reported as operating costs in the period incurred, unless they are in conjunction with expansion or betterment of the asset, in which case they should be capitalized. For example, a building, which currently houses individuals and equipment, undergoes a major renovation. In this case, all costs of rearranging, moving, and providing temporary housing should be included in the renovation project's total cost.

- Neither the cost of permanently relocating a facility, including the cost of relocating personnel, nor the transfer of individual assets between locations should be capitalized. This is also true for a permanent rearrangement of equipment within a facility.

- **Administrative and executive salaries** should not be capitalized even though a portion of such salary cost may be related to capital asset acquisition.

- **Costs incurred for assets not acquired** should not be capitalized. For example, surveying costs, title searches, legal fees, and the costs of other expert services incurred for a prospective land purchase that did not close should not be capitalized.

- **Extraordinary costs incidental to the construction of capital assets** such as those due to strike, flood, fire, or other casualties should not be capitalized.

- **Costs of abandoned construction** should not be capitalized.

- **Asbestos removal costs, soil remediation, and other environmental clean-up costs** should not be capitalized, except in the case when the outcome extends the useful life of the asset.

CAPITAL ASSET COST ADJUSTMENTS

Change in Historical Cost

When an asset's recorded cost differs from the asset's true cost, an adjustment should be reported. A difference can occur when a County department records a cost in error or when an asset's final cost is not known with certainty or available at the time the asset is placed in service (*e.g.*, additional preparation, project cost overruns, etc.). Cost adjustments should only be recorded when they exceed five percent of a project's total cost. When a cost adjustment is necessary, it should be reported as a beginning balance adjustment when it was not made in the same fiscal year as when the capital asset was added to the inventory.

Reporting of Assets Previously Acquired But Not Previously Reported

When a County department does not report an asset in the year of acquisition due to error or oversight, the asset should be reported as a beginning balance adjustment in the fiscal year when the asset is added to the capital asset inventory.

Timing of Adjustments

Cost adjustments due to erroneous cost information should be made when identified.

Cost adjustments for additional preparation costs are recorded:

- At the time when final cost information is known, or
- In conjunction with fiscal year-end procedures for each fiscal year in which overruns or additional costs result in a change to the asset cost basis or funding mix.

DEPRECIATION

General Policy

In keeping with the third basic statement of principle of reporting capital assets, as outlined in Section 1400 of the Codification, capital assets should be depreciated over their estimated useful lives unless they are either inexhaustible or are infrastructure assets using the modified approach. Inexhaustible assets such as land and land improvements[1] should not be depreciated. Depreciation expense should be reported in the government-wide statements of activities and the proprietary fund statement of revenues, expenses, and changes in fund net assets.

Accordingly, the County should depreciate capital assets reported in the following classes:

- Buildings, including improvements thereon
- Land improvements (*i.e.*, exhaustible ones such as parking lots, fences, towers, storage tanks, etc.)
- Machinery and equipment, including furniture and fixtures
- Vehicles
- Highway- and bridge-related infrastructure assets that the County Engineer owns and manages

Furthermore, the County should not depreciate capital assets reported in the following classes:

- Land
- Land improvements (*i.e.*, inexhaustible ones such as grading, filling, grubbing, etc.)
- Construction-in-progress

The County does not depreciate its construction-in-progress because the capital asset is not complete and ready for its intended use as long as it remains under construction.

Depreciation reported for all governmental and proprietary funds should be calculated in conformity with the methodology, conventions, and estimated useful lives and salvage values that the Fairfield County Auditor has adopted. The only exception to this policy is as follows:

- Independently audited organizations can set their own depreciation policies.

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[1] Question 27 of the GASB's *Guide to Implementation of GASB Statement 34 on Basic Financial Statement—and Management's Discussion and Analysis—for State and Local Governments* defines an **inexhaustible** capital asset as one whose economic benefit or service potential is used up so slowly that its estimated useful life is extraordinarily long. The guide further states that land and *certain* land improvements are inexhaustible capital assets. Therefore, not all land improvements may necessarily meet the definition of an inexhaustible asset and can be subject to depreciation.

County departments must use the **straight-line method** for the calculation of depreciation. Estimated useful lives for capital assets can be found in the table below. County departments should follow the convention of calculating annual depreciation expense using the half-year convention, whereby a half-year's depreciation will be recorded in the year in which the asset was acquired and in the year in which the asset was disposed or retired. A full year's depreciation will be recorded in all other years of the asset's depreciable life.

The expected life for an item is usually based on its classification as listed below. However, unique and individually significant items are reviewed for depreciable life individually.

Capital assets costs are separated by class and year of acquisition. Depreciation is taken until a reserve equivalent to its balance of original cost is accumulated. When the accumulated depreciation equals the original cost, no further depreciation is accrued. However, both the balance of original cost and the reserve remain on the books until the item is disposed of. When the item is sold, dismantled, demolished, or otherwise disposed, the cost of the item and the accumulated depreciation are removed from the County's capital assets system and its financial statements.

Expected Lives for Depreciation

Asset Class	Depreciable Life	Asset Class	Depreciable Life
Land	Not depreciable	**Machinery and Equipment**	
		Water and sewer equipment	10 years
Land Improvements		Construction equipment	8 years
Fences	20 years	Road machinery	8 years
Waterlines	50 years	Other machinery	5 years
Sewer lines	50 years	Office machines & equipment	5 years
Water tanks	50 years	Computers, midrange	5 years
Airport	50 years	Computers, personal	4 years
Other improvements	20 years	General equipment	5 years
		Office furniture and furnishings	4-12 years
Buildings		**Vehicles**	
Courthouse	50 years	Automobiles	5-8 years
Administrative	30 years	Trucks – heavy	8 years
Utilities	30 years	Trucks – light	5 years
Airport	30 years	Trailers	8 years
Other buildings	30 years		

Reporting Issues at Transition — GASB 34

In conformity with Governmental Accounting Standards Board Statement No. 34 (GASB 34), *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, which became effective for the County for fiscal year 2003, the County must report depreciation expense for its general capital assets for the first time.

Therefore, County departments should report accumulated depreciation balances for their depreciable capital assets, as of January 1, 2003, so opening balances can be established for fiscal year 2003, the year of transition.

CAPITAL ASSET RETIREMENT

Declaring a Capital Asset Excess or Surplus

When a department no longer has use for a capital asset, the asset may be declared excess or surplus. After declaring a capital asset excess or surplus, it may be either transferred to another department or retired. A capital asset should be reported as **retired** when it is:

- Scrapped or razed
- Sold or traded in
- Donated
- Lost, stolen, or destroyed
- Demolished as part of a renovation project

An asset should be retired or disposed of when it no longer serves its intended purpose. This can result from technological advances, normal wear-and-tear, destruction through natural causes, or theft.

Retention of Documentation

A letter of surplus declaration or some other form of documentation on the declaration of surplus is placed in the capital asset's permanent file.

Expeditious Retirement

Capital assets that are no longer needed for County operations should be expeditiously identified and retired.

Authorization for Retirement

The appropriate releasing authorization, and if necessary, receiving authorization, should be obtained when a County department retires a capital asset.

Disposition Records

Disposition records should include:

- Disposition method and date
- Date of sale, if sold
- Sale price, if sold
- Method of determining fair value, if sold

Record Retention

Records on disposed or retired assets should be maintained in accordance with record retention schedules established for accounting records. If litigation involving capital assets is initiated, the related records should be retained until the litigation is resolved.

Accounting Treatment of a Retirement

A capital asset retirement should be recorded by crediting the appropriate capital asset account for the estimated historical cost of the asset, and by debiting the related accumulated depreciation account. Any net book value (*i.e.*, historical cost less accumulated depreciation) remaining at the time of disposal should be offset against any proceeds received from the disposition of the asset to determine a gain or loss on the disposition. A gain results when proceeds received exceed the asset's book value; a loss results when the asset's book value exceeds the proceeds received.

Capital Asset Replacement

For an asset replacement, the original asset replaced should be reported as a retirement, and the replacement should be reported as a capital asset addition.

INTERNAL CONTROLS FOR CAPITAL ASSETS

Control Objectives

County departments should meet the following general internal control objectives for capital assets.

- Only authorized and needed property should be procured.
- Property acquisitions should be recorded timely and accurately in source documents and accounting records.
- Detailed subsidiary records should be maintained for individual capital assets and should be periodically reconciled with control accounts.
- Periodic physical verification should be made of the existence and condition of property.
- Physical security measures should be commensurate with the size, type, and value of property.
- Issues, transfers, retirements, and losses should be reported and accounted for timely.
- Assets should be properly requisitioned and used exclusively for County government activities.
- Capital asset records should be accurately maintained.
- Adequate segregation of duties should exist among functions affecting the control and reporting of capital assets.

County departments should institute internal accounting controls to provide a means of meeting control objectives for capital assets. Internal control is designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes 1) the cost of a control should not exceed the benefits likely to be derived, and 2) the valuation of costs and benefits requires estimates and judgments by management.

The following discussion focuses on some recommended internal control procedures over capital assets.

Acquisitions and Dispositions

County departments should establish policies and procedures that are clearly defined to govern the acquisition and disposals of capital assets.

Capital asset acquisitions and dispositions should be recorded in the County department's property control records as events occur. Employees responsible for maintaining property control records should be promptly notified when capital asset acquisitions, dispositions, or other activities have occurred.

County departments should also have procedures in place to ensure that all capital assets are fully utilized and obsolete ones are disposed of through the County Maintenance Department.

Identification Numbers and Tagging Procedures

Each capital asset a County department acquires should be assigned a number to uniquely identify it among all other assets. Identification numbers allow County departments to access all information related to specific assets.

Except as listed below, all capital assets, including equipment that may be "built into" or installed in a building (*e.g.*, heavy maintenance machinery), should be appropriately identified with tags visibly affixed.

Upon completion of the Capital Asset Request Form, the County Auditor will issue asset identification tags to departments and account for all tags issued. To improve accountability, assets should be tagged on the date that they are received or placed into service with the tag number cross-referenced on supporting documentation. Additionally, asset tags should be replaced when damaged or lost.

Tagging procedures should be in conformity with procedures outlined in this manual. Bar code inventory labels or comparable electronic medium should meet standards of the County Auditor's Office.

Employees responsible for the department's capital asset accounting records should control the tagging of assets.

Condition and Location

Data gathered on each asset during a physical inventory should include an asset's condition and location. Location need not be verified for buildings. A condition assessment should be based on the physical appearance of the asset. Ideally, all changes in an asset's condition should be reported as they happen.

Safeguarding of Assets

The following techniques are specifically designed to physically safeguard capital assets.

- Controlled access to all buildings
- Employee identification care and visitor login requirements for secured areas
- Established procedures to protect all assets, including files and records, from potential fire and water damage
- Checkout procedures for capital assets most susceptible to theft (e.g., audio-visual equipment, laptop computers, etc.)
- Proper segregation of duties to ensure employees are responsible for
    - Property control do not engage in the purchasing, receiving, or expenditure processing functions
    - Custody of capital assets do not have access to property control records
    - Maintaining property control records do not take the physical inventory of capital assets.

- Accurate tracking of capital assets in the property records and regular, periodic physical inventories

Minimum Inventory Frequency

Each County department will perform a complete physical inventory of all tangible personal property under its control and responsibility at least once every five years. The Auditor's Finance Office will coordinate with each department the manner and timing of their physical inventories. Each department should compare and reconcile the results of its physical inventory with the capital asset property records maintained by the Finance Office. Discrepancies noted during the physical inventory should be reported to the employee responsible for inventory control and to upper management. (Reference GFOA Recommended Practices: "The Need for Periodic Inventories of Capital Assets" issued in 1997.)

Physical Inventory Reports

The following represents information that should appear on a physical inventory report.

- Date of last physical inventory for each asset.
- A list of all equipment items missing since the previous inventory, including:
    - Tag number;
    - Description;
    - Original location from where the item is missing;
    - Historical cost; and,
    - Cause, if known.
- A certification statement, which the individual prepares and signs each time there is a physical inventory and/or review of an inventory for a group of capital assets. The statement should be completed at the end of each inventory and should identify the inventory taker or reviewer, the date, and a reference to any exceptions identified. The physical inventory results should be attached to a copy of the inventory listing.

Special Physical Inventory

In addition to the regularly scheduled periodic physical inventory, a special physical inventory may be taken of all capital assets when

- A different person assumes responsibility for the location or department.
- An organizational change occurs affecting the distribution of the equipment assigned to a particular location.
- A special request is made for a physical inventory.

Missing Assets

Assets may be missing for several reasons, including theft, unrecorded transfers, and loans of equipment. County departments should pursue explanations for missing equipment when possible, and they should undertake efforts to locate missing assets. **If theft is suspected, departments should notify the County Auditor.**

Recommended Capital Asset Data Information

- Major asset class
- Function and activity
- Reference to voucher and purchase order
- Acquisition date and historical cost or estimated historical cost
- Vendor name and address
- Description of asset
- Agency and, if applicable, division thereof
- Location(s)
- Funding Source
- Method of acquisition
- Estimated useful life
- Estimated salvage value
- Date of disposition
- Method of disposition
- Authorization of disposition
- Set-up date
- Change date
- Asset/tag number
- Serial number
- Manufacturer name
- Square feet or acreage

C APITAL ASSETS FORMS

The County Auditor periodically issues specific requirements for departments to follow in documenting the acquisition, disposal, and transfer of capital assets. Please refer to the ***Finance Internal Control Manual*** (updated annually) for the most current forms and procedures. This manual is published in hardcopy form as well as on the County's Intranet site. The following is a summary of the forms departments must submit to the County Auditor's Office. See Appendices 1, 2, and 3 in this manual for examples of the capital assets forms.

Request For An Asset Number Input Form

Use the **Request For An Asset Number Input Form** to report a new capital asset and to request a tag number for that asset. Photocopy the completed form and send the original to the County Auditor's Office, Attention: Capital Assets. Keep a copy for your departmental records, which may be reviewed by the State Auditor's examiners.

Complete the request form if your department acquires a capital asset that meets the capitalization threshold of $10,000 (has a purchase cost or value of $10,000 or more) **OR** if the asset acquired is a controlled asset. If you are unsure about whether a request should be completed or not, submit the request, and the decision whether to list the asset will be made by the Auditor's office. For existing asset items, submit a request if you believe an untagged asset should have an asset number.

Exhibits K-5 through K-8 in the Finance Internal Control Manual contain the detailed codes needed to complete the input form. The **signature** of the department head or elected official validates the form. Instructions for completing the form have been included.

After a request has been submitted to the Auditor's Office, your department will receive a bar code tag and instructions to affix that tag to the asset item. Please do not remove or deface the asset tag, unless your department subsequently disposes of the asset.

Capital Asset Disposal Form

The **Capital Asset Disposal Form** should be completed whenever a capital asset in your department is removed from the County's possession or disposed of in any way. After preparing the Capital Asset Disposal Form, photocopy the form, forward the original to the County Auditor's Office, Attention: Capital Assets, and keep a copy for your departmental records. The State Auditor may review your departmental records.

For items that will be sold at the County's public auction in October:

Do not remove the asset tag from that item when the Maintenance Department moves the item from your department to County storage. All items and tags will be counted before the annual auction each year.

For all other disposed items (will not be sold at the County's public auction in October):

Before the asset leaves your department's possession, remove the asset tag. Place the asset tag on a separate sheet of paper and send it to the Finance Office, along with the original copy of this form.

In both cases, when the asset is removed from your department, prepare the Capital Asset Disposal Form and send it to the County Auditor.

Interdepartmental Capital Asset Transfer Form

The Fairfield County **Interdepartmental Transfer Form** will be used whenever a tagged capital asset item is transferred or sent to another department or office within the County's jurisdiction. The sending officer completes the original form and then makes two (2) photocopies. The original is sent to the Auditor's office. One copy is kept in the sending officer's files. The other copy is transported with the property to the new destination. Upon receipt of the asset(s) and accompanying paperwork, the receiving officer verifies that the property transferred was the property received. After signing the transfer form, the receiving officer makes a copy for his/her files and forwards the copy with their original signature to the Auditor's office.

Please check the appropriate reason for the asset transfer.

- **Better utilization of asset(s)** refers to a transfer of property in order for the County to achieve its highest efficiency. Both parties involved in this case may have use for the asset, but one need prevails over the other.
- **Trade in or exchange** refers to a trade among county offices and departments only.
- **Excess assets** refers to one office relinquishing its surplus of assets within one department.
- **Other.** Please give a short explanation for any other reason for the transfer.

Describe the method of delivery or shipping to the other department. If a carrier company is used, be sure to list the reference number.

The sending official validates the transfer form by signature. When the transferred property and accompanying transfer documents reach their destination, the receiving official verifies receipt of the property by signature.

FINANCIAL REPORTING REQUIREMENTS

Basic Financial Statements

In the government-wide statement of net assets, capital assets should be reported in total, net of the accumulated depreciation, for the governmental funds, proprietary funds, and the component unit funds. The same information for capital assets should also be reported in the proprietary funds' statement of net assets in the fund financial statements.

For governmental, proprietary, and component unit funds, total capital assets, net of accumulated depreciation and any outstanding balances of bonds, mortgages, notes, or other borrowings attributable to their acquisition, construction, or improvement, should be reported as net assets invested in capital assets, net of related debt, on the statement of net assets at the government-wide level. The same information for capital assets should also be reported in the proprietary funds' statement of net assets in the fund financial statements.

Notes Disclosures

Accounting standards require governments to provide detail in the notes to the financial statements about capital assets of the primary government reported in the statement of net assets. The information disclosed should be divided into major classes of capital assets as well as between those associated with governmental activities and those associated with business-type activities. Capital assets that are not being depreciated should be disclosed separately from those that are being depreciated.

Information presented about major classes of capital assets should include:

- Beginning- and end-of-year balances (regardless of whether the government presents beginning-of-year balances on the face of the government-wide financial statements), with accumulated depreciation presented separately from historical cost.
- Capital acquisitions
- Sales or other dispositions
- Current-period depreciation expense, with disclosure of the amounts charged to each of the functions in the statement of activities

For collections not capitalized, disclosures should provide a description of the collections and the reasons these capital assets are not capitalized.

Determining whether to provide similar disclosures about capital assets of discretely presented component units is a matter of professional judgment. The decision to disclose should be based on the individual component unit's significance to the total of all discretely presented component units and that component unit's relationship with the primary government. At a minimum, the County should present similar disclosures on capital assets for its major component units.

APPENDIX 1

Request for Capital Asset Number — Input Form

Use this form to request a tag number for a new capital asset and to provide the Auditor's Office with the data necessary to record the item in the County's Capital Asset System. This form must be submitted with the voucher package at the time of payment.

Department: ______________________________

(Note: the tag number will be assigned by the Auditor's Office.)

Tag number ______________________________

Asterisked items (*) must be completed by the department.
Please see accompanying instructions.

1	Serial number	*	____________
2	***Vendor Name***	*	____________
3	***Asset Description***	*	____________
4	**License Plate**	*	____________
5	Check Number		____________
6	**PO Number**	*	____________
7	**Location Code**	*	____________
8	**Department Code**	*	____________
9	**Category Code**	*	____________
10	Activity Code		____________
11	**Fund Code**	*	____________
12	**Acquisition Code**	*	____________
13	Valuation Code		____________
14	**Quantity**	*	____________
15	**Unit Cost ($)**	*	____________
16	**Acquisition Date**	*	____________

17 Signature: ______________________________

Date: ______________________________

APPENDIX 2
Capital Asset Disposal Form

Use this form when a capital asset from your department has been removed from the County's possession or disposed of in any manner. Your cooperation will enable the County to maintain an accurate capital asset inventory. Please send the original signed copy of this form to the Finance Department in the County Auditor's Office.

SECTION 1

Tag number: ______________________________

Mfg. serial number: ______________________________

Description: ______________________________

Department: ______________________________

Date the asset was removed from the County's possession: ______________________________

SECTION 2

Reason for asset disposal—please check one:

_______ Preparation for public auction
_______ Functional obsolescence
_______ Trade-in or exchange
_______ Asset is damaged beyond repair
_______ Sold as scrap, not at a public sale
_______ Used for parts
_______ Other. Please explain: ______________

____

SECTION 3

Method of asset disposal—please check one:

_______ Hand carried by ____________________
_______ Carrier company ____________________
_______ Shipping receipt number _____________
_______ Disposed of on premises _____________
_______ Other. Please explain: ______________
____
____

SECTION 4

List the amount of proceeds from the sale of the disposed asset, if any: $______________________________

Please attach a copy of the documentation received from the buyer.

If the asset item was traded, provide the following information for the asset **being acquired**:

Tag number: ______________________________

Serial number: ______________________________

Description of asset: ______________________________

Signature of department head or designated representative: ______________________________

Department: ______________________________ **Date:** ______________

APPENDIX 3
Interdepartmental Capital Asset Transfer Form

Use this form when a capital asset has been transferred from your department to another County department. Your cooperation will enable the County to maintain an accurate capital asset inventory.
Please send the original signed copy of this form to the Finance Department in the County Auditor's Office.

Transfer TO: Department: ______________________________

Location: ______________________________

Transfer FROM: Department: ______________________________

Location: ______________________________

Asset Item Being Transferred:

Tag number: ______________________________

Serial number: ______________________________

Description of asset: ______________________________

Reason for Transfer—Please Check One:

_______ Better utilization of asset(s)

_______ Trade-in or exchange with **Other Departments**

_______ Excess assets

_______ Other. Please explain. ______________________________

____

Method of Delivery or Shipping—Please Check One:

_______ Hand-carried by ______________________________

_______ Carrier company ______________________________

Shipping receipt number ______________________________

_______ U.S. Mail

Date of shipment or transfer ______________________________

Signature of SENDING official: ______________________________

Department:______________________________**Date:** ______________

Signature of RECEIVING official: ______________________________

Department:______________________________**Date:** ______________

APPENDIX 4

Building Components

Item	Description
General Construction	The basic construction components, such as foundation wall, interior foundations, slab on ground, framing, exterior wall, and structural floor
Site Preparation	Cleaning, grading, installing public utilities, etc.
Roof and Drainage	Roof covering materials and roof drainage
Interior Construction	Interior finish of the building, such as floor finish, ceiling finish, wall partition materials and finishes
Plumbing	General plumbing; fixtures and installation of such items as sinks, lavatories, drinking fountains, bathtubs, showers, urinals, water heaters, etc.
Heating, Ventilation, and Air Conditioning (HVAC)	System for heating, ventilating, and cooling a building (e.g., furnace, boiler, and rooftop packaged units)
Electrical	Electrical services including wiring and lighting
Fire Protection, Life Safety	Sprinkler systems, manual fire alarm systems, and automatic fire detection systems
Elevators	Elevators and elevator landings
Miscellaneous	Features such as emergency generators, intrusion alarm systems, electric doors, fire escapes, public address systems, etc.

APPENDIX 5

Comparison of Renovations and Improvements, Maintenance, and Custodial Activities

RENOVATION OR IMPROVEMENT	MAINTENANCE	CUSTODIAL
See **Fundamentals for Identifying Capital Assets** (page 6). Renovations and improvements are capital assets if they meet the criteria.	Allows the asset to provide service to the County for its estimated useful life. Does not extend the useful life. Maintenance costs are not capitalizable.	Does not affect the usefulness or estimated useful life of the asset. Custodial costs are not capitalizable.
Examples:	**Examples:**	**Examples:**
Roof. Replace a worn-out roof on a building by tearing off the old roof and installing a new one.	Annually tar a roof to prevent leakage and premature deterioration.	Periodically sweep the roof to remove rubbish.
Printing press. Add a color synthesizer to a printing press to enhance its capabilities.	Replace small parts or perform general servicing to make the press work properly.	Purchase 10 reams of paper and boxes of ink for the press.
Walls and windows. Remove old insulation and add new insulation to the walls of a building to enhance heating capabilities and efficiency.	Place weather stripping around windows before winter to stop heat leakage.	Wash windows and walls periodically.
Parking lot. Resurface a parking lot due to deterioration.	Patch holes in the surface to maintain a flat surface.	Periodically clean, collect litter, sweep, etc.
Carpet. Carpet an entire floor of a building not previously carpeted.	Shampoo the carpet of an entire floor to maintain appearance.	Clean a spot on a carpet caused by spills and periodically vacuum.
Windows. Replace regular windows in a building with passive solar windows for greater energy efficiency.	Replace a broken window with a new one.	Wash windows to maintain visibility.

GLOSSARY

1. Abandonment
2. Addition
3. Adjustments
4. Asset Number
5. Asset System
6. Auditable
7. Betterment
8. Building
9. Capitalization
10. Capital Asset
11. Capital Lease
12. Component
13. Construction
14. Depreciation
15. Disposals
16. Donation
17. Equipment
18. Estimated Historical Cost
19. Excess
20. Fair Market Value
21. Capital Asset System
22. Historical Cost
23. Improvements
24. Installment Purchase
25. Land
26. Land Improvements
27. Lease
28. Lease/Purchase
29. Loss
30. Maintenance
31. Operating Lease
32. Parcel of Land
33. Purchase
34. Renovation
35. Retirement
36. Sale
37. Supporting Documentation
38. Surplus
39. Tag
40. Transfer
41. Useful Life
42. Vehicle

GLOSSARY (CONTINUED)

1. **ABANDONMENT** — The disposal or retirement of an asset due to complete deterioration or lack of usefulness. This occurs when an asset ages and the wear and tear either renders it useless or maintenance costs become excessive. An example of abandonment: A large dump truck after 20 years of useful life that needed repair every 10 days should be abandoned. Eventually the truck becomes inoperative.

2. **ADDITION** — The acquisition of a capital asset through purchase, construction, donation, or capital lease. The asset is acquired for use in the course of an department's normal operations. The acquisition is not made with the intent to resell or consume the asset (*e.g.*, supplies).

3. **ADJUSTMENTS** — Any change to the **cost** of a capital asset. Adjustments can result from additional costs incurred after the initial purchase of the asset to place it in working order (*e.g.*, constructing a slab to support the weight of a large machine).

4. **ASSET NUMBER** — The number (alphanumeric code) assigned to a capital asset to uniquely identify the asset among all other assets. The number should consist of a series of letters and/or numbers that may vary slightly depending on the class of asset and the method used to identify it. The number is used to access and report data specific related to the asset.

5. **ASSET SYSTEM** — A group of interdependent parts or components acquired to be used in the normal operations of the department. Examples of asset systems are telephone systems, computer equipment, and office cubicles.

6. **AUDITABLE** — Records and documentation are maintained in an orderly, accessible manner to enable internal and independent auditors to conduct an examination and render an opinion, on the financial statements. All records are expected to be maintained in this manner.

7. **BETTERMENT** — See **IMPROVEMENTS**.

8. **BUILDING** — Buildings are structures designed with a foundation and roof and enclosed with walls. Buildings are not necessarily fully enclosed. Buildings may be broken down into components, which can be recorded as individual assets. All buildings costing more than $5,000 are capitalized. Capitalization thresholds for fund capital assets may differ from the $5,000 threshold stated above.

9. **CAPITALIZATION** —The recording of assets that meet the capital asset criteria of having a cost more than $5,000 and a useful life of two years or more. In addition, all land and all County vehicles (including trailers that are not self-propelled) that are capable of being licensed by the Bureau of Motor Vehicles, Ohio Department of Public Safety, and can be used for over-the-road transportation are recorded as capital assets. Capitalization thresholds for fund capital assets may differ from the above stated threshold amounts.

GLOSSARY (CONTINUED)

10. **CAPITAL ASSET** — Any land, building, building renovations and improvements, land improvements, machinery and equipment, County vehicles, or construction-in-progress that meets all the County's capitalization policy criteria.

11. **CAPITAL LEASE** —An agreement between an department and lessor whereby the department makes periodic payments for the use of an asset in its normal operations. The terms of the lease are such that the department in effect "owns"' the asset. If a lease has **any one** of the following four characteristics, then it is considered a capital lease:

    1. The lease transfers ownership of the property to the lessee (the department or the County) during or at the end of the lease term.

    2. The lease contains a bargain purchase option. A bargain purchase option is a provision allowing the lessee to buy the property at a very favorable price.

    3. The lease term is equal to or greater than 75 percent of the estimated economic life of the leased property.

    4. The present value of the minimum lease payments equals or exceeds 90 percent of the fair value of the leased property. Minimum lease payments generally equal the property rental payments excluding executory costs such as maintenance and insurance.

    Assets acquired under a capital lease arrangement are subject to the capital asset capitalization criteria for determining whether they should be reported as capital assets.

12. **COMPONENT** — One part of a group of separate parts that make up a capital asset. A component can be a single piece of equipment that is part of an asset system, or one of the building components as described in Appendix 4.

13. **CONSTRUCTION** — Building a structure by contracting an outside contractor, as opposed to buying or leasing one already completed. When a building is constructed, the total cost may be broken down into building components. Construction costs include all incidental expenditures made to place the asset into working order (*i.e.*, materials, labor, licenses, fees, legal costs, etc.) and are accounted for as "Construction-in-Progress" until the structure is accepted for its intended use.

14. **DEPRECIATION** — The method of systematically allocating the cost of a tangible capital asset over the asset's estimated useful life. Fund capital assets are depreciated, and the expense is charged against fund operations. Depreciation is not reported for general capital assets.

15. **DISPOSALS** — The abandonment or retirement of a capital asset. A department that sells, donates, or disposes of a capital asset must report the disposal as a retirement.

GLOSSARY (CONTINUED)

16. **DONATION** — Acquisition of a capital asset for nothing in return. This pertains to assets given to a department at no cost or at a nominal amount to fulfill legal requirements. The asset is valued at the fair market value of similar assets at the time of donation.

17. **EQUIPMENT** — Any machinery or other device, which is not permanently attached to land, buildings, or land improvements and is used in the normal operations of a County department. For financial reporting, the asset must cost more than $5,000 and have a useful life of two years or more. Examples of equipment include printing presses and computers. Capitalization thresholds for fund capital assets may differ from the $5,000 threshold just stated.

18. **ESTIMATED HISTORICAL COST** — An estimate of a capital asset's price. An estimate may be derived from vendor price lists or catalogs, similar assets, staff estimates, vendor invoices, purchase orders, canceled checks, or appraisals. Estimated historical cost is used only when actual historical cost is unavailable.

19. **EXCESS** — A capital asset that a County department no longer needs. Excess assets may be transferred to another department or retired.

20. **FAIR MARKET VALUE** — Value of an item in accordance with its relative sales value at the time of acquisition. Fair market value is only to be used to value **donated** capital assets. Fair market value can be derived from vendor catalogs, invoices for similar assets, or appraisals.

21. **CAPITAL ASSET SYSTEM** — The property management system that maintains property information for the County. As part of its primary function, the Munis Capital Asset system maintains information on the County's capital assets in accordance with generally accepted accounting principles. The system improves control, financial reporting, accountability, and operational efficiency in managing capital assets. Complete and accurate records aid management in budget planning and help management to identify under-utilized assets, that is, assets that should be replaced or modified.

22. **HISTORICAL COST** — The original cost incurred to acquire a capital asset and place it in service in the normal operations of the department. Cost includes amounts paid or value assigned (in the case of a donated asset) and any incidental costs incurred to place the asset into service, such as freight, installation charges, preparation of the area in which the asset is operated, etc. Note: The cost of removing an old asset being replaced is *not* includable in the historical cost of the new asset.

23. **IMPROVEMENTS** — Any additions to or costs incurred that increase the useful life of the asset and/or result in an asset performing functions that it previously did not perform.

    Improvements can be separated into two categories: (1) additions to a previously existing asset, and (2) replacement of a component of a building or item of equipment with a new part having significantly improved and superior performance. In each case, the result will tend to

GLOSSARY (CONTINUED)

enhance the overall efficiency of the asset and increase the useful life. Improvements must be separately identified from normal maintenance and upkeep. Any expenditure made to keep an asset operating at its normal capacity or preventing it from prematurely deteriorating, is considered maintenance and is not to be added to the value of the asset. An example of an improvement would be taking out an old engine from a truck and replacing it with a newer, bigger one. Maintenance would be replacing the oil, spark plugs, and antifreeze in either the old or the new engine.

24. **INSTALLMENT PURCHASE** — A purchase method calling for payment to be made in periodic installments. Transfer of ownership occurs at the time of the purchase, although this method delays the recognition of expense until payments are made. Some capital leases are in effect installment purchases.

25. **LAND** — A capital asset recorded individually by "parcel." All land, regardless of cost, is capitalized. The land is recorded as a capital asset separate from any improvements made to it.

26. **LAND IMPROVEMENTS** — Improvements made to land such as parking lots, sidewalks, retaining walls, yard lighting, fencing, etc. Only improvements costing more than $5,000 and having a useful life of two years or more are reported as land. Capitalization thresholds for fund capital assets may differ from the $5,000 threshold.

27. **LEASE** — An agreement entered into by an department whereby periodic payments are made for the right to use an asset, such as computers, copiers, and vehicles. (See “Leased Capital Assets” beginning on page 16.)

28. **LEASE/PURCHASE** — A lease agreement entered into whereby the ownership of the asset being leased transfers to the department at some time during or at the end of the lease.

29. **LOSS** — The involuntary disposal of a capital asset due to fire, flood, theft, vandalism, etc.

30. **MAINTENANCE** — The normal repairs and upkeep performed on an asset to keep it operating in good working condition. Such repairs do not prolong the life of the asset, but merely keep it operating properly.

31. **OPERATING LEASE** — Any lease agreement entered into by the County that gives the department the right to use a specific asset or group of assets for a period of time. At the end of the term, the asset is returned to the vendor from whom it was leased. Operating leases do not meet any of the four criteria for capital lease definitions as discussed on page 16.

32. **PARCEL OF LAND** — Any measurement of land acquired with a single deed. If a deed is not accessible, then a parcel of land may consist of the total number of acres associated with a facility. This can be an acre, a square mile, 200 acres, etc. A parcel represents a single asset.

GLOSSARY (CONTINUED)

34. **PURCHASE** — Acquiring an asset by paying for it, exchanging another asset for it, or a combination of the two. Writing a check, paying cash, assuming a mortgage, entering into a capital lease arrangement, and trading-in an old asset are all examples of methods for purchasing an asset. Purchases are limited to acquisition of assets delivered and placed into service in the condition they were received (*i.e.*, already complete, not requiring construction). Note: Minor assembly in the case of equipment does not constitute construction.

35. **RENOVATION** — Construction performed on an already existing building or item of equipment to enhance its usefulness. Renovation also includes replacement of destroyed portions (*e.g.*, fire damaged rooms). Renovations are capitalized when they have a useful life of at least two years, cost $5,000 or more, and occur when 75 percent or more of the estimated useful life of the asset being renovated has expired.

36. **RETIREMENT** —The disposal or abandonment of a capital asset.

37. **SALE** — Disposal of a capital asset in exchange for some consideration. Examples of consideration are cash or another asset.

38. **SUPPORTING DOCUMENTATION** — Documents or materials to substantiate the purchase and/or disposal of a capital asset. The documentation must provide evidence in support of the cost used to value an asset. Included as supporting documentation are vouchers, purchase orders, receiving slips, contracts, mortgages, leases, titles of ownership, etc.

39. **SURPLUS** — An asset no longer of any use to the County. Surplus assets should be expeditiously retired.

40. **TAG** — An identifier attached to certain assets. The tag contains the asset number used to uniquely identify this asset among all other assets similar and dissimilar.

41. **TRANSFER** — The physical movement of an asset or change of responsibility for an asset from one department to another.

42. **USEFUL LIFE** — The period of time an asset is expected to operate efficiently for its designed purpose.

43. **VEHICLE** — Those County vehicles, (including trailers that are not self-propelled) that are capable of being licensed through the Bureau of Motor Vehicles, Ohio Department of Public Safety, and can be used for over-the-road transportation. All County vehicles are capitalized regardless of cost.