

# ASSET POLICY AND PROCEDURES

## **Policy Statement**

It shall be the policy of the Commissioners Court that a record of fixed assets owned by the County shall be established and maintained. The valuation of fixed assets shall be based on historical cost and shall meet Governmental Generally Accepted Accounting Principles. The County Auditor shall be responsible to maintain accurate and current records of existing assets and to record the disposition of assets. Department heads and/or elected official shall be responsible for informing the County Auditor of any assets leaving their area of responsibility and reviewing the listing of inventory provided by the County Auditor bi-annually.

## **Policy Objective**

Rockwall County's Asset Policy and Procedures stem from two (2) major objectives:

1. Accounting and Financial Reporting: To accurately account for and report fixed assets in financial reports issued to external reporting agencies, granting agencies and the public.
2. Safeguarding Assets: The County has a fiduciary responsibility to establish systems and procedures to protect its assets from loss or theft.

In meeting the two objectives noted above, the County has established this **Asset Policy and Procedures**, providing specific guidance to determine which fixed assets are subject to separate accounting and reporting (i.e., capitalization) and safeguarding, respectively. These systems and procedures are used to identify, process, control, track and report the County's assets.

## **SECTION I - GENERAL POLICY AND PROCEDURES**

Properly accounting for the County's assets assists in the prevention of possible misleading financial statements, a qualified audit report, inadequate maintenance management, weakened risk management, improper capital budgeting, grant violations, weakened stewardship and inappropriate disposal of surplus property. Maintenance of a good asset tracking system directly affects planning, inventorying, valuing and costing, classifying, coding, and tagging. Adequate accounting procedures and records for fixed assets are essential to the protective custody of government property.

### **DEFINITIONS AND CLASSIFICATIONS**

This section establishes and clarifies definitions to be used when classifying and valuing purchased items. Assets acquisitions are classified based on of the following definitions:

Fixed Asset – An asset, which has an acquisition cost of \$200, or greater, and useful life of at least one year. This includes all land, buildings, vehicles, equipment, computer equipment, radios and furniture. It also includes equipment designated by authorized

personnel as "theft sensitive" and other unique equipment. These items will be accounted for in the County's Fixed Asset System.

Capital Asset – An asset, which has an acquisition cost of \$5,000 or greater and useful life of at least one year. This includes all land, buildings, vehicles, equipment and computer equipment. These items will be included in the County's Comprehensive Annual Financial Report. Straight- line depreciation will be used based on the Attachment A – Estimated Useful Life.

General Inventory Asset - An asset, which has an estimated acquisition cost of less than \$200, and a useful life of at least one year. These items will not be recorded in the County's Fixed Asset System; however, the Auditor will keep a listing of these items and the department head shall maintain responsibility for these items. All equipment within this definition will be labeled with a "property of Rockwall County" tag or otherwise marked to indicate County ownership. (Example: chair with original cost of less than \$200)

Consumables – Items which, regardless of cost, are neither Fixed Assets nor inventory items; they have a useful life of less than one year. These items will not be recorded in the County's Fixed Asset System nor will they be inventoried and will not receive a "property of Rockwall County" tag.

Infrastructure – Assets that are defined as Capital Assets that are immovable and of value only to the governmental unit and include such things as roads and bridges. Accordingly, and in conformance with GASB Statement No. 34, Rockwall County will include only those items in its Comprehensive Annual Financial Statements with an acquisition or appraised value of \$5,000 or greater.

These terms are defined in greater detail within this policy. All assets meeting the minimum criteria of "fixed asset" must be expended from an "800" line in the budget.

## **CATEGORIES AND INCLUDED COSTS**

All assets are divided into the following categories: land, buildings and improvements, machinery and equipment, and construction in progress. These categories are defined as follows:

Land Costs - The acquisition cost of land includes all expenditures in connection with its procurement, including the following:

- Purchase price
- Appraisal and negotiation fees
- Title search fees
- Surveys fees
- Cost of consents
- Payment of damages
- Clearing land for use
- Demolishing or removing structure
- Filing cost

The proceeds from the sale of salvaged material subsequent to the acquisition of the land should be credited against the cost of the land.

Buildings and Improvements - The acquisition cost of buildings, structures and other improvements includes all expenditures in connection with their acquisition, including the following:

- Purchase price or cost of construction
- Fixtures attached to the structure
- Architect and/or engineering fees
- Cost of permits and licenses
- Payment of damages
- Insurance costs during construction

The acquisition cost of buildings, structures and other improvements should be reduced by receipts for the sale or salvage of materials initially charged to cost of acquisition or construction costs. These would include discounts, allowances and rebates secured, and amounts recovered through the surrender of liability and/or casualty insurance.

Machinery and Equipment - The acquisition cost of machinery and equipment encompasses all expenditures in connection with its procurement, including the following:

- Purchase price or construction costs, before trade-in allowances, less discounts
- Freight or other carrying charges
- Installation costs

Construction in Progress – A building that has not completed construction by the end of the fiscal year asset will be valued based on percentage completion.

### **CLASSIFICATION GUIDELINES**

All costs associated with the purchase or construction should be considered, including ancillary costs such as freight and transportation charges, site preparation expenditures, professional fees, and legal claims directly attributed to asset acquisition. Specific threshold requirements for fixed assets and for capital assets are described below.

Ordinary Repairs – Repairs made to keep an asset in good working condition, regardless of cost, are ordinary repairs and shall not be recorded in the Fixed Asset System. Ordinary repairs for a building include such things as re-painting, re-carpeting, and repairing a roof. Ordinary repairs for equipment and vehicles include replacing small parts or other maintenance items.

Extraordinary Repairs - Major repairs made not just to keep an asset in good working condition, but also to extend its useful life beyond that originally estimated, are extraordinary repairs and shall be recorded in the Fixed Asset System. In theory, an

improvement to a fixed asset would result in added value to the original asset at original cost plus the cost of the improvement.

If an asset has repair or maintenance that significantly extends the useful life, that cost is added to original cost of the asset. The following criteria distinguishes cost as extraordinary repairs versus ordinary repairs:

- The estimated life of the asset is extended by more than 25%, or
- The cost results in an increase in the capacity of the asset, or
- The efficiency of the asset is increased by more than 10%, or
- Significantly changes the character of the asset.

Otherwise, the cost should be expensed as repair and maintenance and the cost should not be added to the cost of the asset.

Betterment – Involve modifying an existing asset to make it more efficient or productive, usually by replacing part of the asset with an improved or superior part, and shall be recorded in the Fixed Asset System.

Additions to Existing Fixed Assets – that have an acquisition cost of at least \$200, shall be assigned to and increase the value of the property record of the existing item and shall be considered an addition to the fixed asset.

Component Units - For purposes of fixed assets, the threshold will generally not be applied to components of assets. For example a keyboard or central processing unit purchased, as components for a computer system will not be evaluated individually against the fixed asset threshold. The entire computer system would be treated as a single fixed asset.

Items Purchased in Bulk Quantity – Will be classified according to the smallest useable unit, (Example ten (10) chairs purchased for \$100. Although the invoice will be for \$1,000, these items will not be recorded in the Fixed Asset System, since the unit value is less than \$200).

Software - Will not be included in the County's Fixed Asset System. In general, software that the County uses that is over the \$200 threshold is based on a license agreement or maintenance payment. The County does not own the software, merely pays to have the privilege of using it. (NOTE: An exception may exist if the county does own the software. This will be determined at the time of purchase.)

Assets with No Record of Acquisition - Occasionally, a county will have an asset, usually old, for which there is no record of acquisition. It is then necessary to estimate the original cost of the asset by applying a price deflator to the current cost of a like item.

## **DISPOSITION OF COUNTY ASSETS**

To dispose of county property the Local Government Code §263, Subchapter D, requires that the Commissioners' Court dispose salvage and surplus county property in the following manner:

- Competitive bid or auction; or
- Sell to another county or political subdivision within the county; or
- Offer the property as trade-in; or
- After the above has been attempted - the county may: destroy, donate to a civic or charitable organization located in the county, or otherwise dispose of said property.

County property that must follow the above law is all property, other than items routinely discarded as waste (e.g. pens, paper, used ribbons) that because of use, time, accident, or any other cause is so worn, damaged, or obsolete that it has no value for the purpose it was intended.

Court Orders also approved by Commissioners Court are as follows:

## **SECTION II - FIXED ASSET POLICY**

### **Inventory Control Policy/Non-capitalized Fixed Assets (Safeguarding of Assets)**

#### **GENERAL POLICY**

In general all assets, including land, buildings, machinery, equipment, computer equipment, radios, furniture, equipment designated by authorized personnel as "theft sensitive" and other unique equipment, with an original cost of \$200 or more and a useful life of greater than one year will be designated a "fixed asset" and will be accounted for in the county's fixed asset computer system. This fixed asset threshold is applied to individual units of assets. For example, ten desks purchased through a single purchase order, each costing \$100, will not qualify for capitalization even though the total (\$1,000) exceeds the threshold of \$200.

#### Fixed Asset System Accounting

All assets identified as fixed assets will be entered into the fixed asset computer system and identified by vendor, description, amount paid, serial number and funding source. At that time the item will be assigned a tag with bar code and number. These tags will be, if possible, placed in the lower right hand corner. If this is not possible, then they shall be placed on the face of the item in a visible location. This system will be used as a tool to provide accountability and tracking of the county assets as defined by this policy.

The Auditor's Office will conduct periodic inventory checks and a current listing of assets will be provided to the department at that time. Each department head is responsible for all county property that they purchase or that is transferred to their department. Department heads shall sign and acknowledge responsibility for all fixed assets assigned to their department.

Most fixed assets can be transferred between departments via Commissioners Court action and auditor procedures. A transfer form must be filled out for all fixed assets

transfers. Unless this form is filled out completely, with signatures, the original department is still responsible for an item.

## **SECTION III - CAPITALIZATION POLICY (Accounting and Financial Reporting)**

### **GENERAL POLICY**

In general all assets, including land, buildings, machinery and equipment, with an original cost of \$5,000 or more and a useful life of greater than one year will be subject to accounting and reporting (capitalization) and will be included in the County's Comprehensive Annual Financial Report. All costs associated with the purchase or construction should be considered, including ancillary costs such as freight and transportation charges, site preparation expenditures, professional fees, and legal claims directly attributed to asset acquisition.

### **DEPRECIATION POLICY**

Depreciation reflects the use of assets by expensing the depreciable cost of an asset. This is a non-cash expense that reflects the current year's share of the cost of the asset. All capital assets, except land and infrastructure, which are held for more than one year and over \$5000.00 in cost are depreciated.

#### Depreciation Method

Depreciation is calculated using the straight line depreciation method which is used by most governmental units. Straight line depreciation is a method of calculating depreciation which assumes the asset will lose an equal amount of value each year. The annual depreciation is calculated by dividing the total cost of the asset by the estimated useful life of the asset. The estimated useful life, as established on Attachment A, is based on the number of years the asset is expected to remain useful and efficient.

#### Depreciation Expense

When depreciation is to be recorded, a depreciation expense account is debited, and an accumulated depreciation account is credited as required by GASB Statement No. 34 in the Government Wide Financial Statements.

#### Accounting for the Disposal of Capital Assets

When a capital asset is sold or otherwise disposed of in accordance with local, state, and grant requirements, the book value of the assets must be removed from the accounting system.

#### Estimated Useful Lives

Estimated Useful Life Schedule. This schedule defines the useful life for both specific assets and for classes of assets which is based on the number of years the asset is expected to remain useful and efficient.

As a matter of policy, the following will be used to determine estimated useful life:

1. Department heads and elected officials will be consulted on useful life estimates on varying assets as applicable, and
2. The life of similar assets that the county owns or has owned will be used to determine estimated useful life, and
3. Guides from professional organizations.

The estimated useful lives for asset reporting that the county has adopted will be within the following parameters:

Buildings & Improvements	15 - 40 years
Machinery & Equipment	5 - 15 years
Vehicles	3 - 5 years
Land	0 years

Subsequent review of estimated useful lives of capital assets will be done on a regular basis to reflect changes in the condition of the asset or its use.

#### **SECTION IV - INFRASTRUCTURE**

Infrastructure assets are valued in two ways: either actual historical cost where the amount can be determined from existing records or using current cost deflated to the year of construction.