County of Cottonwood
Capital Assets System

I. Introduction

The importance of a capital asset accounting system can be summarized in the following paragraphs:

> "For those fixed assets that have significant value, the importance of having a complete and accurate accounting cannot be emphasized too strongly. Adequate accounting procedures and records for fixed assets are essential to the protective custody of governmental property. The value of fixed assets for all governmental jurisdictions, including the smallest ones, is substantial and usually far greater in value than current assets. The responsibility of stewardship involved in safeguarding such a large public investment is of the utmost importance to sound financial administration, and this responsibility can be effectively discharged through adequate fixed asset accounting.
>
> In addition to protective custody of governmental unit's property in its entirety, a good system of fixed asset accounting permits the fixation of responsibility for custody and proper use of specific fixed assets to individual public officials. Such a system also makes the provision of data essential to the proper management of fixed assets. This includes such essential information as prices, sources of supply, maintenance costs, and useful life. Finally, of course, an accounting of fixed assets is a prerequisite to the preparation of satisfactory and complete financial reports. An annual financial report of a governmental unit without complete and accurate fixed asset information does not meet the test of full disclosure, and to that extent is deficient."

The maintenance of adequate fixed asset records is mandatory to provide management with data for the physical and dollar value control of assets, to comply with generally accepted accounting principles, and to simplify the determination of depreciation (if applicable) and insurable values since acquisition.

The following are objectives of the Capital Assets System:

1. To assign responsibility for the custody and proper use of specific fixed assets to individual officials, i.e., Department Heads.
2. To account for valuations of fixed assets.
3. To control disposals of fixed assets by type of disposal, i.e., sales, trade-ins, thefts, and items scrapped.
4. To help in providing depreciation computations for government reporting purposes.
5. To provide a method to monitor and control expenditures incurred on individual assets.
6. To serve as a basis for valuation for insurance purposes and to provide a record of assets insured.
7. To encourage transfer of surplus equipment to areas of need.
8. To aid in budget preparation, analysis, and approval.

The fixed assets included in the Capital Assets System are those that do not relate to a Proprietary or Trust Fund. Rather than accounting for the fixed assets in a government fund, the general fixed assets are accounted for in the General Assets Account Group. It should be emphasized that the General Capital Assets Account Group is an "account group" rather than a "fund".

In essence, the General Capital Assets Account Group is a management control and accountability listing of a government's general fixed—those not employed in commercial type activities or held in trust—balanced by accounts showing the sources by which such assets were financed. By establishing a separate account group for general fixed assets we recognize that those assets belong to the governmental unit rather than to any specific fund.

The following sections of this manual describe the Capital Assets System (also referred to as the "System") and how it operates, and describes the user department's responsibilities. Any questions that arise should be directed to the Auditor/Treasurer's Office.

II. General System Description

A. Fixed Asset Definition

1. Being tangible in nature in that the physical substance does not materially change in its form through use,
2. The useful life is greater than one year,
3. The cost is at or above $5,000.

Cottonwood County's Capital Assets System also has the ability to account for assets which fall below the dollar value of $5,000. These assets are called **capital outlay** with a dollar value of $500. The following are the policies for fixed assets, capital outlay, and non-expendable supplies.

a) All items with a value of $5,000 or greater are required to be entered into the Capital Assets System for Financial Statement reporting.
b) In addition, capital outlay items in excess of $500, with a life expectancy of two or more years should also be included in the System.
c) Unless a Department elects otherwise, records for non-expendable items with a value below $500 should **not** be included in the Capital Assets System, except for: cameras, printers, desks, chairs, tables, file cabinets, and bookcases. There is a cost in maintaining inventory records for small items, and they would also have a tendency to overload the basic system. Therefore, Departments shall account for these items in a manner they determine appropriate to their needs.
d) The use of the following IFS fund numbers will automatically require inclusion in the Capital Assets System:

6660	Fixed Assets in Excess of $5,000.
6650	Capital Outlay from $500 to $4,999.
6640	Non-expendable Supplies under $500 – cameras, printers, desks, chairs, tables, file cabinets, and bookcases are included. Other non-expendable supplies should not be listed.

B. Valuation of Fixed Assets

Fixed assets should be accounted for at historical cost or, if cost if not practicably determinable, at estimated cost.

1. Cost. Fixed assets should be recorded at cost—consideration given or received, whichever is more objectively determinable. The cost of a fixed asset includes not only its purchase price or construction cost, but also ancillary charges necessary to place the asset in its intended location and condition for use. Ancillary charges include costs such as freight and transportation charges, site preparation expenditures, professional fees, applicable taxes, legal claims, and legal claims directly attributable to asset acquisition.

2. Estimated Cost. Initial costs of fixed assets usually are readily ascertainable from contracts, purchase vouchers, and other transaction documents at the time of acquisition or construction. However, governmental units are sometimes faced with the task of establishing appropriate fixed asset accounting records and valuations after many years of operation without such records. In such situations, the original purchase documents may not be available, or an inordinate expenditure of resources may be required to establish original asset costs precisely. It may therefore be necessary to estimate the original cost of such assets on the basis of such documentary evidence as may be available, including price levels at the time of acquisition, and to record these estimated costs in the appropriate General Capital Assets Account Group. This practice introduces some margin of error into the Capital Assets Accounts as compared with proper recording at the time of acquisition. However, such error will have only short-run significance because, as older assets are retired and replaced, estimated costs are replaced by properly recorded actual cost amounts. The extent to which fixed asset costs have been estimated, and the methods of estimation, should be disclosed in the notes to the financial statements.

C. Acquisition of Fixed Assets

1. Purchase. A purchase is an acquisition through a direct outlay of cash for the fixed asset. The book value of an older fixed asset traded in for a new one does not affect the basis of the new asset.
2. Construction. Construction includes buildings actually constructed by the County. The labor, materials, equipment, and overhead are all part of the construction cost.
3. Lease-Purchase and Installment Purchase. Lease-purchase agreements are contractual agreements, which, in substance, amount to purchase contracts. General fixed assets acquired via lease-purchase agreement are capitalized in the General Capital Assets Account Group at the inception of the agreement in the amount of the discounted present value of the total stipulated payments. Multiple-year installment contracts are accounted for in the same manner as lease-purchase agreements.
4. Eminent Domain. This is the power of a government to acquire private property for a public purpose, and it is frequently used to obtain real property, which cannot be purchased from owners in a voluntary transaction. Where the power of an eminent domain is exercised, owners are compensated by the government in an amount determined by the courts. General fixed assets acquired by eminent domain should be capitalized in the General Capital Assets Account Group in that amount.
5. Foreclosure. Closely related to an eminent domain as an involuntary judicial procedure, but used much less frequently as a means of acquiring fixed assets for government retention and use, is the foreclosure of tax or special assessment liens. Ordinarily, property foreclosed is resold to liquidate delinquent tax or special assessment obligations, but on occasion, governments retain possession for their own needs.

   General fixed assets acquired by tax or special assessment foreclosure which are to be resold in the near future are generally accounted for by the government to which the taxes or assessments are owed and offset there with a fund balance reserve account. Assets, which are not sold, are capitalized in the General Capital Assets Account Group at their face value on the date of foreclosure.

6. Gift. Governments may acquire properties by gift. Donated fixed assets should be recorded to the fund to which they relate or in the general Capital Assets Account Group, as appropriate, at their estimated fair value at the time of acquisition.

D. Treatment of Costs Subsequent to Acquisition

Expenditures on fixed assets that are incurred after their original acquisitions are defined and recorded as follows:

1. Maintenance. Maintenance costs are those, which neither materially add to the value of the property nor appreciable prolong its life, but merely keep it in ordinary efficient operating condition. Maintenance costs are not charged to fixed asset capital accounts, but to maintenance and repair expenditure accounts.
2. Betterments. Betterments consist of the replacement of a unit of an existing asset by an improved or superior unit, usually resulting in a more productive, efficient or longer-lived asset. Significant betterments are considered to be fixed asset additions and are added to the value of the property.

   The decision as to whether a betterment has been affected is made by an evaluation of engineering, physical, or other relevant factors apart from cost. Replacement of a part of an existing asset by another of like quality is not a betterment, even though the useful life of the asset is maintained or extended. These costs are charged to expenditure accounts.

E. Major Function and Benefits

The major function of the system is to build, update, and maintain a fixed asset master file.

The major benefits of the system are that it provides all departments with a centralized and automated system to process their fixed asset activity. This provides management with the information needed to account for the investment in fixed assets, and assist individual departments in controlling the fixed assets they have in their possession.

The major objectives of the system are discussed in the "Introduction Section".

III. Policies and Procedures

A. Fixed Asset Policies and Procedures

The Capital Assets System maintains a complete record of individual fixed assets for all County organizations. The primary maintenance of fixed asset records is the responsibility of the department purchasing an item and thereby having physical control of the asset.

The system is operated and maintained as a separate system from the Integrated Financial System (IFS). Source documents used for the IFS such as vouchers and vendor invoices will also be used for the Capital Asset inventory.

B. User Department Responsibilities

All fixed assets, which have a value of $5,000 or more, must have a record in the Capital Assets System. Capital Outlay items with a value below $5,000 are to be included

according to the guidelines stated in Section II.A. These records include tagged items, which make up the majority of the fixed asset transactions and create the greatest accountability problems. Land, land improvements, buildings, and building improvements are not tagged items. The recording of expenditures in these accounts is maintained by the responsible Department.

Each Department Head or a designee appointed by the Department Head is required to safeguard and account for the furnishings and equipment of the Department. The designee will be responsible for:

1. Completing and submitting inventory input and adjustment forms, with source documents attached, to the Auditor/Treasurer's Office to account for additions, disposals, transfers, or other changes.
2. Insuring that furnishings and equipment in the custody of their department are not transferred from their premises without permission.
3. Conducting an annual inventory of all fixed assets in possession of the department.

C. New Acquisitions

A fixed asset transaction begins at the time the voucher and/or vendor invoice is approved and paid. It is completed when the item is tagged and entered into the Capital Assets System.

All computer equipment will be tagged by the Information Services staff. The tag number and description of equipment shall be forwarded to the Auditor/Treasurer's Office as well as to the department where the computer equipment is physically located.

The Departments of Community Health, Human Services, Highway, and Library will have the ability of tagging individual items as well as inputting their inventory into the System, but must furnish the Auditor/Treasurer's Office with copies of the inventory input form with attached copies of the source documents.

D. Disposal

The term "disposal" will be used to describe the removal of a fixed asset from a department's fixed asset record. The various "disposal" methods are explained below and must be reported to the Auditor/Treasurer's Office on the capital Assets Inventory Form.

1. Surplus Property. The term "surplus property" will be used to describe a fixed asset or non-expendable supply which is operable, but no longer useful to a particular department. The Department Head is responsible for notifying the Auditor/Treasurer's office of any surplus property under their control.

   The Auditor/Treasurer's Office will periodically provide Administration with a list of surplus property, which is available for transfer. After a sufficient amount of time the surplus property will be disposed of as described below upon the approval of the County Board of Commissioners. Thus before property is sold, it must first be classified as surplus property.

2. Sale of a Fixed Asset. Fixed assets, capital outlay, and/or non-expendable supplies which are subject to the requirements described in Minnesota State Statute are not to be sold without approval from the County board of Commissioners. After approval is granted, the sale will be initiated and the Auditor/Treasurer's Office will enter the proper adjustments to the System.

3. Trade-In. A Department Head disposing of a fixed asset (value of $5,000 or more) as a trade-in for a new acquisition must also receive prior approval from the County Board of Commissioners. After approval is granted, the Department Head is responsible for informing the Auditor/Treasurer's office of the disposal on a Capital Assets Inventory Form, and for recording information concerning the new acquisition.

4. Obsolete. This includes fixed assets that have lost their usefulness resulting from invention, change of style, legislation, or other causes, not having any physical relation to the object affected. The asset may still be operable, but has lost its usefulness to a particular department. Since the obsolete fixed asset may be of use to a different department, the fixed asset is transferred to that particular department.

E. Lost, Stolen, or Damaged Beyond Repair

When a fixed asset is disposed of through one of the above, unexpected methods, an incident report will be prepared and the circumstances surrounding the event will be reported to appropriate law enforcement personnel (if applicable).

The incident report and any police reports will be forwarded to the administrative office for insurance purposes.

In addition to the insurance requirements, the Department Head is required to notify the Auditor/Treasurer's Office of a Capital Assets Inventory Form.

F. Adjustments

Other changes occurring subsequent to the acquisition of a fixed asset such as a betterment or a transfer, must be reported to the Auditor/Treasurer's Office on the Capital Assets Inventory Form.

1. Betterments. As described in Section II.D.2, betterments have the effect of extending the useful life of an existing asset and are an expenditure other than the normal maintenance and upkeep. For a betterment, the Department must complete a Capital Assets Inventory Form, input and submit to Auditor/Treasurer's Office along with the voucher and/or vendor invoice requesting payment.

2. Transfers. When a fixed asset, capital outlay item, and/or a non-expendable supply is transferred to a different department, the Department Head is responsible for informing the Auditor/Treasurer's Office. The new location and any other changes of the initial information should be reported on a Capital Assets Inventory Form. The changes will be entered in the System and the records of the departments involved will be updated.

G. Inventory Check

To verify that the information in the System is up-to-date the Department Heads will receive annual printouts of the assets charged to their Departments. This report should be reviewed by the Department Heads to determine that all Fixed Assets are identified properly and adjustments have been recognized. This will check the master input forms on file in the Auditor/Treasurer's Office against the assets actually in possession of the Department. Department Heads should conduct random physical inventories to insure proper accountability is maintained throughout the year. The Auditor/Treasurer's Office and the State Auditor are also required to conduct periodic physical inventories to insure proper financial statement presentation.

IV. Fixed Asset Account Numbers

A group of accounts entitled "capital outlay" accounts is set aside in the expenditure section of the Chart of Accounts to control purchases. The capital outlay accounts (6600 series) accumulate the costs of fixed assets purchased by each Department. These accounts are summarized at year-end by the Auditor/Treasurer's Office and capitalized as accounts as assets in the General Capital Assets Account Group. These accounts are explained below and should be reviewed carefully prior to being used to insure that each item being purchased is properly coded.

A. Fixed Assets – All assets with a dollar value at or above $5,000. Fixed Assets should be charged to IFSS account number 6660.

B. Capital Outlay – These items costing more than $500 and less than $4,999 are included in the System in the same manner as a fixed asset. Capital Outlay items should be charged to IFS account number 6650.

C. Non-Expendable Supplies – Items costing less than $500, including: Cameras, printer, desks, chairs, tables, file cabinets, and bookcases are included in the Capital Assets System. These supplies should be charged to IFS account number 6640.

D. Account Numbers and Description

Account Number	Description
6640	**Non-Expendable Supplies – less than $500:** Items to be included in the Capital Assets System should be: cameras, printers, desks, chairs, tables, file cabinets, and bookcases (described in Section II.A). Other items with values less than $500 or with a life expectancy of less than two years should not be included.
6650	**Capital Outlay - $500-$4,999:** Items to be included as capital outlay should have a value over $500 with a life expectancy of more than two years and must be included in the Capital Assets System.
6660	**Fixed Assets in Excess of $5,000:** These items are any of those listed below that would be considered Fixed Assets for Financial Statement reporting. These items are broken down in the Capital Assets System by the following classes: Land: Record expenditures for the initial acquisition of real property exclusive of buildings, and expenditures relating to subsequent improvements of the land. Include land in public use, land held for public use, and land available for sale. Acquisition cost of land includes the purchase price and related costs of the purchase such as fees incurred to secure effective title, demolition and clearing costs, and other costs necessary to prepare the land for its intended use. The description used for land on the Capital Assets Inventory Form is a statement of the lands use. The location of land is done by parcel number or by legal description.

Land Improvements: Record expenditures made subsequent to the acquisition of real property (exclusive of buildings). Include parking lots, park developments, yard and playground equipment, etc. Do not include landscaping and grading or landfill other than which applies directly to a building.

1. Paving: Include total quantitative and qualitative figures for site including berms and parking lot striping.
2. Fencing: Total lineal feet including gates, etc. List by type.
3. Playground and picnic equipment: Built-ins as per movable equipment.
4. Concrete: Sidewalks, flatwork, etc. List by total areas of various types.
5. Miscellaneous structures: Small structures not listed by separate location such as sheds, sign posts, bleachers, etc. List individually without regard to component breakdown.
6. Plumbing: List as total plumbing for site including drinking fountains, hose bibs, and on-site sewer.
7. Electrical: List area lighting separately from miscellaneous and electrical service.

Building Acquisition or Construction: Record expenditures made for the acquisition or construction of buildings. Include in this amount the related costs of the purchase such as fees incurred to secure effective title. In the case of buildings constructed, a quantitative and qualitative description of each structure segregating basic building construction from heating, ventilating, air conditioning, plumbing, lighting, floor and ceiling cover are to be included.

Building Additions: Record expenditures for improvement to (or remodeling of) existing buildings. Improvements and remodeling do not increase floor area. Include improvements in heating, ventilating, electrical, plumbing, and other systems necessary for the additional space provided.

Vehicle and Rolling Stock: Includes licensed vehicles such as cars, trucks, trailers, etc., which are licensed for public roads; also unlicensed vehicles such as road construction equipment, mowers, etc.

Lease-Purchase Agreements: Lease-purchase agreements are contractual agreements, which are termed "leases" but which, in substance, amount to purchase contracts. General fixed assets acquired via lease-purchase agreement are capitalized in the General Capital Assets Account Group at the inception of the agreement in the amount of the discounted present value of the total stipulated payments. Multiple-year installment purchase contracts are accounted for in the same manner as lease-purchase agreements.

Furniture & Equipment: The County recognizes the substantial capital investment, which it has to furnishings and equipment and the role, which the investment plays in its operations. Consistent with its responsibilities to exercise surveillance and control over assets owned by the County, and to assist in the preparation of the annual financial report, it believes the Capital Assets System must maintain satisfactory control over assets classified as furnishings and equipment.

The cost to be included in the valuation of furniture and equipment includes the following:

- Purchase price or construction cost before trade-in allowance, less discounts.
- Freight or other carrying charges

- Sales, use, or transportation taxes
- Installation costs

Department Heads are responsible for insuring that furnishings and equipment used in their operations are accounted for and adequately safeguarded.

6600 **Infrastructure Assets in Excess of $100,000:**
Long-lived capital assets that normally are stationary in nature and can usually be preserved for a significantly greater number of years than most capital assets. Examples are roads, tunnels, drainage systems, bridges, water and sewer systems, dams, and lighting systems.

E. Capitalization

All purchases of items, which are charged to fixed asset capital accounts, must be included in the Capital Assets System. At the end of each year the fixed asset additions are reviewed and a decision is made as to which assets to "capitalize", i.e., which expenses were incurred during the year, which should be recorded as an asset and as an investment in property and equipment on the general ledger. Normally all charges to fixed asset expenditure accounts are capitalized.

The general policy is not to charge to capital outlay accounts, and thus not to capitalize purchases of assets costing less than $5,000.

CAPITAL ASSETS INVENTORY FORMS

To maintain fixed asset records, which meet the standards of generally accepted accounting principles, the following information is needed:

Section A.

A. Date:	The acquisition date should be the date the asset effectively came under control or came into possession of the County. Insert the month, day, and year of acquisition.
B. Vendor Name:	The name of the vendor should be included.
C. Check & Date:	The acquisition invoice should be included when applicable, and in most instances will be attached to the claim. The Auditor/Treasurer's Office will complete the date of the check, and the check number at the time of payment.
D. Purchase Amount:	If practicably determinable, original cost should be used. Original cost of the fixed asset includes the construction cost on the purchase price, less discounts, plus freight charges, sales tax, installation costs, and the cost of any betterments. An estimated cost should not be used unless the original cost cannot be verified from past records.
E. Account Code	Fill in the account number used to purchase the asset. This fund number will include the source of funding such as the grant or project.

Section B.

1. Tag Number:	Accounting will insert the number of the County ID tag affixed or assigned to the particular asset.
2. Class:	Items that are all related are placed into groups called classes. Check one.

3. Type:	Fixed Asset, Capital Outlay, or Non-Expendable supply. The form must be coded to differentiate between a Fixed Asset (value of $5,000 or more), Capital Outlay item ($500-$4,999), or a Non-Expendable supply item (value under $500).
4. Description:	Fill in the description of the asset at a maximum of 30 characters, i.e., IBM Selectric Typewriter. For buildings insert the name of the building. For land include a brief description of what the land is used for.
5. Serial Number:	If applicable, fill in the manufacturer's serial number. The VIN for vehicles and rolling stock is required.
6. Manufacture/Make:	Fill in the make of the item, i.e., Allsteel for a desk or file cabinet.
7. Model Number:	If applicable, enter the manufacturer's model number, i.e., "Crown Victoria" for a full size Ford or "1234" for a victor Calculator.
8. Year:	Fill in the model year.
9. Location of tag:	The program will allow you to list your tag location if IS has assigned a tag number. This would apply to computer equipment.
10. Condition:	The condition will generally be new; fill in a 001 for new.
11. Site:	This field describes the room number within a building. The Auditor/Treasurer's Office will assign this code.
12. Building Code:	Location of the Asset. Codes are found on page .
13. Department:	Fill in the appropriate three-digit department number.
14. Acct Number:	Check the appropriate object description.
15. Owing Fund:	Fill in the proper two-digit fund number, which states the fund of ownership, i.e., 01 Revenue.
16. Method of Acquisition:	The method of acquisition will differentiate between assets acquired by purchase, construction, gift, etc. contact the Auditor/Treasurer's Office if the acquisition type is something other than purchase.

The initial information will be gathered by the Department responsible for the asset in cooperation with the Auditor/Treasurer's Office.

Section C. Disposal Information

The following is information needed to maintain an up-to-date record of the fixed assets:

I. Disposal Information:

Type:	Check the appropriate disposal type as listed on the form.
Reason:	Complete the reason for the disposal.
Traded For:	If the asset is traded, fill in the description of the new asset on the comment line at the bottom of the form.
Receipt:	If the asset is sold, the Auditor/Treasurer's Office will fill in the appropriate receipt number.

IV. Codes

Fund Numbers:

01	Revenue
03	Road & Bridge
11	Welfare
12	Landfill
13	Score
41	Ditch

Building Codes:

CH	Courthouse	HWY	Highway
LEC	Law Enforcement Center	FSA	Welfare
RB	Road & Bridge	CCO	9th Street Building

Class Codes:

Buildings	Shop Equipment
Office Furniture	Infrastructure
Land	Office Machines
Mechanical Equipment	Cars & Road Vehicles
Road Maintenance Equipment	Recreation Equipment
Computer Hardware	
Construction in Progress	
Law Enforcement Equipment	