

**RESOLUTION ARB2015-0005**

*Approval of Capital Assets Policy*

Whereas, County entities may adopt, amend, rescind, and administer rules on matters within their respective jurisdictions, as established by the County Charter, the County Code, or general law; and

Whereas, Section 205.09(A) of the Cuyahoga County Code establishes the Cuyahoga County Administrative Rules Board; and

Whereas, per Section 113.02(A) of the Cuyahoga County Code, a county entity seeking to adopt, amend, or rescind a rule shall submit a request [for approval?], including the specific language of the rule, to the Clerk of the Administrative Rules Board in accordance with the procedures and deadlines established by the Board for such submissions; and

Whereas, per Section 113.02(G) of the Cuyahoga County Code, the Administrative Rules Board is given approval authority over rules promulgated by County entities based on a determination of: (1) whether the requesting entity has the authority to adopt, amend, or rescind the rule and (2) whether the proposed rule conflicts with the County Code; and

Whereas, the Fiscal Office administers a Capital Assets Policy;

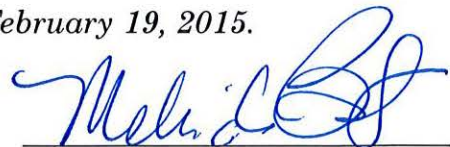
**NOW, THEREFORE, BE IT RESOLVED BY THE ADMINISTRATIVE RULES BOARD OF CUYAHOGA COUNTY, OHIO:**

**Section 1.** The Capital Assets Policy, as attached, is hereby enacted as part of the Cuyahoga County Administrative Code.

**Section 2.** This Resolution shall go into immediate effect and remain in full force and effect until November 19, 2015.

**Section 3.** It is found and determined that all formal actions of this Board concerning and relating to the passage of this Resolution were passed in an open meeting of this Board and that all deliberations of this Board that resulted in such formal actions were in meetings open to the public and in compliance with all legal requirements, including Section 121.22 of the Ohio Revised Code.

*The foregoing resolution was duly adopted on February 19, 2015.*



*Clerk of the Board*

# Capital Assets Policy



Fiscal Office

# Cuyahoga County Capital Assets Policy

The purpose of this policy is to summarize the capital asset policies and procedures for Cuyahoga County (the County). The policy encompasses all County capital assets including those recorded in Proprietary funds and assets held by agencies that have their own governing board. It does not include entities in which the County acts as fiscal agent (e.g. Cuyahoga County Board of Health, Cuyahoga County Soil and Water Conservation District).

## **Capitalization Policy**

### ***Definition of Major Classes***

Capital assets are tangible or intangible assets that are used in operations and that have initial useful lives beyond one year. Capital assets include, but are not limited to, land, land improvements, buildings, building improvements, construction in progress, vehicles, machinery and equipment and infrastructure.

### ***Capitalization Limits***

Cuyahoga County has identified capitalization limits based on the major classes of assets. These limits will serve as the value above which asset acquisitions are added to the capital assets. Capitalization limits are as follows:

<b>Asset Type</b>	<b>Capitalization Threshold</b>	<b>Salvage Value</b>	<b>Estimated Useful Life</b>
Land	All	N/A	N/A
Construction in Progress	All	N/A	N/A
Other Inexhaustible Capital Assets	\$10,000	N/A	N/A
Land Improvements	\$100,000	\$0	5-20 Years
Buildings and Building Improvements	\$100,000	\$0	5-40 Years
Utility Plants	\$100,000	\$0	20-50 Years
Infrastructure	\$200,000	\$0	20-69 Years
Machinery and Equipment	\$10,000 and a useful life longer than 5 years	\$0	3-22 Years
Vehicles	\$10,000 and a useful life longer than 5 years	\$0	4-9 Years
Software and Intangibles	\$10,000	\$0	5-10 Years

# Cuyahoga County Capital Assets Policy

## ***Initial Capitalization Cost***

Capital assets will be recorded at their historical cost which equals the purchase price (net of discount, if applicable) plus taxes, fees, assumed liens, clearing or demolition, installation, freight, assembly, special fittings and all other ancillary and incidental expenditures necessary until the asset is ready for its intended or final use. Ancillary expenditures are costs necessary to place an asset into its intended location and prepare it for use. They include costs that are directly attributable to the asset's acquisition, such as site preparation costs and professional fees.

Capitalization thresholds will be applied to individual assets if the asset is individually identifiable. If assets are not individually identifiable they may be capitalized (and depreciated) in aggregate. Example: 150 chairs are purchased at \$100 each. In total the purchase of \$15,000 is above the capitalization threshold. However, each chair is individually identifiable and each individual chair is under the capitalization threshold, so no chairs would be capitalized.

If an asset is traded in as part of the purchase for a new asset, the new asset will include the value of the traded in asset in addition to any other monetary consideration paid.

Assets purchased for a nominal amount (i.e., an amount significantly lower than the expected fair market value) will be recorded at the estimated fair market value of the asset at the time purchased.

## ***Costs Subsequent to Acquisition***

Capital costs subsequent to acquisition can be classified into the following categories:

- **Improvements and Additions** – costs that expand an asset's capacity or extend its useful life. (e.g., converting a road from 2 to 4 lanes, increasing bridge capacity from a two to ten ton limit)
- **Repairs and Maintenance** – recurring costs that do not extend the asset's original useful life or expand its capacity. (e.g., repairing potholes or repainting pavement markings)

Accordingly, it is the County's policy to capitalize and depreciate Improvements and Additions if they meet the capitalization threshold. Repairs and Maintenance costs will be expensed. In the case of asset replacements, the original cost of the asset will be removed and replaced with the cost of the replacement asset.

## ***Donated Assets***

Donated assets, including confiscated assets, will be reported at estimated fair value when donated. Fair value is defined as the amount at which the assets could be exchanged in a current transaction between willing parties, other than in forced or liquidation sale. Catalogs, periodicals, appraisals and recent sales of comparable assets can be used to estimate fair value.

## ***Capital Leases***

A lease is a capital lease if it meets one of the following criteria:

- The County receives ownership of the asset at the end of the lease term.
- The County has the option to purchase the asset at a significantly lower than expected fair market value of the asset.
- The life of the lease is equal to or greater than 75% of the economic life of the asset.

# Cuyahoga County Capital Assets Policy

- The present value of the minimum lease payments is equal to or greater than 90% of the fair market value of the leased asset.

If the asset meets one of the above criteria, the County will capitalize the asset at the present value of the minimum lease payments at the inception of the lease.

## ***Interest***

Interest will only be capitalized on Enterprise fund assets while they are under construction. Once the asset is placed into service, interest will no longer be capitalized.

## ***Non-capitalized Assets***

The County will frequently incur capital costs to construct or acquire assets on behalf of other governmental agencies. The assets are not retained by the County after completion or acquisition. These expenditures will not be capitalized.

Any assets that are specifically held by the County for resale will not be capitalized as a capital asset.

*Any asset that will be retained by the County, does not meet the capitalization criteria, and will not be held for resale, will be classified as inventory for the purpose of this policy and not reported as a capital asset within the County's financial statements. See the **Inventory policy**.*

## **Capital Asset Accounting and Reporting**

### ***Purpose***

Maintaining complete and accurate accounting for capital assets is essential to the protective custody of the County's property. The value of capital assets owned by the County is substantial. The responsibility of stewardship involved in safeguarding such a large public investment is of utmost importance to sound financial administration. This responsibility can be discharged effectively only through a system of capital asset accounting which facilitates overall control and custody of the County's property, permits the assignment of direct responsibility for custody and proper use of specific capital assets to individual supervisors, and provides data essential to the proper management of capital assets. An accounting of capital assets is required for preparation of General Purpose Financial Statements; i.e., to meet the test of full disclosure, the annual financial report of the County must include complete capital assets information.

### ***Definitions***

#### **Land**

All land parcels acquired for building sites, recreation, etc. are to be included. Land costs will include the cost to purchase the land and any costs to prepare the land for use (e.g., grading, excavation, movement of utilities) if these costs also have an indefinite useful life that matches that of the land. If land and buildings are purchased as a single parcel, the land will be recorded separately.

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## **Construction in Progress**

Costs associated with another asset class that are incurred before the asset is ready to be placed into service will be capitalized as construction in progress. These costs may occur over several years. When the asset is ready to be placed into service the asset is removed from construction in progress and added to the proper asset category.

## **Other Inexhaustible Capital Assets**

An asset whose economic benefit or service potential is used up so slowly that its estimated useful life is extraordinarily long. (e.g., works of art, historical treasures, mineral rights if purchased separate from land)

## **Land Improvements**

These assets are immovable improvements to land that are not buildings and do not provide a permanent benefit (e.g., fences, parking lots, lighting).

## **Buildings and Building Improvements**

All permanent buildings or structures, including maintenance barns, salt sheds, etc. Building improvements, if they meet the capitalization criteria, will be added to the cost of the building, unless the life of the improvement is significantly less than the useful life remaining on the building (e.g., HVAC). If this occurs, the improvement will be capitalized separate from the related building. If land and buildings are purchased as a single parcel, the building will be recorded separately.

## **Utility Plants**

A permanent building and all related structures (e.g. holding tanks, pipes) associated with the providing of utilities (e.g. wastewater treatment plant, pump stations)

## **Infrastructure**

The County will utilize the GASB 34 definition of infrastructure: “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.” (e.g., roads, bridges, tunnels, runways, sewer pipes)

## **Machinery and Equipment**

All moveable equipment, except for vehicles, which has an original cost of \$10,000 or greater and a useful life of at least five years when purchased (e.g., mowers, K-9 unit animals, backhoes).

## **Vehicles**

Equipment that is registered with the State of Ohio for operation on roads or waterways, has an original cost of \$10,000 or greater, and a useful life of at least five years when purchased (e.g., trailers, cars, trucks, boats).

## **Software**

Software will be capitalized if the cost to purchase or develop the software is \$10,000 or greater. If software is developed internally, only costs incurred during the application development stage (e.g., coding, installation, testing, data conversion) will be capitalized. Costs incurred during the preliminary project stage (e.g., conceptual formulation, evaluation of alternatives, final selection of alternatives to develop) and post-implementation/operations stage (e.g., application training, maintenance) will be expensed.

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## **Intangibles**

GASB 51 defines an intangible asset as an "... asset that is capable of being separated or divided from the [County] and sold, transferred, licensed, rented, or exchanged, either individually or together with the related contract, asset, or liability. The asset also arises from contractual or other legal rights, regardless of whether those rights are transferable or separable from the [County] or from other rights and obligations." (e.g., use of building rights, water rights, patents)

*Note: Ohio Revised Code Section 5535.08 requires Counties to maintain utility plants, sewer lines, and County roadways within Township limits.*

## **Reporting Requirements**

### **Acquisition**

Acquisitions are based on a review of expenditure reports from the accounting system at year end. The Fiscal Department will review these reports and determine if an asset meets the capitalization criteria. If the criteria are met, the asset will be added to the capital asset system. If assets are donated or purchased outside of the Fiscal Department accounts payable process, the agency must notify Fiscal of the new asset.

### **Tagging**

Uniquely identified tags must be applied to all machinery and equipment meeting the capitalization criteria.

### **Donated Items**

Donated items will be assigned an estimated cost based on the current market value of the item. If an agency receives a donated item they should determine the current market value of the item. If the item meets the associated capitalization criteria, they should notify the Fiscal Department. The Fiscal Department will then verify the current market value and the asset will be capitalized accordingly.

### **Changes**

Changes to assets will occur from time to time if more accurate information regarding an asset becomes available. Changes can include but are not limited to:

- Corrections
- Tag number change or replacement
- Correction of description, serial number or model number
- Useful life change
- Correction of cost (A correction to an asset's cost should be approved by the Financial Reporting Manager and should be separately documented for auditing purposes.)

### **Transfers**

The Fiscal Department must be notified as soon as an asset's location address or responsible agency changes in order to update the capital asset system.

### **Disposals**

Assets sold, traded in, scrapped, recycled or in any way permanently removed from service will be removed from the capital asset system. See the [Disposal of Capital Assets policy](#).

### **Depreciation**

All capitalized assets will be depreciated utilizing a straight line depreciation methodology. The amount of yearly depreciation will be based on the amount capitalized less the salvage value and the asset's useful life. Capitalized assets that do not require depreciation are as follows:

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- Land
- Construction in Progress
- Other Inexhaustible Capital Assets

Assets will be depreciated on an individual basis. If an asset is not individually identifiable from other assets it may be depreciated in aggregate with the other related assets.

Depreciation will be calculated based on the date payment for the asset was made.

## ***Physical Inventory***

While compiling the list of capital assets for the County's annual financial report, agencies will be sent a list of assets assigned to them. Each agency will review the list and indicate the status of the asset (e.g., correct, disposed, transferred) and return it to the Fiscal Department. The Fiscal Department will then use this information to update the capital asset system.

## ***Impairment***

An asset is determined to be impaired if there is a significant, unexpected and permanent decline in the functionality of an asset. An impairment is considered significant if all of the costs to repair and maintain the asset are considerable compared to its current functionality. Once impairment is determined, the asset's value (including accumulated depreciation) will be adjusted utilizing an appropriate method (e.g., restoration cost approach, service unit approach, deflated depreciated replacement cost approach, fair value).

## **Disposal of Capital Assets**

It is a major initiative of Cuyahoga County to reduce its carbon footprint. As such, every effort will be taken to ensure disposed assets remain out of landfills.

A capital asset may be considered for disposal for any of the following reasons (this list is not all inclusive):

- Obsolete
- Lost or stolen
- Public safety hazard
- No longer usable for intended purpose

It is in the County's best interest that a County employee may not take ownership or personally profit from the disposal of a capital asset. Therefore, no employee has singular authority to dispose of capital assets without the proper approvals. It is also the County's policy that employees are prohibited from purchasing County assets that are disposed.

## ***Types of Disposal Methods***

The Department of Public Works will oversee the disposal of all County capital assets. The disposal of all assets will be done in accordance with Executive Order O2012-0001 and the Contracting and Purchasing Procedures Ordinance. If, after a time, an asset cannot be disposed utilizing a certain category, it may be re-categorized to a different category for disposal.



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## **Reuse**

These assets still have a useable life, but are no longer needed by the responsible agency. The Department of Public Works will determine if another agency may still have use for these assets. If another agency takes possession of an asset through reuse, the new agency will be responsible for ensuring the asset is reflected on their physical inventory.

## **Remanufacture/Recycle**

These assets may still have a useable life but are no longer needed by the County. The Department of Public Works will solicit bids from remanufacturers/recyclers. Additional consideration may be given to charitable remanufacturers that recondition equipment for charitable purposes in the local community.

## **Auction**

These assets may still have a useable life but are no longer needed by the County. The Department of Public Works will determine if the asset will be auctioned and what type of auction (live auction or internet auction) will provide the best opportunity for the County. Public Works will determine a minimum bid for all assets in this category. The auction will be done in conjunction with the Office of Procurement and Diversity. Assets will be sold “as is” and the County will not be responsible for any asset that may be malfunctioning or inoperative. No warranty, either expressed or implied, will be associated with assets that are sold via auction.

## **Donate**

These assets may still have a useable life but are no longer needed by the County. The asset may be donated to a qualified charitable organization or non-profit. Assets will be donated “as is” and the County will not be responsible for any asset that may be malfunctioning or inoperative. No warranty, either expressed or implied, will be associated with assets that are donated.

## **Public Use**

These assets may still have a useable life but are no longer needed by the County. At the discretion of Public Works the asset may be offered to the public free of charge. Assets will be offered “as is” and the County will not be responsible for any asset that may be malfunctioning or inoperative. No warranty, either expressed or implied, will be associated with assets that are offered to the public.

## **Scrap/Trash**

These assets have no remaining useful life or are deemed unsafe or dangerous. The Department of Public Works will ensure the asset is properly disposed or scrapped. They will make every effort to transfer scrap items to the nearest qualified recycling plant that meets the needs of the County.

## **Trade-In**

These assets will be utilized as part of the procurement of a new County asset. Trade-ins will be coordinated with the Office of Procurement and Diversity. The value of a trade-in shall be a line item on the quote for a new asset when presented to the Contract and Purchasing Board. No warranty, either expressed or implied, will be associated with assets that are traded in.

## **Lost/Stolen**

If an asset is lost or stolen, protective services must be notified and the proper procedure followed. The Fiscal Department must receive a copy of the incident report.