

Clay County Financial Reporting Policy

Approved: April 1, 2003

Effective: July 1, 2003

The Financial Reporting Procedures adopted by Clay County reflect the implementation of the Governmental Accounting Standards Board (GASB) Statement 34 which establishes new requirements for annual financial reports of state and local governments. The Statement was developed to make annual reports easier to understand and more useful to the people who use governmental financial information such as managers, legislative officials, creditors, financial analysts, citizen groups and the general public. The minimum required financial presentation under GASB 34 includes the five (5) subsequently enumerated items:

1. Management's discussion and analysis (MD&A), which will provide an analysis of Clay County's financial activities for a fiscal year based on currently known facts, decisions, and conditions.
2. Government-wide financial statement, which will display information about the government as a whole. This statement will measure and report all assets, liabilities, revenues, expenses, gains, and losses using the economic resources measurement focus and accrual basis of accounting.
3. Fund financial statement which will display information about the major funds individually and the nonmajor funds in the aggregate. Financial statements will be presented using the current financial resources measurement focus and the modified accrual basis of accounting.
4. Notes to the financial statement.
5. Required supplementary information (other than MD&A), which will include required budgetary comparison information.

The annual report will be prepared promptly after the close of the fiscal year.

Capital Asset Capitalization

Capital assets are major assets that are used in governmental operations and that benefit more than a single fiscal period. Effective July 1, 2003, Clay County will report the following major categories of capital assets that have an estimated life of more than one (1) year.

1. Machinery and equipment including vehicles
2. Buildings and improvements
3. Land
4. Land Improvements
5. Infrastructure
6. Construction in progress

Infrastructure assets are long-lived capital assets that 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, drainage systems, water and sewer systems, and lighting systems.

Capital assets are to be reported at historical cost. This should include capitalized interest and ancillary charges necessary to place the asset into its intended location and condition for use. Ancillary charges include costs that are directly attributable to asset acquisition. The historical cost should include the cost of any subsequent additions or improvements, which would extend the expected useful life of the asset but exclude the cost of repairs or routine maintenance. Items acquired to extend the life of a previously acquired asset are not required to be inventoried but are added to the historical cost of the asset and capitalized. Maintenance costs are to be expensed rather than capitalized. The independent judgment of capital improvement versus repair or maintenance will be distinguished through a quantifiable measurement by the Clay County Engineer on a case-by-case basis. Trade-in value, if any, should not be included in an asset's cost. A trade-in can be defined as exchanging an existing asset as part of an agreement to acquire a new asset. Any additional cash paid, as part of such an agreement must be reported as expenditure in the appropriate governmental fund.

Capital assets that are being depreciated will be reported net of accumulated depreciation in the statement of net assets. Depreciation expense will be reported in the statement of activities.

The capital asset thresholds for financial reporting purposes are as follows:

Fixed assets	\$ 5,000
Land & buildings	\$ 5,000 (Amended amount to \$25,000 in April 2004)
Infrastructure	\$ 50,000

Individual assets with an initial cost of \$500 or more but less than \$5,000 will be maintained on an inventory list for public accountability and insurance purposes. The \$500-\$5000 internal management control will not be reflected in the financial statements.

Any donated capital assets will be reported at their estimated fair value at the time of acquisition plus ancillary charges, if any.

A physical count sampling of Clay County's inventory will be done on an annual basis at the discretion of the County Auditor and County Engineer.

Each Department Head or Elected Official shall, upon request, report to the Auditor the following information for new purchases: Cost, Date of purchase, and Location of item. The Auditor may ask for input regarding estimated useful life and estimated salvage value.

Depreciation Method for Capital Asset

Depreciation expense will be measured by the straight line depreciation method which is historical cost less estimated salvage value divided over the estimated useful life of the asset.

$$\text{Formula} = (\text{Historical Cost} - \text{Salvage Value}) / \text{Estimated Useful Life}$$

A full year's depreciation will be taken in the year of acquisition for the capital assets of machinery, equipment, vehicles, buildings and building improvements.

Land and construction in progress are not depreciated.

Estimated Useful Lives of Capital Assets

The standards or parameters for estimating the useful lives of capital assets are based on professional judgments and industry averages, therefore determined to be objectively reasonable. Clay County will have a subsequent review of estimated useful lives of capital assets once established to reflect changes in the condition of the asset or its use.

A range approach is used as a matter of policy, with specific estimated useful lives attached to specific assets when recorded in order to facilitate depreciation and tracking.

The following ranges are proposed as guidelines in setting estimated useful lives for asset reporting:

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|-----------------------------|-------------|
| 1. Machinery and Equipment | 3-20 years |
| 2. Vehicles | 5-15 years |
| 3. Buildings & Improvements | 25-50 years |
| 4. Land Improvements | 10-50 years |
| 5. Infrastructure | 10-65 years |

Salvage Value of Capital Assets

Salvage value, as used in the depreciation formula, is the historical cost of the asset multiplied by 5% or 10% depending on professional judgment. Clay County will have a subsequent review of an asset's salvage value to reflect necessary changes.

Infrastructure

Clay County has followed the guideline developed by the Iowa County Engineer's Association (ICEA) Cost Accounting Committee and approved by the Iowa County Finance Board for GASB 34 infrastructure reporting system.

The following terms have specialized meanings within the infrastructure depreciation framework:

1. **Construction-in-progress (CIP):** Prior to completion of a project, all payments made therefore will be classified as "CIP" amounts. This means no depreciation until the work is complete.
2. **Original Cost:** The total amount paid to complete the improvement. Equals the total of all partial payments and the final payment. When a project is finished, the accumulated CIP is reduced to zero and that amount is then added into the original cost category.
3. **Salvage Value:** This is an estimate of the asset's expected remaining cash value when it is someday retired. Infrastructure assets usually are not sold or liquidated when retired, so salvage value should be a reasonable estimate of the asset's terminal utility.
4. **Depreciation Amount:** This is computed by subtracting Salvage Value from Original Cost. It is the figure that gets allocated into annual depreciation installments.
5. **Estimated Life:** This is an estimate of how many years the infrastructure asset will be in service. Many will end up remaining in service beyond the estimated lifetimes set. The estimated life is only a basis for calculating annual depreciation installments – not a binding prediction.

6. **Net Book Value (NBV):** If a project is incomplete, NBV equals the current CIP amount. If placed into service, NBV equals the asset's original cost minus the current accumulated depreciation.

Infrastructure Class and Sub-System

Infrastructure will consist of three (3) classes: Roadways, Bridges and culverts, and ROW. Infrastructure will consist of four (4) sub-systems: Paved, Hard surfaced, Gravel, and Earth.

Criteria

County road infrastructure improvements should be reported if they meet all of the following criteria:

1. Is expected to have a service life of at least ten (10) years.
 - a. Includes bridges, grading, pavements, etc
 - b. Excludes seal coats, rock replacement, pavement markings, etc.
2. Is classified as construction. Maintenance items will be excluded.
3. Equals or exceeds the day labor cost limit listed in the Code of Iowa
 - a. Currently \$50,000.

Recommended Lifetimes of Infrastructure

Based on the recommended values from the ICEA:

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|-----------------------------|-------------------------------|
| 1. Right-of-way (ROW) | not depreciated |
| 2. Bridges | 40-65 years |
| 3. Culverts | 40-65 years |
| 4. Grading | 50 years |
| 5. Paving & Surfacing | 10-30 years |
| 6. Roadside construction | included in grading or paving |
| 7. Traffic control & safety | 25 years |

Retroactive Reporting of Infrastructure Assets

Besides current and future improvements, effective July 1, 2003, Clay County will report infrastructure assets acquired beginning July 1, 1980.

Economic Resource Measurement:

Question: What transactions and events have increased or decreased the funds during the period? Net assets (total assets minus total liabilities) are used as a measurement. Includes all transactions and events that increase or decrease net assets, such as revenues, expenses, gains and losses. Issuance of debt is not a component since the assets received by the debt are offset by the liability that is incurred.

Current Financial Resources Measurement:

Question: What are the transaction or events of the period that have increased or decreased the resources available for spending in the near future? Includes the issuance of debt. While the issuance of debt does not increase or decrease net assets, it does increase financial resources (cash).