ACCOUNTING FOR FIXED ASSETS

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The appropriate accounting treatment for the acquisition of a fixed asset is governed by the fund type from which the fixed asset was purchased and the ultimate use of the asset.

Fund Categories

There are three categories of funds employed in governmental accounting which are Governmental, Proprietary and Fiduciary funds.

1. Governmental Funds

Often called "source and disposition" funds, governmental funds are those funds through which most governmental functions typically are financed. A government’s expendable financial resources and related liabilities, except those accounted for in proprietary funds, are accounted for through governmental funds. The four governmental fund types are: general, special revenue, capital projects and debt service.

2. Proprietary Funds

Sometimes called "commercial-type" funds, proprietary funds are used to account for a government’s ongoing organizations and activities that are similar to those found in the private sector. All assets, liabilities, equities, revenues, expenses and transfers relating to the government’s business activities are accounted for through proprietary funds. Proprietary fund are of two types: enterprise and internal service funds.

Enterprise Funds account for operations that are financed and operated in a manner similar to private business enterprises, i.e., where the intent is that the costs of providing goods or services to the general public on a continuing basis be financed through user charges.

Internal Service Funds account for the financing of goods or services provided by one department or agency to other departments or agencies of the governmental unit, or to other governmental units, on a cost reimbursement basis.

3. Fiduciary Funds

Fiduciary Funds are of two types, trust funds and agency funds. They are used to account for assets held by governmental unit in a trustee capacity and/or as an agent for individuals, private organizations, other governmental units or other funds.

Fixed Asset Categories

Fixed assets may be classified in three categories: general fixed assets, fund fixed assets and infrastructure, depending on whether the asset is associated with a governmental or proprietary fund type operation.

1. General Fixed Assets

Fixed assets associated with governmental functions are known as general fixed assets. General fixed assets are not included in the balance sheet of governmental funds, but rather are reported as historical cost in a separate, self-balancing account group called the General Fixed Assets Account Group. The cost of general fixed assets is summarized in the General Fixed Assets Account Group by categories such as Land, Buildings, Machinery and Equipment, and Construction in Progress. The source of the money used to acquire general fixed assets is recorded in an account known as “Investment in General Fixed Assets”. Sources may include individual funds, federal or state grants, taxes, debt proceeds, etc. Source disclosure for general fixed assets is only required if a comprehensive annual financial report is prepared. If the governmental entity is unable to identify sources from prior years, source disclosure may begin with the year for which the statements are prepared.

2. Fund Fixed Assets

Fixed assets utilized in proprietary (Enterprise and Internal Service) fund activities or in trust funds are accounted for in the appropriate fund, and are referred to as fund fixed assets.

Enterprise fund fixed assets are capitalized (recorded) in the fund because the fixed assets are used in the production of the goods or services provided and sold. In order to determine profit or loss, the expense of using these assets (depreciation) must be included as an operating cost.

Internal Service fund fixed assets are recorded in the fund accounts for similar reasons. These assets are also directly related to fund operations, as in the case with enterprise fund fixed assets. Depreciation must be recorded to determine fund expenses, charges to departments, and changes in fund equity.

The identification of the source of fixed assets associated with an enterprise or internal service fund is required in order for the entity to be able to properly prepare financial statements in accordance with generally accepted accounting principals. Sources may include federal grants, special assessments, property taxed, contributions from other funds or developers, or purchase or construction by the enterprise or internal service fund itself.

Fixed assets associated with trust funds are also accounted for in those funds. This requirement assists in assuring compliance with the terms of the trust instrument, provides a deterrent to mismanagement of trust assets, and facilitates accounting for depreciation where the trust principal must be maintained intact.

3. Infrastructure
According to the "Codification of Governmental Accounting and Financial Reporting Standards" section 1400.109, "Reporting public domain or "infrastructure" fixed assets - roads, bridges, curbs and gutters, streets and sidewalks, drainage systems, lighting systems, and similar assets that are immovable and of value only to the governmental unit - is optional." Therefore, an early determination of the treatment of infrastructure fixed assets needs to be made by the management of the governmental entity.

Those fixed assets belonging to an enterprise, internal service or trust fund must be recorded and reported within the fund, and this is not optional. As an example, if the governmental entity had a sewer enterprise fund, then the underground sewer lines are to be considered fund fixed assets and must be identified and reported. If an entity does not have a sewer fund, then the reporting would be optional.

Once the determination whether or not to report infrastructure has been made, the specific asset classes to be recorded and reported can be determined.

4. Leased Assets

A review of each lease is necessary to determine whether the lease should be classified as an operating lease or a capital lease. There are four criteria used to make this classification, the underlying issue being whether the benefits and risks of ownership are transferred from the lessor to the lessee.

The purpose of the criteria is to establish the substance of the transaction and determine whether the lease is merely an extended rental agreement or actually an installment purchase in the form of a capital lease.

If a lease is classified as a capital lease, the asset and a corresponding liability for the lease payments will be reported on the financial statements of the lessee. A further discussion of leases is beyond the scope of this manual.