

RESOLUTION NO. 2016-21

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF COVINGTON, KING COUNTY, WASHINGTON, AMENDING RESOLUTION NO. 11-11, THE CITY'S CAPITAL ASSET POLICIES AND PROCEDURES, RELATING TO THE SMALL & ATTRACTIVE ASSET THRESHOLD AND WORK IN PROGRESS PROCEDURES

WHEREAS, the City Council of the City of Covington "City Council" has determined that it is in the best interest of the city to adopt a policy for administering capital assets; and

WHEREAS, the City Council adopted Resolution No.11-11 at their regular council meeting on December 13, 2011, establishing the City's Capital Asset Policies and Procedures; and

WHEREAS, the City Council desires to amend the City's current small and attractive asset threshold and work in progress procedures within the Capital Asset Policies and Procedures, pursuant to the Exhibit A attached hereto;

NOW THEREFORE, be it resolved by the City Council of the City of Covington as follows:

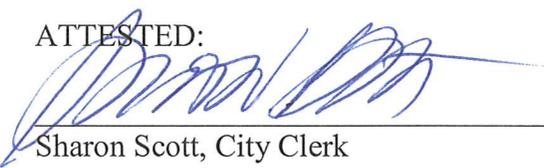
Section 1. Capital Asset Policy Amended. Resolution No. 11-11, adopting the City of Covington Capital Asset Policies and Procedures, is hereby amended as set forth in Exhibit A attached hereto and incorporated by reference herein.

ADOPTED by the City Council of the City of Covington, Washington, in open and regular session this 9th day of November, 2016, and signed in authentication of its adoption.



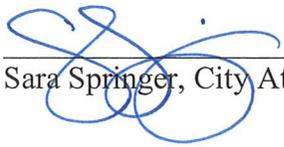
Mayor, Jeff Wagner

ATTESTED:



Sharon Scott, City Clerk

APPROVED AS TO FORM ONLY:



Sara Springer, City Attorney

CITY OF COVINGTON
Capital Asset Policies and Procedures

EXHIBIT A

II. Definitions:

“Asset Value” – The cost to acquire an asset and other charges necessary to place the asset in its intended location and condition for use.

“Building” – Permanent structure with an original cost of \$5,000 or more and an estimated useful life or more than one year.

“Control” – Being in charge of, and having the authority to manage the asset. Having the custodial responsibility of the asset that includes, but is not limited to, the caring, keeping, safekeeping, and protecting the asset.

“Capital Assets” –

- Land of any value
- Buildings, improvements other than buildings, and machinery and equipment with an original cost of \$5,000 or more each and an estimated life of more than one year
- Infrastructure with an original cost of \$50,000 or more and an estimated life of more than one year
- Intangibles
- Work in progress

“Improvements Other Than Buildings (Land Improvements)” – Permanent (non-movable) improvements other than buildings that add value to land but do not have an indefinite useful life (i.e., fences, retaining walls, parking lots, and most landscaping).

“Infrastructure” – Long-lived capital asset that is normally stationary in nature and can be preserved for a significantly greater number of years than most capital assets (i.e., roads, bridges, drainage systems, sidewalks, etc.)

“Intangible Asset” – A nonfinancial asset that lacks physical substance and with an initial useful life that extends beyond a single reporting period.

“Inventory” – The process of physically confirming the existence and location of assets.

“Machinery and Equipment” – Vehicles, furnishings, and similar movable items.

“Small and Attractive Assets” are those assets defined as follows:

- assets with a unit cost of more than ~~\$350~~500 but less than \$5,000;
- weapons, firearms, signal guns and accessories, and artwork regardless of cost;
- a useful life of more than one year;
- the City considers the asset particularly vulnerable to loss;
- the asset would have a significant value or use outside the program, i.e., could easily be resold;
- the loss of the asset will impact the department/division’s ability to provide services; and
- the cost associated with maintaining control of the asset does not exceed the replacement cost.

“Work in Progress” – Costs incurred to construct or develop a tangible or intangible asset before it is substantially ready to be placed into service.

III. Applicability and Responsibilities

This policy applies to all departments of the City of Covington. Each department is responsible for protecting and controlling the use of City assets assigned to them. Each Department Head must designate someone to be the property custodian for the department. The property custodian is responsible for maintaining and safeguarding the department's capital assets and small and attractive assets. Any time an asset is deleted or transferred, the property custodian will complete the appropriate form which will be submitted to the Finance Department with the related documentation.

The Finance Department will have oversight for the accounting of all capital asset transactions. The Public Works and Community Development Departments shall generate the GASB-34 infrastructure inventory information and provide it to the Finance Department for annual reports as required.

The Finance Director has the authority to amend this policy as accounting standards or best practices change and will inform the Council of changes as needed.

XI. Valuation of Capital Assets

Capital assets shall be valued at cost, including any ancillary charges necessary to place the asset in its intended location and condition for use. However, expenses which do not add to the utility of an asset shall not be capitalized. For example, an expenditure to repair a piece of equipment that was damaged during shipment should be expensed.

Values will be determined in the following manner:

A. Machinery and Equipment

The historical cost of the purchase including:

- taxes (sales tax or use tax)
- transportation or shipping charges
- installation costs
- extended maintenance/warranty contracts if the contract is purchased at the same time (or soon thereafter) as the capital asset
- any normal or necessary costs required to place the asset in its intended location and condition for use

If the historical cost is not practicably determinable, estimated cost will be used.

Furniture, fixtures, or other equipment should be classified as equipment. Since they are not an integral part of a building they are not considered capital improvements.

B. Land

The capitalized value of land includes the purchase price plus costs such as:

- Legal and title fees
- Professional fees of engineers, attorneys, appraisers, financial advisors, etc.
- Surveying fees
- Appraisal and negotiation fees
- Damage payments
- Site preparation costs
- Cost related to demolition of unwanted structures
- Excavation costs incurred to put the land in condition for its intended use

The cost of the land also includes indefinite land use rights, such as easements, mineral, timber, and water rights, acquired with the purchase of the underlying land. Land use rights acquired separately from a land purchase and those with definite useful lives are classified as intangible assets.

Until a piece of land has been purchased, the ancillary costs listed above shall be tracked as work in progress.

C. Buildings

The capitalized value of a building includes both acquisition and capital improvement costs such as:

- Professional fees or architects, engineers, attorneys, appraisers, etc.
- Damage payments
- Costs of fixtures permanently attached to a building or structure (i.e., heating and air-conditioning equipment, refrigeration equipment, etc.)
- Insurance premiums, interest, and related costs incurred during construction
- Any other costs necessary to place a building or structure into its intended location and condition for use

D. Infrastructure

Capital assets defined as infrastructure (i.e., roads, bridges, drainage systems, sidewalks, etc.) are those purchased or constructed since January 1, 2003. These costs may include:

- Professional fees of engineers, attorneys, appraisers, financial advisors, etc.
- Surveying fees
- Appraisal and negotiation fees
- Damage payments
- Site preparation costs
- Costs related to demolition of unwanted structures

E. Self-Constructed Assets

All direct costs associated with construction and management of a construction project will be capitalized.

F. Work in Progress

Work in progress will be closed out and the costs capitalized when a project is complete, accepted, and placed into service. For land purchases, if the property is not purchased the work in progress will be expensed and no longer capitalized. Depreciation will not be applied to work in progress.

If it is determined that a project will not be completed, then the accumulated work in progress will be removed from the asset inventory as a deletion.

G. Donated Assets

Donated assets will be recorded at the fair market value at the time of donation plus all appropriate ancillary costs. If the fair market value is not determinable due to lack of sufficient records, estimated cost will be used. If land is acquired by gift, the capitalized value is to reflect its appraised or fair market value at the time of acquisition.

H. Improvement, Repair, and/or Maintenance Expenditures

Routine repair and maintenance costs will be expensed as they are incurred. Extraordinary repairs, betterments, or improvements will be capitalized if they increase future benefits from an existing capital asset beyond its previously assessed standard of performance. Increased future benefits typically include an extension in the estimated

useful life of the asset or an increase in the capacity or efficiency of an existing capital asset.

I. Replacements

For buildings, improvements other than buildings, and equipment, the cost of outlays that replace a part of another capital asset will be capitalized when the cost of the replacement is \$5,000 or more *and* at least 10% of the total replacement value of the asset.

Example: A \$9,000 replacement of a heating boiler in a building having a replacement value of \$120,000 would not be capitalized. In this case \$9,000 is not at least 10% of the building's replacement value. Had the building's replacement value been less than \$90,000, the \$9,000 boiler replacement would have been capitalized.

Exceptions to this policy are:

- Replacement roof coverings are not capitalized unless the replacement extends the useful life of the building.
- Replacement floor coverings and window coverings are not capitalized.
- Costs to remodel (convert) a building to a different use, where the remodeling does not extend the useful life of the structure itself, unless the conversion increases the capacity or efficiency of the existing asset, are not capitalized.

After replacing a part of another asset, the capitalized value and the associated and accumulated depreciation of the replaced item will be removed from the accounting records, and the costs of the replacement will be capitalized.

In the case of capital outlays that are partly replacements and partly enhancements or improvements, to the extent that the project replaces the "old" part of a capital asset, outlays will not be capitalized. To the extent that the project is an enhancement or improvement, outlays will be capitalized. When the distinction between replacement and enhancement/improvement is not easily determinable, the City will expense the entire cost of the project. When the cost of improvement is substantial or where there is a change in the estimated useful life of an asset, depreciation charges for future periods will be revised based on the new book value and the new estimated remaining useful life.