RESOLUTION NO. 11-11

A RESOLUTION OF THE CITY OF COVINGTON, WASHINGTON, RELATING TO A CAPITAL ASSET POLICY

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

BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF COVINGTON, WASHINGTON, AS FOLLOWS:

Section 1. Capital Asset Policy. The City of Covington Capital Asset Policies and Procedures is adopted as set forth in Exhibit A attached to this resolution and incorporated by reference herein.

Section 2. Effective Date. This resolution shall take effect immediately upon adoption by the council.

PASSED in open and regular session on this December 13th, 2011.

Margaret Harto

MAYOR MARGARET HARTO

ATTEST:

Sharon Scott

Sharon Scott, City Clerk

APPROVED AS TO FORM:

Sara Springer, City Attorney

EXHIBIT A

CITY OF COVINGTON
Capital Asset Policies and Procedures

I. Purpose

This policy is established to provide guidelines to ensure adequate stewardship over City resources through control and accountability of all assets, whether capital or small and attractive, and to collect and maintain complete and accurate capital asset information required for preparation of financial statements in accordance with generally accepted accounting principles.

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 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.

IV. Capitalization Threshold

All non-infrastructure assets with a cost of $5,000 or more, and infrastructure additions with a cost of $50,000 or more, will be capitalized. Although small and attractive assets do not meet the City's capitalization threshold, due to ease of conversion to private use, they are considered assets for purposes of marking and identification, recordkeeping, and tracking.

V. Additions

The City may acquire property via purchase, construction, donation, or lease. Capital assets shall be capitalized and purchased from a capital barscode with an object code of either:

- 61 – Land and Land Improvements
- 62 – Buildings and Structures
- 63 – Other Improvements
- 64 – Machinery and Equipment
- 65 – Construction of Capital Assets
- 66 – Capitalized Rentals and Leases

Small and attractive assets will be purchased from a barscode with an object code of 35 – Small Tools and Minor Equipment.

The Finance Department will be responsible for identifying all assets that meet the criteria for capitalization or for small and attractive assets. Finance will assign a unique asset tag number and will prepare an *Asset Checklist Form* which will be sent to the department that purchased the item to complete. When the *Asset Checklist Form* and asset tag are received by the department, the department designee will immediately affix the asset tag to the asset, complete and sign the *Asset Checklist Form*, and return the completed form to Finance. Finance will then update the asset database with the information.

Whenever feasible, each piece of property will be affixed with an asset tag identifying the asset as the property of the City of Covington. Departments may determine where to place the tag on the asset. However, the identification number should be located on the principal body of the asset, rather than a removable part, and should be attached in a prominent and convenient location. Such tag will be removed only when the item is sold, scrapped, or otherwise disposed of. Should the asset tag be removed or defaced, the item shall be assigned a new asset tag and the new number recorded in the asset database.

Occasionally, it will be impractical or impossible to mark some inventorial assets according to these standards. For example, do not attach a tag if the asset:

- is stationary in nature and not susceptible to theft (such as land, infrastructure, buildings, improvements other than buildings, and leasehold improvements);
- has a unique permanent serial number that can be used for identification, security and inventory control (such as vehicles);
- would lose significant historical or resale value by being tagged; or
- would have its warranty negatively impacted by being permanently marked.

In these cases, the item will still be assigned a number, but the identification tag is not required. The department will need to apply alternative procedures to inventory and identify such assets.

All assets will be recorded and tracked in a database managed by the Finance Department.

VI. Improvements, Repairs & Maintenance

Larger assets such as major pieces of equipment and buildings are often modified to increase their lifetime or usefulness. "Improvements" provide *additional value,* whereas "repairs and maintenance" *retain value.*

Improvements may include enhancements or additions, major repairs, or component replacement. Several vouchers may be prepared for the improvement as the work is in progress. Therefore, it is very important to notify the Finance Department so that improvements are coded as capital outlay. The inventory number should be included on the invoice or voucher of the equipment, building, or other structure reflecting what is being modified.

Enhancements or additions to equipment will be capitalized only if the cost or value is $5,000 or more and the useful life is extended. Additions to City acquired vehicles will be capitalized only if the item is to remain with the vehicle upon disposal.

Routine repair and maintenance costs will be expensed as they are incurred and will not be capitalized. Major repairs will be capitalized if they result in improvements/betterments. To the extent that a project replaces the "old" part of a capital asset, outlays will not be capitalized; and to the extent that the project is an improvement/betterment, outlays will be capitalized.

Costs associated with remodeling or changes to the City's buildings will not be capitalized unless the useful life of the structure is extended.

When the cost of improvement is capitalized, depreciation charges for future periods will be revised based on the new book value and the new estimated remaining useful life beginning with the next full month. No adjustments will be made to prior periods.

VII. Transfers

Occasional transfers of property between departments, individuals within a department, or funds may occur. The original controlling department is accountable for all assets in its inventory and for initiating a notice of transfer. When an asset is relocated to another department, the department relinquishing the item shall inform the Finance Department by means of the *Asset Transfer Form*. Interdepartmental transfers may require a transfer of money. The sale price will be fair market value, which may result in a gain or a loss on sale of capital assets.

Small and attractive assets cannot be traded, sold, auctioned, gifted, surplused, transferred, or disposed of without authorization from the Finance Department.

VIII. Deletions

Asset deletion may be required due to the sale of the asset, transfer, donation, scrapping, lost or stolen items, or involuntary conversion (fire, flood, etc.). An *Asset/Equipment Disposal Form* needs to be completed for any asset to be removed from the asset database.

A. Disposal/Surplus

Disposal of capital assets may occur only after being declared surplus by the City Council and completion of the *Asset/Equipment Disposal Form.* Disposal will be made in whichever manner is determined to be the most cost effective for the City. This may include sale, disposal, conversion, or any other means as approved by the City Council in the surplus declaration.

Disposition of small and attractive assets require a completed *Asset/Equipment Disposal Form* and approval of the Finance Director prior to disposal.

All property with an expected value greater than the cost to surplus will be offered through a competitive process, in which at least three interested parties are notified. Property where the expected value is less than the cost to surplus may be destroyed, transferred to another governmental agency, or donated to a qualifying local community non-profit. The City may elect to partner with another governmental agency's auction to save on costs and resources.

The Senior Information Systems Administrator is responsible to cleanse assets of any sensitive information prior to surplus or disposal.

When original or replacement equipment acquired under a grant is no longer needed for the original project or program, disposition of the equipment will be made as follows:

- Items of equipment with a current per-unit fair market value of *less than $5,000* may be retained, sold, or otherwise disposed of with no further obligation to the awarding agency.
- Items of equipment with a current per-unit fair market value of *$5,000 or more* may be retained, sold, or otherwise disposed of only as authorized by the awarding agency.
- Items purchased with federal grant funds will be disposed of in accordance with the federal agency's rules and procedures.

B. Lost or Stolen Property:

When suspected or known losses of capital assets or small and attractive items occur, departments should conduct a search for the missing property. The search should include transfers to other divisions or departments, storage, scrapping, conversion to another asset, etc.

If the missing property is not found:

- Notify the department's property custodian, Department Head, and Risk Manager.
- Have the individual deemed to be primarily responsible for the asset, as well as that individual's Department Head, complete and sign the *Asset/Equipment Disposal Form* and attach a statement to include a description of events surrounding the disappearance of the property, who was notified of the loss, and steps taken to locate the property.

- Finance will report known or suspected losses of assets to the State Auditor's office in accordance with RCW 43.09.185.
- Upon receipt of the completed *Asset/Equipment Disposal Form*, Finance will remove the lost or stolen property from the department's inventory and accounting records where applicable.

C. Sale of Assets:
The value received from the sale of surplus property shall be deposited as revenue to credit the appropriate fund.

IX. Capital Leases

A capital lease is a lease that transfers substantially all the benefits and risks inherent in the ownership of property to the City. A lease must meet one or more of the following criteria to qualify as a capital lease:

A. Ownership of the leased property is transferred to the City by the end of the lease term; or
B. The lease contains a bargain purchase option; or
C. The lease term is equal to 75 percent or more of the estimated useful life of the leased property; or
D. If at the inception of the lease, the present value of the future minimum lease payments, excluding executor costs (usually insurance, maintenance, and taxes paid in connection with the leased property, including any profit thereof) is 90 percent or more of the fair value of the leased property. The interest rate to be used in the computation of present value is the rate in effect at the execution date of the lease.

A capital lease will be accounted for as an acquisition of a capital asset and the incurrence of a liability. If a lease involves the acquisition of more than one asset, each asset is to be capitalized if its fair market value meets the City's capitalization threshold.

If title to a leased asset transfers to the City at the conclusion of an operating lease, capitalize the fair market value of the asset upon receiving title.

X. Physical Inventory

The asset inventory will be verified at least once every two years. A memo and an inventory list will be sent to each Department when the physical asset inventory is to be performed. Each Department will conduct a physical inventory of the items, verifying the existence and condition of each item on the worksheet, and making note of any additions, deletions, interdepartmental transfers, modifications, or leases of property that are not reflected on the list. Inventory staff will note exceptions on the property list such as: 1) asset on inventory list but not found; 2) asset found but not on inventory list; or 3) incorrect description. The final list will be reviewed and signed by the Department Head and returned to the Finance Department.

If an asset cannot be located but it appears that the item may still be on site and has just been misplaced, it will remain on the inventory until the next full physical inventory. Any missing items are to be reported and submitted with the verified physical inventory and an explanation must accompany the report. If the item is still not found in the next inventory, the Finance Department will initiate the process described above for lost or stolen property.

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. 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.

XII. Depreciation of Capital Assets

The following shall be considered when recording depreciation:

A. Except for land, artwork, work in progress, and intangible assets with indefinite useful lives, all capital assets will be depreciated.
B. Salvage value will be ignored in establishing the amount to depreciate.
C. Depreciation will be based on a reasonable estimate of expected useful life; that is, the number of years that the City expects to use that asset in operations. An asset that is surplus or that is held for possible future use is an investment and will not be depreciated.
D. Depreciation will be calculated using the straight-line method. In straight-line depreciation, the cost of the asset is pro-rated over the estimated useful life of the asset.

Example:

$$\text{Annual Depreciation} = \frac{\text{Cost} - \text{Salvage Value}}{\text{Asset Useful Life}}$$

E. Depreciation will be based on the entire cost of the asset, including any amounts contributed or donated.
F. Depreciation charges will be made for each full calendar month that an asset is in service. In the case of infrastructure, depreciation is not taken on the first year of project completion.
G. If it is determined that there is a need to revise the expected useful life of an asset, any such change will be applied prospectively; that is, the rate will be recalculated based on the remaining useful life at the time of the revision, and the new rate will be applied in the present and future accounting periods.
H. No changes will be made to financial records of previous years for revised estimates.
I. Depreciation will generally begin when an asset is purchased or completed. However, if it is not placed into service immediately, depreciation should begin when the asset is placed into service or otherwise begins to lose value.