

*City of Oak Harbor*

# **CAPITAL ASSET POLICY AND PROCEDURES**



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# CITY OF OAK HARBOR

## CAPITAL ASSET POLICY AND PROCEDURES

### **10.00 Capital Asset Policies Introduction**

#### **10.01 Policy Goal**

The goal of a capital asset inventory system and this policy is: 1) to provide control and accountability over capital assets, and 2) to assist departments in gathering and maintaining information needed for the preparation of financial statements.

These policies and procedures are the *minimum* requirements for capital assets that departments must meet. A department may maintain its capital asset inventory system in greater detail, or use additional supporting documentation, as long as they meet the required minimum standards.

#### **10.02 Authority for policies**

The City of Oak Harbor City Council requires all departments to use this policy to protect and report on assets held by the city. Responsibility for maintaining and updating the policy lies with the Finance Department.

The Office of the State Auditor (SAO) requires a reporting and accounting system for local governments (RCW 43.09.200). The Finance Director is designated as the “ex officio” deputy of the SAO for accounting and reporting in the city including capital assets. Furthermore, in RCW 43.09.240 every department has a responsibility to keep their records in a standard prescribed format (as monitored by the Finance Department and the SAO).

RCW 36.32.210 requires the city to file an annual inventory of all capitalizable assets with the Finance Director. The Finance office keeps the information and reports it in accordance with generally accepted accounting principles and the SAO.

#### **10.03 Applicability**

This policy applies to all departments of City of Oak Harbor, unless specially exempted. The term "Department" is defined to mean and include every city office, officer, and every department, division, board and commission, except as otherwise provided.

Departments may request a waiver from complying with specific requirements of this policy by application to the Finance Department.

#### **10.04 Department responsibilities**

Departments are responsible for protecting and controlling the use of their assets.



The department head must designate, in writing to the Finance Department, one or more Department Inventory Officers to be responsible for maintaining and safeguarding the department's capital assets and implementing a small and attractive asset tracking procedure.

## **10.10 Valuing, Capitalizing, and Depreciating Assets**

### **10.11 How to value capital assets**

Capital assets should be valued at cost - including all ancillary charges necessary to place the asset in its intended location and condition for use. Determine the value in the following manner:

**10.11.01 Purchased Assets** - Use historical costs including taxes (e.g., sales taxes), and all appropriate ancillary costs less any discounts or rebates. If the historical cost is not practicably determinable, use estimated cost.

The capitalized value of *land* includes the purchase price plus costs such as legal fees, fill, and any excavation costs incurred to put the land in condition for its intended use.

*Building* costs include both acquisition and capital improvement costs, including, in proprietary and trust funds, interest. Capital improvements include structures (e.g., office buildings, storage quarters, and other facilities) and all other property permanently attached to, or an integral part of, the structure (e.g., loading docks, heating and air-conditioning equipment, and refrigeration equipment).

*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. The cost for this asset type reflects the actual or estimated cost of the asset. Include the cost of an extended maintenance/warranty contract in the asset's valuation if the contract is purchased at the same time (or soon thereafter) as the capital asset.

### **10.11.02 Self-Constructed Assets**

Capitalize all direct costs associated with construction and management costs associated with a construction project. Department project management costs may be capitalized in one of two ways:

1. Use actual project management costs when they are practicably discernible and directly associated with the project; or
2. Apply a percentage of total budgeted project costs. The application rate may or may not be designed to recover total department project management costs. Exclude indirect costs unless they are increased by the construction.

In proprietary and trust funds, include net interest costs incurred during the period of construction in the capitalized cost of the asset, if material. Interest costs are not capitalized in governmental funds.



### **10.11.03 Ancillary Costs**

Normally, ancillary costs should be included in the cost of a capital asset. However, minor ancillary costs, not measurable at the time a capital asset is recorded, are not required to be capitalized.

For land:

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

For infrastructure:

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

For buildings and improvements other than buildings:

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

For furnishings, equipment, software, collections, and other capital assets:

- Transportation charges,
- Sales tax,
- Installation costs; and
- Extended maintenance/warranty contracts
- Any other normal or necessary costs required to place the asset in its intended location and condition for use.

### **10.11.04 Donated Assets**

Use the fair market value at the time of acquisition plus all appropriate ancillary costs. If the fair market value is not determinable due to lack of sufficient records, use the estimated cost. If land is acquired by gift, the capitalized value is to reflect its appraised or fair market value at the time of acquisition.



**10.12 When and What to capitalize**

The general policy is to capitalize and inventory all assets with a cost of \$5,000 or more. All land, the city road system, and infrastructure with a cost of \$100,000 or greater will also be capitalized and inventoried.

For capital assets acquired by and used in the operations of governmental fund type accounts, record the value of the assets in the General Fixed Asset Account Group.

Although *Small and Attractive Assets* (assets costing less than \$5,000) do not meet the city’s capitalization policy, they are considered assets for purposes of marking and identification, records keeping, and tracking due to ease of conversion to private use.

Close out Construction in Progress and capitalize the costs when a project is substantially complete, accepted, and placed into service.

**10.12.01 New acquisitions** – Capitalize new assets that meet the city’s capitalization policy as noted above. Additions, improvements, repairs, or replacements to existing capital assets are not considered new acquisitions and are discussed below.

**10.12.02 Additions** - Capitalize expansions of or extensions to, existing capital assets that meet this policy.

**10.12.03 Extraordinary repairs, betterments, or improvements** – Capitalize outlays that 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.
- An increase in the *capacity* or efficiency of an existing capital asset.

**10.12.04 Replacements** – For building, improvements other than buildings, and equipment, capitalize the cost of outlays that replace a part of another capital asset. Capitalize when the cost of the replacement is \$5,000 or more **and** at least 10 percent of the total replacement value of the asset, or \$100,000, whichever is less.

Example:

<p>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 percent 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.</p>	<ol style="list-style-type: none"> <li>1. Improvement cost exceeds \$2,500</li> <li>2. Building cost is greater than \$100,000</li> <li>3. Improvement is &lt; 10% of replacement</li> </ol>
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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, are not capitalized.

After replacing a part of another asset, remove the capitalized value and the associated accumulated depreciation of the replaced item from the accounting records - if the amounts are determinable. Then capitalize the cost of the replacement.

**10.12.05 Bulk Purchase** – For proprietary fund type accounts, bulk purchases of like capital assets with unit costs of less than \$5,000 may be capitalized as a group where the allocation of costs for the bulk assets over time is matched to the corresponding benefits generated by the bulk assets.

#### **10.13.01 Capital leases – Definition**

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 four criteria to qualify as a capital lease:

- Ownership of the leased property is transferred to the city by the end of the lease term; or
- The lease contains a bargain purchase option; or
- The lease term is equal to 75 percent or more of the estimated useful life of the leased property; or
- If, at the inception of the lease, the present value of the future minimum lease payments, excluding executory 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 the present value is available by contacting the Debt Management Division of the Office of the State Treasurer (OST), and is the rate in effect at the execution date of the lease.

Additionally, the net present value of the future minimum lease payments or fair value, whichever is less, must be \$10,000 or more for the lease to be accounted for as a capital lease.

#### **10.13.02 Accounting for capital leases**

Account for a capital lease as an acquisition of a capital asset and the incurrence of a liability. If the lease involves the acquisition of more than one asset, each asset is to be capitalized if its fair value is \$5,000 or more.

Account for a lease where the net present value of the future minimum lease payments or fair value, whichever is less, is less than \$10,000 as an operating lease. If title to the leased asset transfers to the state at the conclusion of the operating lease, capitalize the fair market value of the asset upon receiving title pursuant to section 10.12



**10.14 Accounting for infrastructure**

In accordance with the Governmental Accounting Standards Board (GASB) Statement Number 34, acquisitions of capital assets defined as *infrastructure* which meet the city’s capitalization policy (cost of \$100,000 or greater), are to be capitalized.

All capitalized infrastructure type assets will be depreciated.

**10.15 Depreciation policy**

Calculate and record depreciation for all capital assets unless specifically exempted.

**10.15.01 When to start depreciation** - Depreciation normally begins when an asset is purchased or completed. However, if it is not placed into service immediately, depreciation should begin when the asset begins to lose value.

**10.15.02 Depreciation Calculations** - Depreciation will be calculated using the straight-line method. In straight-line depreciation, the cost of the asset (less any salvage value) is pro-rated over the estimated useful life of the asset.

**Straight-line Depreciation:**

$$\text{Asset Cost} - \text{Salvage Value} / \text{Asset's Useful Life} = \text{Annual Depreciation}$$

Assets may be depreciated individually or in groups. The cost of assets similar in nature (tables, chairs, etc.) or assets dissimilar but related by mode of operation (water treatment) may be grouped together then depreciated as one group.

Depreciation will be calculated by month with a full month’s depreciation taken for assets acquired or disposed of anytime during the month. For example, a purchase on June 7 will be treated as a June 1 purchase, with an adjustment of 7/12.

**10.15.03 Useful Life for Capital Assets** – Finance Departments is responsible for establishing an appropriate useful life for Capital assets for the City.

<u>ASSET</u>	<u>YEARS</u>
Buildings and improvements	25-40
Improvements other than buildings	10-20
Machinery and equipment	5-10
Vehicles	5-10
Utility systems	25-40
Infrastructure	20-40



#### **10.15.04 Non-depreciable capital assets include:**

- Land;
- Construction in progress.

#### **10.20 Marking and Identifying Capital Assets**

##### **10.21 Mark all inventoriable capital assets**

Mark all inventoriable capital assets upon receipt to identify that the property belongs to the city, except as noted.

This identification should:

- Facilitate accounting for the asset;
- Aid in its identification if the asset is lost or stolen;
- Discourage theft.

##### **10.22 How assets should be marked**

Permanently affix the identification information to the asset by using a standardized adhesive tag or inscribing the asset according to the following format:

- City of Oak Harbor (or city seal insignia),
- Department Name (or abbreviation),
- Optional BAR code, and
- Assigned control number

Departments may determine where to place the tag on the capital asset. However, the identification and control number should be located on the principal body of the asset, rather than a removable part.

If an existing capital asset has a tag with only a city control number, that has been assigned, properly affixed, and recorded in the inventory system, it does not need to be re-tagged.

##### **10.23 When not to mark a capital asset**

Occasionally, it will be impractical or impossible to mark some inventoriable capital assets according to these standards. For example, do not tag if the capital 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 identification tag or city seal insignia is not required, and the department is to apply alternative procedures to inventory and identify such assets.

### **10.24 Inventory tags and labels**

Departments are responsible for procuring or printing inventory tags or labels. The Finance office can advise departments on available vendors for the tags.

Responsibility for controlling capital asset control numbers rests with the department's inventory officer. Departments are to ensure that adequate controls for safeguarding unused, mutilated, and voided capital asset inventory tags are established.

### **10.30 Inventory Policy**

#### **10.31 Which assets need to be inventoried or cataloged?**

All capital assets must be inventoried and listed in the property records of a department. Inventoriable assets acquired with federal monies or awards also need to be identified by the inventory system. Assets costing less than \$5,000 should be tracked if they are considered small and attractive.

#### **10.32 Small and attractive assets**

Small and attractive assets are those assets that are particularly at risk or vulnerable to loss and cost less than \$5,000. The department should implement specific measures to control small and attractive assets in order to minimize identified risks.

Departments have discretion in setting their definition of small and attractive assets; however, departments must include, at a minimum, the following assets with unit costs of \$500 or more as *small and attractive*:

- Communications Equipment; both Audio and Video
- Optical Devices, Binoculars, Telescopes, Infrared Viewers, and Range Finders
- Cameras and Photographic Projection Equipment
- Microcomputer Systems, Laptop and Notebook Computers
- Other data processing Accessory Equipment and Components Office Equipment
- Record Players, Radios, Television Sets, Tape Recorders, VCRs, and Cameras

Small and attractive assets can be tagged and input into the city asset management system along with other assets but must be coded in a manner that allows them to be sorted out for reporting purposes.

#### **10.33 Inventory records requirements**

Departments are to maintain capital asset inventory systems that include records for all inventoriable assets.



Departments are to use the city asset management system developed by the data processing department for all assets that meet the city's capitalization policy.

For assets defined as small and attractive, departments may use either the city asset management system or any other alternate system that tracks the assets.

### **10.34 Adding capital assets to the inventory**

The department inventory officer is responsible for supervising the addition of the asset to the inventory system upon receipt and acceptance. This includes assigning tagging responsibilities to specific individuals as well as developing and implementing department procedures to ensure that the necessary information is entered into the department's capital asset inventory.

### **10.35 Removing capital assets from the inventory**

Departments are to adopt internal policies and procedures regarding the timely removal of capital assets from inventory, including procedures for the proper approval of disposal requests. Capital assets are to be removed from active inventory only after being declared surplus by the City of Oak Harbor City Council. The surplused items will be turned over to the Finance Director for disposition.

Departments are to maintain records of capital asset dispositions in accordance with approved department records retention schedules. At a minimum, records of asset removal must be kept until after the next annual audit by the state auditors.

In addition to this policy, when seeking to dispose of or remove capital assets from inventory, departments are to adhere to guidelines issued by the Finance Director.

### **10.36 Lost or stolen property**

When suspected or known losses of inventoriable assets 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 inventory control officer and department head.
- Have the individual deemed to be primarily responsible for the asset, as well as that individual's supervisor, complete and sign 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.
- Report known or suspected losses of assets to the State Auditor's office in accordance with RCW 43.09.185.

Remove the lost or stolen property from the department's inventory and accounting records where applicable.



Maintain records for losses of inventoriable assets in accordance with approved department records retention schedules but at least until after the next annual audit.

## **10.40 Taking A Physical Inventory**

### **10.41 Physical inventory frequency**

Conduct physical inventories at least once every year for all inventoriable assets except as noted below.

Due to the stationary nature of certain assets (such as land, infrastructure, buildings, improvements other than buildings, and leasehold improvements), performing a physical inventory every year is not required.

Departments may conduct their capital assets inventory on a revolving basis if both of the following conditions are met:

- Every item is subject to a physical count or verification at least once every other year.
- The inventory program is documented and active

### **10.42 Who should conduct and verify the physical inventory?**

In order to ensure objective reporting of inventory items, personnel having no direct responsibility (custody and receipt/issue authority) for should perform the physical inventory. If it is not feasible to use such personnel for a part of the inventory, then those portions are; at least, to be tested and verified by a person with neither direct responsibility for that portion of the inventory nor supervised by the person directly responsible.

Departments are encouraged to exchange and use personnel from other departments to perform their inventory if possible.

### **10.43 Physical inventory instructions**

Written physical inventory instructions must be documented and distributed to each person participating in the inventory process. The instructions should describe:

- How and where to record each item,
- What information to record,
- What to do when they have a question,
- What procedures to follow when they finish their assignments,
- What procedures to follow when equipment is located but not listed,
- The procedure by which the person counting the assets attests to the accuracy of the count, such as by signing his or her name at the bottom of each inventory page, or signing a cover page for a group of pages sorted by another method (batches, location, equipment type, etc.), and
- How to record assets not being used or in an obviously unserviceable condition. Such information is to be used to schedule repair or disposition of such assets.

#### **10.44 Physical inventory reconciliation**

After the physical inventory count is completed, the department inventory officer is to conduct the reconciliation process. Only when all differences have been identified and explained, is the inventory considered reconciled.

Departments should conduct the following steps during the reconciliation process:

- Search the inventory lists to determine whether inventory noted during the count as unrecorded is, in fact, listed on another portion of the inventory.
- Enter unrecorded assets into the inventory system as soon as possible after discovery.
- If a significant number of unrecorded assets are located, a major problem with the asset recording procedures may exist. The department inventory officer should determine why the problem is occurring and correct it.
- Conduct a search in an effort to locate missing assets.
- For assets not located, follow the lost or stolen property procedures in this policy.

After the inventory is reconciled, the department inventory officer is to certify the reconciliation with a statement and signature that it is correct and report this to the supervisor. If the certification cannot be made, the inventory officer is to disclose that fact and the supervisor is to determine the appropriate course of action.

#### **10.45 Retaining physical inventory records**

The certification, together with the reconciliation and the inventory listing, serves as the support for the inventory balance and for accounting adjustments, if any, and must be retained by the department. The department should retain this documentation in accordance with the approved department records retention schedules. At a minimum the asset records must be retained until after the next annual audit.