

### 3.

## ACCOUNTING

### 3.3 Capital Assets

#### 3.3.9 Capital Asset Management System Requirements

3.3.9.10 Capital assets are tangible or intangible assets having initial useful lives extending beyond a reporting period, including:

- Land and improvements to land, including right of ways and easements
- Buildings and building improvements
- Parking lots
- Vehicles
- Machinery and equipment
- Works of art and historical treasures
- Infrastructure assets, such as roads, bridges, sidewalks, water lines, sewers, drainage systems
- Intangible assets, such as easements, water rights, timber rights, and computer software

A capital asset management system is the set of policies and procedures used to control government's capital assets. To the extent that capital assets are a significant and important component of government operations, the system should be designed to satisfy operational, compliance, safeguarding and financial reporting objectives.

#### 3.3.9.20 CAPITAL ASSET MANAGEMENT SYSTEM OBJECTIVES

The duty to make certain that public property is adequately protected and that its use is properly managed is one of the fundamental responsibilities of public officials. For some types of local governments, statutes contain specific requirements for demonstrating stewardship of public property. For example, county commissioners are required to inventory all county capitalized assets (RCW [36.32.210](#)). But regardless of whether statutes for a particular government identify any specific duties, public officials have several broad responsibilities with respect to capital assets:

- Custody – A capital asset system should account for assets, which means it is able to answer:
  - What property and equipment does this government own?
  - Where is it?
  - What condition is it in?
  - Is it protected from loss and unauthorized use?
- Insurance – A capital asset accounting system should provide adequate records to identify and prove any losses. Location, inventory, and maintenance records will confirm that a lost or damaged asset has been in use recently, which will support the validity and timeliness of a theft or damage report. In addition, when a government has elected to self-insure to some degree, officials should be able to evaluate the nature and extent of risk assumed, which cannot be done without knowing what assets are at risk.
- Maintenance – As a steward of public property, officials have the obligation not only to safeguard assets from loss but also to ensure they are not neglected, wasted or misused. The local government should not find itself surprised by building or equipment repair or maintenance requirements or by predictable problems with down time and availability of spare parts.

A capital asset system should allow for identification of assets requiring maintenance, planning of scheduled maintenance necessary to preserve assets, and prompt identification of needed repairs. Moreover, capital asset accounting should provide a framework for capturing costs of maintenance, improvements, impairments and changes in estimated service life or capacity. The system should also provide adequate historical data to allow officials to make informed decisions about the costs of different levels of maintenance or deferred maintenance.

- Compliance – The capital asset system should allow the government to demonstrate compliance for any assets subject to purpose or use restrictions due to law, contract or grant agreement. For example, assets purchased with federal grant funds must demonstrate compliance with federal property management requirements. 2 CFR §§200.310-316 gives specific requirements related to real property, equipment, supplies and intangible property purchased with federal grant funds.
- Planning (Capital Budgeting and Utilization) – This includes planning for future asset needs, both short and long range. The capital asset system should be able to answer:
  - How well is the government using the facilities and equipment it already has?
  - What does the government already own that could be transferred to another facility instead of purchasing additional equipment?
  - Which items must be replaced, when and at what cost?
  - When will additional facilities or equipment be needed, where and at what cost?
  - Which facilities or equipment will not be needed, and what cost reductions in maintenance, insurance, and security will result from liquidating them?

The extent and nature of capital planning will vary depending on the size of government, whether demand for its services is stable or changing, whether its functions are capital intensive (like public works and utilities) or labor intensive (like education and welfare services), and how capital outlays are funded (through rates, general taxes, special bond issues, or grants).

### 3.3.9.30 CAPITAL ASSET POLICY

Governments should develop a capital asset policy that describes the following key elements at a minimum:

- Capitalization Thresholds. A government may establish a single capitalization threshold for all capital assets or different capitalization thresholds for different classes of assets. For example, a government may want to set a threshold of \$25,000 for infrastructure and \$5,000 for all other assets. [GFOA](#) recommends not setting a threshold of less than \$5,000 for any individual item. Local governments that are recipients of federal grants should ensure capital asset thresholds will allow the government to meet federal requirements in the 2 CFR §200.313 related to tracking assets purchased with federal funds.
- Asset Replacement. Policies should provide sufficient direction on when assets should be replaced. Replacement may be based on a set schedule, based on specified conditions, or delegated to specified staff positions or groups to determine or recommend on an asset-by-asset basis. Replacement policies often differ by asset type and should be established to align with and support the governments capital budgeting and planning process.
- Estimated Useful Lives. It is important that governments establish reasonable estimates of the useful lives of capital assets for depreciation purposes. When setting useful lives, governments should consider its own past experiences with similar assets in addition to industry norms if the

government needs a starting estimate (has no experience of its own). Industry lives may need to be adjusted due to differences in the quality, location/environment, application (intended use of the asset, volume of usage), and maintenance practices.

- Capitalizing Components of Larger Assets (Componentization). Some assets are made of multiple components with different useful lives. For example, a building is comprised not only of the structure, but may also include furnishings, a roof and HVAC system that each have an estimated useful life less than the structure. Governments may elect to capitalize all components as a single asset, or to “componentize” the building into several related assets.

The decision to componentize or not should be based on the government’s approach to capital budgeting and planning. This policy will affect whether future work should be capitalized or expensed as maintenance, as well as judgments related to impairments, improvements and the asset’s useful life. The government’s approach should be described in policy and be clearly evident in individual capital asset records to ensure consistent application.

- Depreciation Methods. A government should describe the depreciation method to be used. The selected method of depreciation should remain consistent from year to year. Any change in the depreciation method adopted would result in a change in accounting principle and should be disclosed within the notes to the financial statements. See [Capital Asset Accounting](#) for detailed guidelines.
- Inventory Requirements. Policies should require inventories at reasonable intervals. Inventory policies should conform to any statutory or regulatory requirements, such as the requirement for counties to inventory all capital assets per RCW [36.32.210](#) or the requirement for all assets over \$5,000 per unit purchased with federal grant funds to be inventoried at least once every two years per the 2 CFR §200.313. At a minimum, policy should define maximum inventory periods, assign overall responsibility for conducting the inventory, and specify any specific reporting on results expected by the governing body. See [Controls over Capital Assets](#) for detailed guidelines on inventory work plans.

RCW 36.32.210 stipulates that each board of county commissioners must file with the auditor of the county a full and complete inventory of all capitalized assets.

- Other accounting procedures, as needed, such as treatment of capital leases or procedures for accumulating costs for self-constructed assets.
- Disposition Procedures. To the extent procedures are not defined by statute (such as [Chapter 39.33 RCW](#) for intergovernmental disposition of property, or property sales for ports in [Chapter 53.08 RCW](#), etc.), policies should define authority and authorized procedures for determining assets require replacement or are otherwise surplus, and their subsequent disposition.

Once a policy is adopted, it should be periodically reviewed and updated to ensure it meets the needs of the local government.

### 3.3.9.40 CAPITAL ASSET RECORDS

Capital asset records should enable the government to meet statutory requirements, to produce adequate reports, and to safeguard assets properly. The basis of a capital asset accounting system is the individual capital asset record. The following minimum information is required for each capital asset:

- Category of asset,
- General ledger fund and asset account the asset is recorded in,
- Individual or department assigned custody of the asset,
- Acquisition information, including references to source documents and acquisition dates,
- Source of payment, such as grant, fund, etc.,
- Historical cost,
- Name and description of asset that is sufficient to specifically define and identify the asset, including any identifying numbers or legal descriptions where applicable,
- Estimated useful life,
- Disposition information, including the date and method (such as destruction, scrap, sale, etc.) and any costs or proceeds.

Note: These components are expected to be included in the inventory for counties prepared in accordance with RCW [36.32.210](#).

Other information that is not mandatory, but desirable, includes:

- Brief directions on where/how to locate the asset,
- Special insurance, maintenance, and repair instructions,
- Physical inspection dates or condition of asset when it was inspected.

Specific information captured may vary by type of asset. For example, the government may find it necessary to capture certain information about roads or bridges that is different than information needed for equipment. Moreover, information necessary to identify the asset will be different based on the asset type.

In addition to information necessary to describe the current state of the asset, the system should also allow for capture of sufficient information on changes to records that may occur over the life of the asset, such as changes in custody, estimated useful life, improvements, impairments, etc., since it may be difficult or impossible to reconstruct these changes at a later date.

A sample [form](#) has been designed to assist governments in collecting important information about each asset.

### 3.3.9.50 SYSTEM COORDINATION

Since capital asset information is used for a variety of objectives, a challenge facing local governments is coordinating record-keeping that may be maintained or used by different departments or personnel. When multiple departments within a local government have their own system or listing of assets, these lists should be regularly compared and reconciled to ensure information is shared between the departments as the sources and intended use of the information may differ. When multiple departments are using the same system, common definitions should be used. In any case, coordination between departments and users is essential for a comprehensive and effective capital asset management system.

For example, public works departments generally have information about the location, condition, and replacement schedule of infrastructure assets, such as roads, bridges, water, and wastewater systems. Since the department is responsible for managing the maintenance and repair, they may have insight into any changes related to useful lives that may be needed. Generally, this is also the department most involved in construction of new assets.

In addition, outside agencies, such as the Department of Ecology and the County Road Administration Board, require information about various infrastructure assets, so the public works department maintains a listing of the associated assets, and condition, for regulatory reporting purposes. This information retained by public works could be useful for financial reporting purposes. Therefore, it is recommended that finance and public works work together closely to ensure all information about capital assets is accurate and compiled within the capital asset management system.