King County
King County **Administrative Policies and Procedures**

General Administrative Policies & Procedures

Title	Document Code No.
Capital Asset Accounting and Financial Reporting	FIN 12-2 (AEP)
Department/Issuing Agency DES/FBOD/Financial Management	Effective Date. 8 /1/2012
Approved Dow Constantine	

1.0 SUBJECT TITLE:

1.1 EFFECTIVE DATE: Ten days after approval

1.2 TYPE OF ACTION: New

1.3 KEY WORDS: (1) Capital Assets; (2) Personal Property; (3) Real Property; (4) Infrastructure; (5) Capitalization.

2.0 PURPOSE: To establish uniform accounting, policies and procedures for the County's real and personal property to ensure control, accountability and accurate financial reporting and to establish departmental responsibility in the maintenance of the County's capital asset system.

3.0 ORGANIZATIONS AFFECTED: All King County Departments.

4.0 REFERENCES:

4.1 RCW, Chapter 36.32.210, "County Commissioners"
4.2 RCW, Chapter 36.34, "County Property"
4.3 RCW, Chapter 42.56.590, "Personal Information – Notice of Security Breaches
4.4 RCW, Chapter 43.09.185, "Loss of Public Funds – Illegal Activity – Report to State Auditor's Office
4.5 WAC 236-48-190 to WAC 236-48-197, Surplus Property"
4.6 King County Code 4.56, "Real and Personal Property"
4.7 King County Administrative Policies and Procedures:
4.7.1 CON 7-3-2 (AEO) – *Delegation of Authority for Signing and Administering Contracts, Change Orders, Deeds, Leases, Amendments, and Other Instruments*
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4.7.2 ~~4.5.2~~ CON 7-7-2 (AEP) – *Procurement for Capital Projects*
4.7.3 FES 10-1-1 (AEP) - *Personal Property Inventory Management (revision pending)*

4.7.4 FIN 12-1-1 (AEP) - *Capitalization Thresholds for Capital Assets (not published)*
4.7.5 FIN 12-3 (AEP) – *Interest Capitalization Enterprise Fund Capital Assets (not published)*
4.7.6 FIN 12-4 (AEP) – *Financial Accounting and Reporting for County Roads and Bridges Infrastructure*

4.8 Governmental Accounting Standards Board pronouncements:
4.8.1 GASB Concepts Statement No. 4 - *Elements of Financial Statements*
4.8.2 GASB Statement No. 33 – *Accounting and Financial Reporting for Non-Exchange Transactions*
4.8.3 GASB Statement No. 34 - *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*
4.8.4 GASB Statement No. 42 - *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*
4.8.5 GASB Statement No. 51 - *Accounting and Financial Reporting for Intangible Assets*

4.9 Governmental Accounting, Auditing and Financial Reporting (GAAFR), Government Finance Officers Association (GFOA) 2005.
4.10 Accounting for Capital Assets – A Guide for State and Local Governments, Government Finance Officers Association (GFOA) 2008.
4.11 Government Finance Officers Association (GFOA) Best Practices and Advisories
4.12 King County Human Resources Division HR Bulletin Number 2011-0008 – *Report of Loss or Theft of King County Property*

5.0 DEFINITIONS:

5.1 "Accumulated depreciation and accumulated amortization": The cumulative portion of the cost of a capital asset that has been recognized as depreciation expense or amortization expense.

5.2 "Amortization": The systematic and rational allocation of the cost of intangible assets and leasehold improvements over the estimated useful life.

5.3 "Ancillary charges": Costs that are directly attributable to capital asset acquisition and are necessary to place the asset into service in its intended location and use.

5.4 "Asset number": A unique number assigned to each capital asset (or a group of assets) that is used for identification.

5.5 "Book value": The historical cost of an asset less accumulated depreciation or accumulated amortization.

5.6 "Buildings (and building improvements)": The capital asset class that includes all buildings owned by the County. Components of a building, not normally replaced, are considered part of the building. Building improvements include subsequent additions of a new wing or extension, structural renovations and integral component replacement.

5.7 "Capital asset": Tangible or intangible assets that meet all three of the following: a) it must have an initial useful life that extends beyond a single reporting period, i.e., one year; b) it must be used in the operations of the entity; and, c) it must not be specifically excluded by policy, e.g., capitalization threshold.

5.8 "Capital lease": A lease that transfers substantially all the benefits and risks inherent in the ownership of the property to the County or meets other qualifying criteria. It is accounted for as an acquisition of a capital asset and the incurrence of a liability.

5.9 "Capitalization threshold": The minimum dollar value at which the County elects to capitalize its capital assets for financial reporting (see FIN 14-5 (AEP) *Capitalization Thresholds for Capital Assets*).

5.10 "Capitalize": To report capital outlays as capital assets in the statement of net assets.

5.11 "Capitalized interest": Interest incurred during the process of construction of a capital asset that is required to be included by GAAP in its cost. Capitalized interest is only applicable to enterprise funds.

5.12 "Componentization": The treatment of a component of a larger capital asset as a separate capital asset (for example, HVAC systems, etc.).

5.13 "Constructed capital asset": A capital asset that is created or produced by the County or on behalf of the County. A constructed capital asset can be the installation, assembly or creation of a new facility; an addition, expansion, improvement, or replacement of an existing facility; the relocation of a facility; or an internally generated intangible capital asset (including software).

5.14 Capital project sequential phases:

- 5.14.1 "Capital project planning phase": Activities include identification and development of project need and potential alternatives, evaluation of technical and economic feasibility, and development of a rough-order-of-magnitude total project cost estimate.
- 5.14.2 "Capital project preliminary design phase": Includes activities for the evaluation and analysis of potential project alternatives. Based on analysis, the preferred alternative is selected and designed sufficiently to establish a project baseline.
- 5.14.3 "Capital project final design phase": A period during which design is completed, permits and other permissions are secured so that the project (or staged elements of the project consistent with the project management plan) can proceed to construction/implementation. The design phase also includes development of a cost estimate, plans, specifications and a bid package. Activities to procure materials and equipment that require long lead times may be initiated during this phase.
- 5.14.4 "Capital project implementation phase": A period during which the project is

constructed or implemented. This phase also includes the testing, inspection, adjustment, correction and certification of facilities and systems to ensure that the project performs as specified. The implementation phase begins with notice to proceed and ends with final acceptance. For capital acquisition or other projects that do not involve construction, the implementation phase begins when planning is completed and implementation activities begin. For equipment installation, the implementation phase ends with beneficial use of equipment installation.

5.14.5 "Capital project acquisition phase": This is the period during which activities associated with acquisition or surplus and sale of real property, property rights, or the acquisition of improvements through direct purchase or capitalized lease agreements occur. This phase may run concurrent with the design phase.

5.14.6 "Capital project close-out phase": This final period follows final acceptance and consists of administrative processes and associated accounting activities to close out all contracts. It may include multi-year monitoring.

5.15 "Construction work-in-progress (CWIP)": The capital asset class that includes the cost of assets under construction or in development. These costs are accumulated and moved to the appropriate asset class when substantially complete and/or placed in service. Construction work-in-progress is also referred to as work-in-progress (WIP) and construction-in-progress (CIP).

5.16 "Contributed/Donated assets": Real or personal property capital assets received in a voluntary non-exchange transaction from external parties and nonreciprocal transfer from another unit within the reporting entity.

5.17 "Controllable assets": Assets that cost less than the capitalization threshold but may still require tracking, by department policy, due to one or more of the following: a) to ensure legal compliance; b) to protect public safety and avoid potential liability, e.g. weapons; or c) to reduce risk of loss. These assets are identified and policies promulgated within each department.

5.18 "Depreciation": The systematic and rational allocation of the cost of a tangible capital asset over its estimated useful life.

5.19 "Disposal": The managed removal of an asset from the County's possession and retirement in the County's capital asset system.

5.20 "Estimated historical cost" is an estimate of the value of an asset where actual historical cost is not available. An estimate may be derived using an alternative cost basis (e.g. current replacement cost) that is adjusted by an economic index to arrive at an estimate of the original historical cost.

5.21 "Fair value": Estimated dollar amount at which an asset might exchange between a willing buyer and a willing seller, neither being under compulsion, each having reasonable knowledge of all relevant facts, and with equity to both. "Estimated fair value" at acquisition may be obtained from manufacturers' catalogs or price quotes in periodicals, from objective appraisals, or similar sources. Estimated fair value is used in valuing donations.

5.22 "Farmland development rights": Rights that represent interests in land that give the County the right to restrict development of the land to agricultural or open space purposes. Legal title to such a right is evidenced by a "deed and agreement relating to development rights" as well as a stamp on the deed to the property signifying the restrictive covenant. Farmland development rights are considered intangible assets.

5.23 "Furniture, machinery, and equipment": The capital asset class that includes all personal property acquired through purchase, donation, exchange, construction, evidence, conversion, etc. It generally includes all movable personal property and also plant equipment and other fixed equipment.

5.24 "Grant funded assets": Capital assets purchased with grant funds and subject to specific requirements and instructions relating to recordkeeping, controls, and/or restrictions.

5.25 "Habitat restoration": The manipulation of the physical, chemical, or biological characteristics of a site with the goal of returning the majority of the natural functions to the lost or degraded native habitat.

5.26 "Historical cost": The original cost of an asset at the time of acquisition including all ancillary charges (e.g., freight, installation, site preparation, etc.) to bring the capital asset to its intended location and its intended use. "Estimated historical cost" is an estimate of the value of an asset where actual historical cost is not available. An estimate may be derived using an alternative cost basis (e.g. current replacement cost) that is adjusted by an economic index to arrive at an estimate of the original cost.

5.27 "Impairment": A significant, unexpected decline in the service utility of a capital asset.

5.28 "Improvements other than buildings": The capital asset class that includes depreciable improvements to land other than those related to site preparation or conversion to a public road. This may include items such as airport runways, retaining walls, sidewalks, parking lots, ponds, landscaping, berms, fencing, outdoor lighting, etc.

5.29 "Infrastructure": Capital assets that are stationary or immovable in nature and that have useful lives that can be preserved over a longer time period than most capital assets. Infrastructure can be either depreciable or non-depreciable. The County currently reports only roads and bridges as non-depreciable infrastructure under the "modified approach" which requires a commitment to maintain the asset and the performance of condition assessments. Other County infrastructure in the enterprise funds are depreciable and include items like drainage, water and sewer systems, and tunnels. General governmental infrastructure, such as surface water improvements, if above the threshold, should be capitalized as depreciable assets.

5.30 "Intangible assets": An asset that lacks physical substance, is nonfinancial in nature, and has an initial useful life extending beyond a single reporting period. Examples of intangible assets are easements, right of way, other land rights, patents, trademarks, licenses, permits and software.

5.31 "Internally generated computer software": Software developed in-house using County workforce or by a third party contractor on behalf of the County; or purchased from a vendor but modified or customized by the County using more than minimal incremental effort before being put into service. Internally generated computer software activities can be grouped into three stages, 1) software preliminary project stage, 2) software application development stage, and 3) software post-implementation/operation stage.

5.32 "Internally generated intangible assets": Intangible assets that are created or produced by: (1) the County, (2) an entity contracted by the County, or (3) acquired from a third party where they require more than minimal incremental effort on the part of the County in order to begin to achieve their expected level of service capacity.

5.33 "Land": The capital asset class that includes all non-depreciable land and all associated rights with land ownership.

5.34 "Land use rights": Land use rights may be purchased without the transfer of title and may include temporary easements, permanent easements, right-of-way, and development, air, timber and mineral rights. Land use rights are considered intangible assets.

5.35 "Leasehold improvements": Costs used to increase the service capacity of a leased asset. Leasehold improvements are amortized over the life of the lease.

5.36 "Modified approach": An optional method of accounting for specified infrastructure assets that avoids the need to report depreciation expense by presuming an indefinite useful life. Expenditures related to specified infrastructure assets accounted for under the modified approach are expensed in the period incurred as maintenance or preservation.

5.37 "Personal property": All movable capital furniture, machinery, and equipment subject to an annual physical inventory.

5.38 "Physical inventory": A physical inspection of capital assets recorded in the capital asset system to verify their existence and condition.

5.39 "Placed in service": The point in time when a capital asset begins to be used in operations and when a depreciation period begins. The date of placed in service for depreciable assets is important for proper accounting calculations.

5.40 Software development stages:

5.40.1 "Software preliminary project stage": Activities in this stage include the conceptual formulation and evaluation of alternatives, the determination of the existence of needed technology, and the final selection of alternatives for the development of the software.

5.40.2 "Software application development stage": Activities in this stage include the design of the chosen path, including software configuration and interfaces, coding, installation to hardware, and testing – including the parallel processing phase, and data conversion (only to the extent it is determined to be necessary to make the computer software operational).

5.40.3 "Software post-implementation/operation stage": Activities in this stage include application training and software maintenance.

5.41 "Purchased software": Software purchased and used without modifications. This does not include general software applications that are needed for basic computer operations or performing routine office tasks, the cost of which are normally bundled with the hardware cost or expensed.

5.42 "Real property": Land, buildings and building improvements, and improvements other than buildings.

5.43 "Straight-line": A method of depreciation or amortization that allocates the cost of capital assets equally over the assets estimated or actual life.

5.44 "Substantially complete": The point at which construction is sufficiently complete in accordance with contract documents and the construction is determined to be ready for its intended use and/or occupancy.

5.45 "Surplus": Capital assets that are no longer used by the custodial department.

5.46 "Tag number": For personal property, a physical tag with a unique number and bar-coding that is affixed to the actual asset. For real property, the Assessor's parcel number should be used as the asset number. A number may be divided into a primary number and an attachment number suffix for attachments to the primary asset.

5.47 "Useful life": An estimate based on the known information regarding the type, expected use, and expected maintenance of the asset. It is the period of time during which a capital asset will provide service.

6.0 POLICIES:

6.1 The County will report capital assets in the County's financial statements in accordance with applicable governmental accounting standards. Governmental funds report capital assets as general capital assets on the entity-wide statement of net assets. Proprietary funds report assets at the fund level and on the entity-wide statements of net assets.

6.2 The County will maintain a capital asset system to properly track and report the County's capital assets. This capital asset system is the official subsidiary ledger for the balances reported in the County's financial statements.

6.3 The capitalization threshold is the minimum dollar value at which the County elects to capitalize assets for financial reporting. Expenditures that are greater than or equal to the threshold amounts and meet other capital asset criteria must be capitalized and recorded in the capital asset system, as a capital expenditure in the general ledger and reported as capital assets on the financial statements. Thresholds generally should be applied to individual assets and not to the total of a group or with combined purchases. The capitalization thresholds for King County are established in FIN 12-1 (AEP) *Capitalization Thresholds for Capital Assets.*

6.4 Capital assets are recorded in the capital asset system at historical cost or estimated historical cost. Donated assets are recorded at fair value at the time of donation. The historical cost and fair value at the time of acquisition should include all ancillary charges necessary to place the asset in its intended location and condition for use.

6.5 Collections (works of art and historical artifacts, for example) are capitalized at historical cost or if donated, fair value at the time of donation. Collections are **not** depreciated.

6.6 Assets purchased, but not yet placed in service, are recorded in the capital asset system at their acquisition date and depreciation suspended. Depreciation will begin when the asset is placed in service.

6.7 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 in an authorized property inventory system, are not required to be capitalized but may be capitalized if the information becomes readily available. Ancillary costs include such items as:

- Legal and title fees
- Professional fees of engineers, attorneys, appraisers, financial advisors, architects, etc.
- Surveying fees
- Appraisal and negotiation fees
- Site preparation costs
- Costs related to demolition of unwanted structures
- Transportation/freight charges
- Sales and use tax
- Installation costs
- Warranties (excluding extended warranties)
- Any other normal or necessary costs required to place the asset in its intended location and condition for use
- Clean-up of known pollution at the time of acquisition
- Relocation costs

6.8 Capital assets acquired with grant funds must comply with all state, federal and grantor requirements and be identified as grant funded assets in the County's capital asset accounting system.

6.9 Leasehold improvements to non-County operating leases in proprietary funds should be capitalized and amortized over the life of the lease.

6.10 Governmental funds acquiring assets through general capital assets are to capitalize the integral components as part of the larger capital asset. Betterments and improvements are capitalized if the cost is at least 10 percent of the asset's historical cost and the useful life of the asset is extended or the efficiency or effectiveness of the asset is improved. Repairs and maintenance are to be expended/expensed in the period incurred.

6.11 Proprietary funds follow the governmental capitalization method or, with the approval of FBOD, may apply a method that separates the integral components of larger assets into separate assets. The method used is to be applied consistently. Departments may request to use a component based method by submitting the proposed method to FBOD for approval. The proposed method needs to address transition issues that may arise when a department has assets that were previously recorded without discrete components. This need not apply to already built facilities purchased from external parties; only to those build in-house or where the County is the general contractor for a major portion of the construction.

6.12 Constructed assets include all direct construction/development costs and indirect costs that are associated with the construction and/or development of the project. These costs should be accumulated in a construction work-in-process account until the asset is substantially complete and placed into service at which time they will be added to the capital asset system and appropriate accounting entries recorded.

6.13 Not all phases of capital project's constructed asset are capitalizable. Costs should be capitalized only if they are directly identifiable with a specific asset and only if incurred after the acquisition of the related asset has come to be considered probable (i.e. likely to occur). Thus the planning phase and preliminary design phase of a capital project are generally not capitalized. The final design phase, implementation phase and acquisition phases are capitalized. The close out phase which involves administrative processes and monitoring would generally not be capitalized, but rather expensed to operations.

6.14 Constructed assets are capitalized from WIP at the stage in the progress of the work where the work is substantially complete which includes: (1) the County has full and unrestricted use and benefit of the project work for the purpose intended; (2) all the systems and parts of the contract work are functional; (3) utilities are connected and operate normally; (4) only minor incidental work or correction or repair remains to complete all contract requirements; and (5) at the County's option, the contractor has provided all occupancy permits and easement releases.

6.15 Enterprise funds that construct assets must include the net interest costs incurred during the period of construction in the capitalized cost of the asset if over the County's predetermined threshold. Capitalized interest on assets constructed should be netted against any interest earned on the invested proceeds (see FIN 12-2 (AEP) – *Interest Capitalization Enterprise Fund Capital Assets*).

6.16 Capital projects are to be evaluated to determine if an asset will result from the project. If no asset is reasonably expected to result, the costs that were recorded in CWIP need to be removed from CWIP quarterly. Planning costs are only capitalizable if directly associated with a specific asset and only after acquisition of the related asset has come to be considered probable.

6.17 Habitat restoration (e.g. native plants, wildlife, fish, etc.) are not to be capitalized. Restoration work does not add to the "development" of the land (unlike conversion of land to a roadway or park which the County or its citizens can physically use).

6.18 Costs incurred for internally generated intangible assets are expended/expensed in the period incurred until the occurrence of **all** of the following criteria:

1) Determination of the specific objective of the project and the nature of the service capacity that is expected to be provided by the intangible asset upon the completion of the project.
2) Demonstration of the technical or technological feasibility for completing the project so that the intangible asset will provide its expected service capacity. For example, technical feasibility can be demonstrated by the selection of a commercially available software package or by the selection of a development path to meet service capacity requirements.
3) Demonstration of the current intention, ability, and presence of effort to complete or, in the case of a multiyear project, continue development of the intangible asset.

6.19 Costs incurred for internally generated computer software are separated in to three stages of development:

1) Software preliminary project stage, which includes conceptual formulation and evaluation of alternatives, determination of the existence of needed technology, and the final selection of alternatives for the development of software. Costs associated with this stage are expended/expensed in the period in which they are incurred.
2) Software application development stage, which includes design, configuration and interfaces, coding, installation of hardware, installation and licensing of commercially available software, and testing, including parallel processing. This includes data conversion only to the extent it is necessary to make the software operational. Costs associated with this phase are capitalized when both of the following occur:
   - Activities of the preliminary project stage are completed.
   - Management implicitly or explicitly authorizes and commits to funding the software project.

   Capitalization of costs should cease when the computer software is substantially complete and operational.
3) Software post-implementation/operation stage, which includes application training and software maintenance. This includes other data conversion costs not included

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in the application development stage. Costs associated with this stage are expended/expensed in the period in which they are incurred.

6.20 A capital lease is a lease that transfers substantially all the benefits and risks inherent in the ownership of the property. Account for a capital lease as an acquisition of a capital asset and the incurrence of a liability. A lease must meet one or more of the following four criteria to qualify as a capital lease:

1) Ownership of the leased property is transferred to the County by the end of the lease term.
2) The lease contains a bargain purchase option.
3) The lease term is equal to 75 percent or more of the estimated useful life of the leased property.
4) At the inception of the lease, the present value of the future minimum lease payments, excluding executor costs, is 90 percent or more of the fair value of the leased property.

6.21 The County's roads and bridges network is accounted for using the modified approach for infrastructure reporting. Infrastructure is reported as a capital asset, but no depreciation expense is reported. Infrastructure under the modified approach provides service indefinitely if properly maintained and preserved. Improvements that increase the service capacity and functionality of infrastructure are capitalized. Other costs are considered preservation and maintenance and are expended in the period incurred. The Department of Transportation – Road Services Division maintains the roads and bridges infrastructure historical asset records within a separate reporting system. Other County infrastructure is depreciable and includes items such as drainage, water and sewer systems, and tunnels.

6.22 Impairments of capital assets occur when there is a significant and unexpected decrease in the service utility of the capital asset that will continue to be used in operations. Impairments are *significant* if all of the expenses associated with the potentially impaired asset are significant compared to its current service utility and *unexpected* only if it is not part of the normal life cycle of the asset and was not otherwise anticipated when the asset was originally acquired. In order for an asset to be considered impaired, the restoration costs of the measured impairment must be equal, to or greater than, 20% of asset's net book value at the time of impairment, but not less than $1,000,000.

A temporary decline in service utility, decline in appraised value, change in estimated useful life, or unanticipated increases in construction costs are not considered to be impairments.

The common indicators of impairment are:

- Physical damage and loss or interruption in service utility
- Changes in laws, regulations or other environmental factors that negatively affect future service utility
- Technological developments that negatively affect future service utility or evidence of obsolescence

- A change in the manner or duration of use that negatively affect future service utility
- Construction or development stoppage

Any impaired asset should be reported to Finance and Business Operations Division for review, appropriate accounting entries and financial statement disclosure requirements. Insurance recoveries related to impaired assets are reported net of the related loss when the recovery is realized or realizable in the same fiscal year as the loss. Otherwise, restoration or replacement costs of an impaired asset are reported as a separate transaction from the related insurance recovery.

6.23 Non-depreciable assets include land, roads and bridges infrastructure, intangible assets with indefinite useful lives, and artwork collections.

The County depreciates/amortizes capital assets using the straight-line method over an estimated useful life/limited life with zero salvage value. Depreciation and amortization will be reported in the County's entity-wide financial statements and proprietary fund financial statements.

6.24 The estimated useful lives of assets are as follows:

- Buildings and building improvements – 15 to 50 years
- Improvements other than buildings – 10 to 30 years
- Depreciable infrastructure – 20 to 50 years
- Equipment – 3 to 20 years
- Intangible assets with definite useful lives – actual life of intangible asset
- Leasehold improvements – lesser of life expectancy or actual term of lease

The capital asset system has default lives assigned to each capital asset category, which are subject to periodic reviews. Individual asset lives can be changed if circumstances warrant to closer reflect actual usage, or for capital leases where the service life should be equal to the lease term.

6.25 An annual physical inventory of personal property capital assets will be performed to verify their existence, location and status. Adequate controls must still be maintained for non-capitalized, but "controllable" items of personal property. An annual review of real property will be performed to verify accuracy and ownership status.

6.26 An official listing of property records for all usable buildings, including those that fall below the capitalization thresholds will be maintained by Facilities Management Division – Building Services Section.

6.27 Each agency or department will adopt a policy with regards to their identified controllable (non-capital) assets to be tracked by its divisions. Policies will be updated and on file with both Fleet Management and FBOD. Agency or department identified controllable assets may be maintained in the capital asset system for custodial purposes (but not reported in the financial statements as capital assets) or at the agency/department using their own system of tracking pursuant to the agency's internal policy for tracking controllable assets.

6.28 Reconciliation of the capital asset subsidiary ledger to the general ledger and to capital expenditures should be performed monthly by major fund accountants and at least quarterly by non-major fund accountants in the Finance and Business Operations Division. Reconciliations and/or reviews by the agencies are also encouraged.

6.29 Transfers of assets between agencies in the primary government are recorded at the net book value at the time of transfer.

6.30 The purchase/sale of assets between governmental agencies and proprietary funds are recorded at the historical cost of the asset; this follows the principle that "the value of a capital asset cannot change so long as it remains within the same financial reporting entity" (King County). If the amount paid for the asset exceeds the book value of the asset, FBOD will need to assist in preparing the financial accounting entries to transfer the asset.

6.31 When capital assets are retired, disposed of, or otherwise need to be removed, the cost and associated accumulated depreciation and amortization are removed from the capital asset system and general ledger.

6.32 If the betterment and/or improvement is capitalized and replaces a component of an existing asset, the original cost and associated accumulated depreciation is to be removed. If the cost is not readily determinable, estimate the historical cost via standard costing (using old catalogs, pricelists or other available information) or normal costing (back trending).

6.33 When a capital asset is surplused and sold to a non-County entity, including by auction, a gain or loss occurs and must be recognized. A gain or loss is calculated when the sale price does not equal the net book value of the asset.

> 6.33.1 Personal property items are generally handled through the Fleet Management Division under provisions of the King County Code.
>
> 6.33.2 Real Property transfers and dispositions are handled by the Department of Executive Services through Facilities Management Division – Real Estate Services Section.

6.34 Capital assets still in service, but fully depreciated, remain on the books until disposed. Actual useful life may prove to be longer than estimated useful life and can generally be justified on the basis of immateriality. A significant number of fully depreciated capital assets would evidence the need to reassess average estimated useful life in categories and be adjusted to reflect the County's actual experience

7.0 <u>PROCEDURES</u>:

<u>Action by</u>: All agencies with capital assets

Action:

7.1 Upon acquisition, all capital assets will be added to the Oracle EBS Assets system in one of the following ways:

- Through Oracle EBS Payables, for purchased assets and land acquisitions
- Through Oracle EBS Projects, for capitalized assets
- Through manual entry for donated assets

7.1.1 Code capital asset purchases and subsequent use tax payments to the appropriate expenditure account (56XXX account) for capital asset acquisitions.

7.1.2 Upon receipt of the asset (purchased assets), payment for land acquisitions or placement in service of the asset (Projects), complete the Asset Acquisition Form and remit to the Financial Management Section of Finance Business Operations Division.

7.1.3 After the asset has been established in the capital asset system, review the Asset Validation Form. Notify the Financial Management Section of Finance Business Operations Division of any system additions or corrections that need to be made.

7.1.4 Complete the appropriate form for alternate acquisitions and remit to the Financial Management Section (Asset Accounting) of Finance Business Operations Division.

7.2 For agencies with grant funded capital assets:

7.2.1 If the capital asset was funded all or in part with grant money, complete the grants information fields on the Asset Acquisition form.

7.2.2 Verify annually all assets acquired with grant funds have complete information in the capital asset system

7.3 Prepare appropriate forms and forward to Fleet Administration – Personal Property Section where agency assets are transferred, surplussed, retired or acquired by gift or other non-cash transactions (alternate acquisitions form).

7.4 Provide to Finance and Business Operations Division – Financial Management Section (FMS)a copy of capital leases for leased personal property; a determination is required to determine whether it is a capital lease (entered into the County's capital asset system or an operating lease.

7.5 Provide reporting to Fleet Administration – Personal Property Section for:

7.5.1 Any condition changes or adjustments to personal property assets in the agency's custody.

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7.5.2 ~~7.4.2~~ Any losses or thefts of personal property. HR Bulletin Number 2011-0008 states that "employees and managers must immediately report all instances of suspected or known losses or thefts" in compliance with Washington State reporting requirements, RCW 43.09.185, and King County procedures. County procedures are addressed in detail in HR Bulletin Number 2011-008. Typically these instances are reported through an agency's chain of command to ensure that the State Auditor's Office is aware and involved. The loss or thief of County information assets are to be reported to OIRM's Chief Information Security & Privacy Officer.

7.6 Provide reporting to Facilities Management Division – Real Estate Services Section on:

7.6.1 Any updates, changes or adjustments to real property land or easement assets in the capital asset system.

7.6.2 The length of capital leasehold improvements to County property so that the cost is amortized over the life of the lease.

7.7 Provide reporting to Finance and Business Operations Division on:

7.7.1 Any updates, changes or adjustments to improvements other than buildings or construction work-in-process assets in the capital asset system.

7.7.2 The length of capital leases on leased personal property to enable the cost to be amortized over the life of the lease and property reported in financial statements.

7.7.3 The length of capital leasehold improvements to County property so that the cost is amortized over the life of the lease for recording and financial reporting purposes.

7.7.4 Any permanent asset impairment above the established threshold.

7.8 Ensure that capitalization of a construction work-in-process project takes into consideration items previously capitalized out of the project (including equipment that may be discretely capitalized from the project)..

7.9 Assign an inventory contact person and perform an annual inventory as directed by Fleet Administration - Personal Property Section. Any inaccuracies should be noted and corrections sent to Fleet Administration - Personal Property Section.

<u>Action by</u>: All agencies with constructed/developed capital assets

Action:

7.10 Analyze construction/development projects in process throughout the year to determine projects which are at, or near, completion.

7.11 Ensure land purchases are recorded immediately in the capital asset subsidiary ledger system; these should not be held in a construction work-in-progress project or account.

7.12 Prepare a schedule of completed capital assets from construction work-in-progress and a schedule of current construction work-in-progress projects. Reclassification from construction work-in-progress to the appropriate asset classification (i.e. buildings, improvements other than buildings, equipment, and software) should take place when the project is substantially complete and/or placed in service; projects can be reclassified to the appropriate asset classification in phases.

7.13 Provide the agency's finance manager a schedule of completed assets from construction work-in-progress and a schedule of projects that are still in progress at year-end.

7.14 Agency finance managers will review and approve schedules of completed capital assets from construction work-in-progress and current construction work-in-progress projects.

7.15 Provide a quarterly report to the Finance and Business Operations Division –Financial Management Section, which identifies all outstanding capital projects: these reports should include, by project: project number, project title, project manager, project beginning date, project costs for the current year and cumulative costs life-to-date, and project expected completion date.

7.16 Provide Finance and Business Operations Division an approved schedule of completed assets from construction work-in-progress showing all necessary information for reclassification from construction work-in-progress to the appropriate capital asset classification and a schedule of projects that are ongoing at year-end for financial reporting.

7.17 Contact the appropriate asset Accountant when a constructed asset is ready to be placed in service.

7.17.1 Work with the Asset Accountant in determining the eligibility of each expenditure line and remove those lines found to be ineligible.

7.17.2 For new Capital Projects entered into Oracle EBS after 1/01/2012: When the final approval has been received from the Asset Accountant and all lines have been reviewed and adjusted, the date in service and transfer of the asset from Oracle EBS Projects to Oracle Assets will be completed.

7.17.3 For converted Capital Projects which were started prior to 1/01/2012, a manual process of reviewing expenditure detail in the legacy system(s) will take place. The Asset Accountant and Agency Representative will determine the how to set up the

Capital Asset in the Oracle EBS Assets system.

Action by: Fleet Administration – Personal Property Section

Action:

7.18 Update capital asset records in the capital asset system with non-financial information.

7.19 Process transfers, disposals and retirements of capital assets.

7.20 Coordinate the annual inventory process with agencies.

7.21 Correct any inventory inaccuracies identified by departments during the annual inventory process.

7.22 Submit a copy of all lost and stolen item reports to the Chief Accountant. Lost or stolen computer and/or information system assets need to be reported to OIRM's Chief Information & Security Privacy Officer.

7.23 Distribute auction proceeds to departments/divisions within 90 days of the auction.

7.24 Review the lost and stolen item reports received from annual inventory and prepare an annual report of losses for the County Executive, County Council, Office of Performance, Strategy and Budget, Risk Management, and the Chief Accountant.

Action by: Facilities Management Division – Building Services Section

Action:

7.25 Maintain property records for all usable buildings including those that fall below the capitalization thresholds.

7.26 Track all buildings that are maintained, including minor buildings in County-owned parks.

Action by: Facilities Management Division – Real Estate Services Section

Action:

7.27 Ensure **all** real property land acquisitions are recorded in the County's capital asset system using the King County Assessor's parcel number as the asset tag number.

7.28 Maintain real property records for all land and land use rights owned by the County.

7.29 Process acquisitions, transfers, and disposals of real property.

7.30 Reconcile the land records to the King County Assessor's records on a periodic basis (at least annually).

7.31 Maintain files with documents supporting each real property transaction including easements and right of ways.

Action by: Finance and Business Operations Division (FBOD)

Action:

7.32 Maintain the "official" capital asset listing as part of the County's financial accounting system for financial reporting. Work with all agencies to enter new assets into the Oracle EBS Assets Module.

7.33 Prepare ad hoc reports for departments as needed.

7.34 Conduct the monthly closing process for the capital asset system.

7.35 Ensure the capital asset subsidiary ledger agrees to the general ledger and that capital expenditures agree to capital asset acquisitions.

7.36 Review the approved schedules of completed assets from construction work-in-progress and schedules of projects that are still in progress at year-end.

7.37 Assign an tag number and input completed construction work-in-progress assets into the capital asset system. Remove the corresponding costs in construction work-in-progress account and update the costs of construction work-in-progress projects at year-end, if needed.

7.38 Prepare required financial statement note disclosures and ensure accurate financial reporting.

8.0 RESPONSIBILITIES:

8.1 All Agencies

8.1.1 Comply with capital asset policies and procedures above and other applicable policies and procedures related to capital assets.

8.1.2 Implement procedures and internal controls to ensure compliance with County's policies, which includes a system of monitoring and review for appropriateness and accuracy.

8.1.3 Ensure capital asset expenditures are coded to the appropriate accounts.

8.1.4 Complete all forms required to ensure asset records are complete.

8.1.5 Report any losses, thefts or permanent impairments of capital assets to Fleet

Administration – Personal Property Section and to the Chief Accountant.

8.1.6 Ensure completed construction work-in-process projects are correctly classified when they are substantially complete and/or placed in service.

8.1.7 Provide a quarterly report of constructed project (CIP) to the Financial Management Section.

8.1.8 Conduct an annual physical inventory of capital assets.

8.1.9 Designate an individual as an inventory contact person.

8.2 Fleet Management Administration – Personal Property Section

8.2.1 Comply with capital asset policies and procedures above and other applicable policies and procedures related to capital assets.

8.2.2 Implement procedures and internal controls to ensure compliance with the County's policies, which includes a system of monitoring and review for appropriateness and accuracy.

8.2.3 Issue and update administrative procedures for processing disposals, transfers and retirements of personal property as needed.

8.2.4 Comply with all applicable County codes and State laws governing the inventory and disposal of the County's personal property.

8.2.5 Submit to the County Executive all required inventory information annually.

8.2.6 Certify and file complete personal property inventory for December 31 of the preceding year, as public record.

8.2.7 Forward an annual report of losses to the Chief Accountant in the Finance and Business Operations Division.

8.2.8 Provide an annual report of losses to the County Executive, County Council, and Risk Management.

8.2.9 Monitor transfers and sales of personal property between agencies and provide estimates of fair market values for inter-departmental sales.

8.2.10 Coordinate the auction, sale or reallocation of all surplus personal property.

8.2.11 Prepare and submit agency cash transfers and a complete accounting of auction results within 90 days of the end of each auction to the Finance and Business Operations Division.

8.2.12 Coordinate the annual inventory process with agencies.

8.2.13 Maintain and update capital asset non-financial fields of information in the Oracle EBS Assets module as needed.

8.2.14 Verify the accuracy and validity of requested changes to asset records and assure that appropriate authorization are present.

8.3 Facilities Management Division – Building Services Section

8.3.1 Comply with capital asset policies and procedures above and other applicable policies and procedures related to capital assets.

8.3.2 Implement procedures and internal controls to ensure compliance with the County's policies, which includes a system of monitoring and review for appropriateness and accuracy.

8.3.3 Track all buildings that are maintained.

8.4 Facilities Management Division – Real Estate Services Section

8.4.1 Comply with capital asset policies and procedures above and other applicable policies and procedures related to capital assets.

8.4.2 Implement procedures and internal controls to ensure compliance with the County's policies, which includes a system of monitoring and review for appropriateness and accuracy of real estate transactions.

8.4.3 Review and approve all acquisitions and disposals of real property.

8.4.4 Issue and update administrative procedures for processing acquisitions, disposals and transfers of real property.

8.4.5 Verify the accuracy and validity of requested changes to asset records and that appropriate authorization is present.

8.5 Finance and Business Operations Division (FBOD)

8.5.1 Comply with capital asset policies and procedures above and other applicable policies and procedures related to capital assets.

8.5.2 Implement procedures and internal controls to ensure compliance with the County's policies and financial reporting, which includes a system of monitoring and review for appropriateness and accuracy.

8.5.3 Maintain the capital asset system.

8.5.3.1 Complete the new asset records in Oracle EBS Assets Mass Additions.
8.5.3.2 Maintain system lists of values.
8.5.3.3 Review and approve all capital assets placed in service through Oracle EBS Projects.

8.5.4 Establish and revise capitalization thresholds.

8.5.5 Reconcile the capital asset system subsidiary ledger to the general ledger monthly (major enterprise funds) or quarterly (all other funds).

8.5.6 Ensure the accuracy of information for financial reporting for capital assets in the County's financial statements and related note disclosures.

8.5.7 Verify the accuracy and validity of requested changes to asset records and that appropriate authorization is present.

8.5.8 Provide technical guidance regarding appropriate accounting for capital assets.

8.6 King County Executive Office – Office of Performance Strategy and Budget

8.6.1 Modify capital budget definitions and budget preparation procedures and instructions.

8.6.2 Provide County agencies with annual budget guidance on capitalized assets and thresholds changes for the subsequent year's budget cycle.