



TITLE: CAPITAL ASSETS POLICY		POLICY: FIN-001-2023
EFFECTIVE DATE: 11/15/2023	SUPERSEDES: FIN-001-2014	PAGES: 6
MAYOR: CHRISTINE FRIZZELL <i>Christine Frizzell</i> <small>Christine Frizzell (Nov 30, 2023 15:37 PST)</small>	DEPARTMENT DIRECTOR: MICHELLE MEYER <i>Michelle Meyer</i> <small>Michelle Meyer (Nov 20, 2023 16:25 PST)</small>	Policy Level: Administrative

APPLICABLE TO: All City Departments, Offices and Employees

POLICY STATEMENT: The policy of the City of Lynnwood is to ensure the accuracy and reliability of financial statements, comply with authoritative guidance and best practices, and maintain appropriate stewardship over the City's assets.

PURPOSE: The purpose of this policy is to establish the City's capitalization criteria, establish capital thresholds, estimate useful lives of assets for depreciation and amortization, and maintain complete and accurate capital asset information to prepare the City's financial statements in accordance with Generally Accepted Accounting Principles (GAAP), Government Accounting Standards Board (GASB), Budgeting, Accounting and Reporting System (BARS), and other applicable authoritative guidance and best practices for capital asset accounting and reporting.

DEFINITIONS:

"Capital Assets" – Assets that are used in City's operations and have an initial useful life in excess of one year. Capital assets include both tangible assets (land, buildings, building improvements, vehicles, machinery, equipment, works of art, historical treasures, infrastructure) and intangible assets (easements, software, water rights).

"Capitalizable Threshold" –The minimum cost per unit at which an asset must be valued to be considered a capital asset.

"Construction in Progress (CIP)" – Capital costs related to a tangible capital asset that is not yet substantially ready to be placed in service.

"Custodial responsibility" - Being in charge of, and having the authority to manage the asset, not limited to the caring for, safekeeping and protecting the asset.

"Improvement/ Betterment" - Addition made to or change made in an existing capital asset, other than maintenance, to extend its life or to increase its efficiency or capacity.

"Infrastructure" - Long lived capital assets that normally are stationary in nature and normally can be preserved for a significantly greater number of years than most capital assets. Examples

of infrastructure assets include roads, bridges, tunnels, drainage systems, water and sewer systems, dams, and lighting systems.

“Intangible Capital Assets” – Include assets with no physical substance, such as patents, franchise fees, licenses, computer software, rights to use property, etc. with a useful life that exceeds one year.

"Inventory" - The process of physically confirming the existence and location of capital assets.

"Non-Capital Controllable Assets" (also referred to as Small and Attractive Assets) - Assets that fall below the capitalization threshold but require special attention to ensure legal compliance, protect public safety and may be susceptible to theft or misappropriation. Refer to the Non-Capital Controllable Asset Policy (FIN-002-2023) for current guidance and criteria on management of those assets.

POLICIES:

1. Capitalization Threshold

The threshold amounts are applied to the historical cost of capital assets, or fair market value for donated/contributed assets, at the time of acquisition. Acquisition includes direct purchase, construction, donation/contribution, or any other means by which rights or title to property transfer to the City.

Class of Asset	Threshold
Land/ land improvement	Capitalize all
Works of art/historical treasures	Capitalize all
Easements	Capitalize all
Buildings/building improvement	\$100,000
Infrastructure	\$100,000
Machinery and Equipment	\$10,000
Equipment/leased equipment	\$10,000
Intangible Assets – Leased Equipment	\$10,000
Intangible Assets – Leased Building	\$100,000
Intangible Assets – Right to use Subscription Software (SBITA)	\$100,000

2. Depreciation Method

The City uses the straight-line method of depreciation for its assets, which evenly distributes the cost of the asset over its useful life. Depreciation starts when the asset is placed in service. For construction in progress assets, no depreciation is recorded until the asset is placed in service or the certificate of substantial completion is issued.

3. Improvement/Repair/Maintenance Expenses

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 betterments, improvements, or modifications.

4. Additions

The City may acquire property via purchase, construction, donation, or lease.

Whenever feasible, each piece of property will be affixed with an inventory ID tag identifying the capital asset as the property of the City of Lynnwood and including a city identification number.

Each department will determine where to place the tag on the capital asset and will locate the tag on the principal body of the asset where practical. Such tag will be removed or obliterated only when the item is sold, scrapped, or otherwise disposed of. Should the inventory ID tag be removed or defaced, the item shall be assigned a new inventory ID tag, and the new number recorded in the capital assets system. When it is impractical or impossible to apply an inventory ID tag, the unique permanent serial number can be used for identification, security and inventory control (such as vehicles or equipment).

Assets that are partially or fully funded with Federal funds will be noted as such on asset records in addition to who holds the title, and what percentage of the asset was purchased with Federal funds.

5. Modifications

Large assets such as major pieces of equipment, infrastructure (water or sewer lines), and many buildings are often modified to increase their lifetime or usefulness. Modifications may include partial additions or deletions, major repairs, or component replacement (new roof, heating system, etc.).

6. 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. Interdepartmental transfers involving a proprietary fund (i.e. Surface Water) require a transfer of money. Departments must notify the Finance Department prior to the transfer so that the asset amendment occurs in conjunction with the physical transfer.

7. Disposal

Capital assets are removed from the accounting records due to the sale of the asset, disposal, lost or stolen items, or involuntary conversion (fire, flood, etc.).

Disposal of capital assets with a value of more than \$50,000 may occur only after authorization by the City Council and the Mayor. Disposal will be made in whichever manner is determined to be most cost effective for the City. This may include sale, disposal, conversion, or any other means as approved by the Purchasing Manager, in accordance with Lynnwood Municipal Code 2.92.100.

When original or replacement equipment, acquired under a grant or sub grant, is no longer needed for the original project or program, the City will request disposition instructions from the awarding agency prior to disposal. The sale of non-capital controllable assets must comply with Lynnwood Municipal Code 2.92.100 (A), and the City's surplus procedures.

Lost or stolen property

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

If the missing property is not found:

- Notify the designated department inventory control officer, Department Director and the Finance Department.

- A police report must be filed for stolen items as soon as they are discovered.
- The individual deemed primarily responsible for the asset, as well as that individual's supervisor must 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.
- The Finance Department will report known or suspected losses of assets to the State Auditor's office in accordance with RCW 43.09.185, and a copy of the report will be provided to the Mayor, and City Council.
- The Finance Department will remove the lost or stolen property from the department's inventory and accounting records where applicable.

8. Inventory

The Finance Department will supply an inventory worksheet of capital assets as of December 31st. Asset purchases that are not recorded on the inventory worksheet will be added by the department to ensure that the inventory is accurate as of December 31st for financial reporting.

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.

A physical inventory of capital assets will be conducted at least once every two years.

Assets that are purchased with Federal awards will be used in the program or project for which it was acquired. The City will capitalize and inventory all assets with a cost equal to or greater than the capitalization criteria specified in the Code of Federal Regulations (CFR). Currently, the threshold for assets purchased with federal awards is \$5,000 per unit and an inventory is required at least once every two years (refer to 2 CFR 200.313).

Assets purchased with Federal awards that fall below the capitalization threshold, but the Federal award requires tracking, the asset will be tracked and inventoried as non-capital controllable assets. Refer to the Non-Capital Controllable Asset Policy (FIN-002-2023) for current guidance and criteria on management of those assets.

a. Physical Inventory Reconciliation

After the physical inventory count is completed, the designated department Inventory Control Officer(s) (ICO) will perform the reconciliation process and identify differences between the physical inventory compared to the inventory worksheet provided by the Finance Department. The Finance Department should be notified of any differences between the physical inventory and the inventory worksheet they provided.

b. Physical Inventory Certification

After the inventory is reconciled, the department ICO will certify the inventory reconciliation is correct, with a signature and report this to the supervisor. If the certification cannot be made, the ICO will disclose this fact and the supervisor will determine the appropriate course of action. The final list will be reviewed and signed by the Department Director or designee, and returned to the Finance Department by January 31st of every year.

c. 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

Finance Department. The documentation will be retained in accordance with the approved records retention schedules.

d. Construction in Progress

All costs related to construction of any asset, including infrastructure, are included in the construction in progress asset during the construction process and are capitalized upon substantial completion of the project. Depreciation is not applicable while assets are accounted for as construction in progress.

Projects must be reported as Construction in Progress if construction has not reached substantial completion by year-end. Construction in progress assets should be capitalized to their appropriate capital asset categories when substantially complete, which is usually upon issuance of Certificate of Substantial Completion or when the asset is placed into service.

Costs that do not meet general capitalization criteria, such as long-range or advance planning costs, and costs incurred to conduct feasibility studies are not capitalized.

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

Donated assets will be recorded at 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, the estimated cost will be used.

However, expenses which do not add to the utility of an asset shall not be capitalized. For example, the expenditure to repair a piece of equipment that was damaged during shipment should be expensed.

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.

Replacement roof coverings are not capitalized unless the replacement extends the useful life of the building or increases its efficiency or capacity.

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.

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

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.

10. Depreciation of Capital Assets

Land, works of art, historical treasures, and construction in progress are not depreciated.

Buildings, equipment, non-building improvements, works of art which are determined to be exhaustible, and intangible assets are depreciated or amortized using the straight-line method over their estimated useful lives.

11. Useful Life for Capital Assets

Assets will be depreciated over their estimated useful life. The average service lives used to calculate depreciation for specific type of assets are summarized below.

Class of Asset	Est. Useful Life
Buildings	20-50 years
Improvements, other than buildings	5-50 years
Machinery and Equipment	3-20 years
Infrastructure	30-50 years

RESPONSIBILITIES:

Departments are responsible for safeguarding and ensuring the appropriate use of the City's assets assigned to their department. The Department Director must designate one or more department inventory officers to be responsible for maintaining and safeguarding the department's assets.

A department must notify Finance when a Capital Asset is acquired, modified, transferred, surplusd or any type of change to the status of the asset.

Departments must provide details and documentation such as invoices, grant agreements, donation receipts, surplus declaration, loss report or other documentation to properly record the capital asset. The Finance Department will identify those assets that meet the capitalization requirements. Finance will assign a unique inventory control number to the asset.








FIN-001-2023 Capital Assets Policy

Final Audit Report

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