RESOLUTION NO. 78-16

A RESOLUTION for the Mason County Capital Asset Policy.

WHEREAS, it is in the best interest of Mason County to establish a Capital Asset Policy to safeguard County assets and facilitate GAAP (General Accepted Accounting Principles) compliant financial reporting.

NOW THEREFORE BE IT RESOLVED BY THE BOARD OF COUNTY COMMISSIONERS of Mason County, that we hereby adopt the Mason County Capital Asset Policy (Attachment A).

ADOPTED: 11-22-16

BOARD OF COUNTY COMMISSIONERS
MASON COUNTY, WASHINGTON

ATTEST:

Clerk of the Board

Terri Jeffreys, Chair

APPROVED AS TO FORM:

Randy Neatherlin, Commissioner

Tim Whitehead, Chief Deputy Prosecuting Attorney

Tim Sheldon, Commissioner

Mason County Capital Asset Policy

I. PURPOSE:

To establish a uniform policy and accounting for the County's real and personal property to ensure adequate stewardship of county resources through control, accountability and accurate financial reporting required for preparation of financial statements in accordance with generally accepted accounting principles and to establish departmental responsibility in the maintenance of the County's capital asset system.

II. RESPONSIBILITY:

All Mason County Departments are responsible for protecting and controlling the use of county assets assigned to their department. The department head/elected official must designate one or more employee(s) to be responsible for maintaining and safeguarding the department's capital assets and small and attractive assets ("inventory officer"). Any time an asset is added, deleted, or transferred; the inventory officer will complete an Asset Project Form #_______ which will be submitted to the Auditor's Financial Services Department. NOTE *** Form also needed to go to RISK Manager** Public Works will submit the Annual Construction Report spreadsheet annually in lieu of the asset project form.

III. AUTHORITY & REFERENCES:

County Code 3.56 Capital Asset Policy

SAO Budget, Accounting and Reporting System BARS Manual

RCW, Chapter 36.32.210, "County Commissioners"

RCW, Chapter 36.34, "County Property"

RCW, Chapter 42.56.590, "Personal Information – Notice of Security Breaches

RCW, Chapter 43.09.185, "Loss of Public Funds – Illegal Activity – Report to State Auditor's Office

WAC 236-48-190 to WAC 236-48-197, Surplus Property"

Governmental Accounting Standards Board pronouncements:

GASB Concepts Statement No. 4 - *Elements of Financial Statements*

GASB Statement No. 33 – *Accounting and Financial Reporting for Non-Exchange Transactions*

GASB Statement No. 34 - *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*

GASB Statement No. 42 - *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*

GASB Statement No. 51 - *Accounting and Financial Reporting for Intangible Assets*

Governmental Accounting, Auditing and Financial Reporting (GAAFR), Government Finance Officers Association (GFOA) 2005.

Accounting for Capital Assets – A Guide for State and Local Governments, Government Finance Officers Association (GFOA) 2008.

Government Finance Officers Association (GFOA) Best Practices and Advisories

IV. DEFINITIONS:

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.

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

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.

Asset: All land, buildings, improvements, infrastructure, works of art, historic collections; and equipment purchased, donated, constructed, or acquired by the county

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

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

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.

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.

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.

Capitalization threshold: The minimum dollar value at which the County elects to capitalize its capital assets for financial reporting is $5,000 and an estimated useful life in excess of one year. All land is capitalized regardless of value. Capital assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Although small and attractive assets do not meet the county capitalization threshold, they are considered assets for purposes of marking and identification, records keeping, and tracking.

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

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.

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

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).

Capital project sequential phases:

- "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.
- "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.
- "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.
- "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.
- "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.
- "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.

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).

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.

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.

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

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

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.

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.

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.

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.

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

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.

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.

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

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.

Inventory: The process of physical confirming the existence and location of capital assets.

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. Roads, bridges, sidewalks, water lines, sewers, drainage systems and the like.

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.

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.

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.

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

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.

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

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

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

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.

Software development stages:

- "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.*

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

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.

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

Small and Attractive Assets: Assets that are particularly at risk or vulnerable to loss and cost less than $5,000. Departments have the discretion in defining small and attractive assets in many instances; however, departments must include at a minimum the following assets with unit costs of $500 or more as small and attractive

- Communications Equipment, audio and videos
- Optical devices, binoculars, telescopes, infrared viewers and range finders
- Cameras and photographic projection equipment
- Microcomputer systems, laptops and notebook computers
- Other electronic equipment and accessories, scanners, data displays and printers

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

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.

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

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.

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.

V. POLICIES:

The County will report capital assets in the County's financial statements in accordance with applicable governmental accounting standards.

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.

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, with the exception of infrastructure.

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.

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.

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.

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

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.

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

Governmental funds acquiring assets through general capital assets are to capitalize the integral components as part of the larger capital asset. Repairs and maintenance are to be expended/expensed in the period incurred.

Proprietary funds follow the governmental capitalization method.

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.

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.

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.

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.

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 annually. 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.

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).

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

- 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.
- 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.
- 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.

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

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.

The County's infrastructure is accounted for using the depreciation method for infrastructure reporting. Improvements that increase the service capacity and functionality of infrastructure are capitalized. Other costs are considered 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.

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 Financial Services 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.

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.

The estimated useful lives of assets are as follows:

Buildings – 3 to 45 years
Improvements other than buildings – 20 to 40 years
Equipment – 3 to 10 years
Infrastructure – 7 to 100 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 closer reflect actual usage, or for capital leases where the service life should be equal to the lease term.

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.

An official listing of property records for all usable buildings, including those that fall below the capitalization thresholds will be maintained by Support Services.

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 the departments and Mason County Support Services. 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.

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 Financial Services. Reconciliations and/or reviews by the agencies are also encouraged.

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

The purchase/sale of assets between governmental agencies and proprietary funds are recorded at the historical cost of the asset. If the amount paid for the asset exceeds the book value of the asset, Financial Services will need to assist in preparing the financial accounting entries to transfer the asset.

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.

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).

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.

Personal property items are generally handled through each department.

Real Property transfers and dispositions are handled by Support Services.

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.

VI. PROCEDURES

1) 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. Outlays will not be capitalized for a project that replaces the old part of a capital asset, however outlays will be capitalized for a project that provides improvement. Depreciation charges may be revised for substantial improvements or change in estimated useful life of an asset and will be based on the new book value and the new estimated remaining useful life. No adjustment will be made to prior periods.

2) Additions

The county may acquire property by purchase, construction, donation, or lease. Capital assets shall be capitalized and purchased from a capital BARS line known as the "60's":

61 - Land and Land Improvements
62 - Buildings and Structures
63 - Other Improvements
64 - Machinery and Equipment
65 - Construction of Capital Assets

When a capital asset is purchased, the department will complete a Capital Asset - Project Form and send it to the Budget Manager with the voucher. The Budget Manager will update the capital asset system with the information from the Capital Asset - Project Form. The department must assign a unique asset tag number which will be used for inventory purposes and affix the tag number to the asset. If possible, the department should identify the asset as Mason County property on the tag, and the tag shall be affixed on the principal body of the asset. Damage or lost tags should be replaced with a new inventory ID tag. Tags may be removed when the asset is sold or disposed. Occasionally it may be impractical or impossible to tag a capital asset, for example:

- The asset is stationary and not susceptible to theft (such as land, infrastructure, buildings, and improvements).
- The asset has a unique permanent serial number that can be used for identification (such as vehicles).
- The asset would lose significant historical or resale value by the tag.
- The asset would have its warranty negatively impacted.

For these assets, the department should apply alternative procedures for identification and inventory.

3) Deletions

Asset deletion may be required due to the sale of the asset, scrapping, lost or stolen, or involuntary conversion (fire, flood, etc.) Due to the monetary value, capital assets deleted from the capital asset system for any reason require the department to complete a Capital Asset-Project Form, Asset Disposal Information section.

Equipment acquired under a grant or sub grant that is no longer needed for the original project may be disposed as follows:

- Equipment with a current per-unit fair market value of less than $5,000 may be retained, sold, or otherwise disposed of with no further obligation to the awarding agency.
- Equipment with a current per-unit market value of $5,000 or more may be retained, sold, or otherwise disposed of only as authorized by the agency that awarded the grant.

If the county is provided with federally owned equipment:

- Title will remain vested with the federal government.
- The county will manage the equipment in accordance with federal agency rules and procedures, and submit an annual inventory listing.
- The county will request disposition instructions from the federal agency when the equipment is no longer needed.

4) Lost or Stolen Assets

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

If the missing property is not found:

- Notify the department head and the employee responsible for department inventory.
- The department shall prepare a signed statement to include a description of the events surrounding the disappearance of the property, who was notified of the loss, and steps taken to locate the property. A copy of the report will be sent to the Budget Manager.
- The Budget Manager shall report the suspected asset loss to the State Auditor's office in accordance with RCW 43.09.185, and a copy of the report shall be given to the Board of County Commissioners.

- The lost or stolen property shall be removed from the department's inventory and accounting records.

5) Asset Transfers

Occasional transfers of property may occur between departments or funds. 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. The sale price will be fair market value, which may result in a gain or loss on the sale of capital assets.

6) Asset Modifications

Large assets such as equipment, 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 (new engine for truck), or component replacement (new roof, heating system, etc.)
Several vouchers may be prepared for the modification as the work progresses. Therefore it's very important to notify the Budget Manager that modifications are coded as capital outlay. The inventory number of the asset being modified should be included on the voucher.

7) Capital Asset Inventory

A physical inventory will be conducted at least once every year. By January 31st of each year, the Budget Manager will provide a Department Asset Accountability Form to each department which contains all capital assets under their control as of December 31st of the prior year. Each department will conduct a physical inventory of the items, verifying the existence and condition of each item on the form, and making note of any additions, deletions, interdepartmental transfers, modifications, or leases of the items that are not reflected on the form. The form is signed by the employee responsible for the inventory and forwarded to the Budget Manager by February 28th of every year. Verification of inventory may be done annually by the Budget Manager by performing a sampling of inventory items.

Personnel that have no direct responsibility for the assets (custody and receipt/issue authority) should perform the physical inventory to ensure objective reporting. If it is not feasible to use such personnel, then the inventory should be verified by a person with no direct responsibility for the inventory.

Written physical inventory instructions will be documented and distributed to each person participating in the inventory process. The instructions will 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 for attesting the accuracy of the count such as signing the inventory page.
- How to record assets not being used or in unserviceable condition, and how this information is to be used for scheduling repair or disposition of such assets.

*In accordance with standards established by the State Auditor (RCW 36.32.210), the inventory documentation shall include:

- The assets on hand including any equipment.
- Date acquired and amount paid for each asset.
- A description to fully identify the asset and its estimated life.
- All assets sold or disposed of during the prior year with full description, name of purchaser, the amount paid, whether or not sold at public or private sale, and reason for disposal.

- All assets purchased during the prior year including full description, date of purchase, amount paid, vendor or person who received the payment, whether or not bought under competitive bidding, probable life, and reason for the purchase.

After the physical inventory count is completed, the department inventory officer will conduct a reconciliation process. The inventory is considered reconciled when all discrepancies have been identified and explained. Departments should conduct the following steps during the reconciliation process:

- Search the inventory lists for unrecorded items that were noted during the count.
- 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 inventory officer should contact the Budget Manager for assistance in determining why the problem is occurring and how to correct it.
- Conduct a search in efforts to locate any missing assets.
- The inventory officer should follow the lost or stolen property procedures in this policy for assets that are not located.

After the inventory is reconciled, the inventory officer shall certify the reconciliation with a statement and signature, and report it to the supervisor. The inventory officer shall notify the supervisor if the certification cannot be made, and the supervisor shall determine the appropriate course of action.

The certification and the reconciled inventory listing serves as the support for the inventory balance and any accounting adjustments, and these documents must be maintained by the Budget Manager. The documentation will be retained in accordance with the approved records retention schedules.

8) Small and Attractive Assets Procedures

Small and attractive assets shall be expensed and purchased from a small tools and equipment (35) BARS line. All small and attractive assets shall be tracked and recorded in a database by each department in control of those assets. The Budget Manager does not monitor small and attractive assets, and they are not part of the assets annual report.

9) Capital Assets Value

Capital assets shall be valued at cost including any ancillary charges necessary to place the asset in the intended location and condition for use. However expenses which do not add to the utility of an asset shall not be capitalized (i.e. expenditure to repair a piece of equipment that was damaged during shipment should be expensed). Values will be determined as follows:

a) The value for a purchased asset shall be the acquisition cost including taxes and all ancillary costs less any discounts or rebates. If the historical acquisition cost is not determined, then an estimated cost may be used from the manufacturer, comparable assets, or other reliable information (County Code 3.56.010).

b) The capitalized value of land includes the purchase price plus costs such as legal fees, fill, and any excavation required for the intended use. If land is acquired by gift, the capitalized value will reflect the appraised or fair market value at the time of acquisition.

c) 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 should reflect the actual or estimated of the asset, including the cost of an extended maintenance/warranty contract if the contract is purchased at the same time as the capital asset.

d) In accordance with the Governmental Accounting Standards Board Statement Number 34, acquisitions of capital assets defined as infrastructure which meet the County's capitalization policy are to be capitalized. Infrastructure assets are reported when they have an initial cost of more than one hundred thousand dollars and a useful life of more than one year (County Code 3.56.020).

e) All direct costs associated with a construction project including management shall be capitalized.

f) Construction in progress will be closed out and the costs capitalized when the project is substantially complete, accepted, and placed into service. Depreciation will not be applied to construction in progress.

g) Donated capital assets will be recorded at the estimated fair market value at the time of acquisition plus all appropriate ancillary costs. If the donated asset was recently constructed and the donor can provide the asset's actual construction cost, that estimate could be used as a basis of capitalizing the asset. Otherwise the estimated fair value at acquisition may be calculated from the manufacturer's catalogs or price quotes in periodicals, recent sales, comparable assets, or other reliable information. (County Code 3.56.010).

h) Routine repair and maintenance costs will be expensed as they are incurred. Extraordinary repairs, betterments, or improvements will be capitalized if they increase future benefits from an existing capital asset beyond its previously assessed standard of performance. Increased future benefits typically include an extension in the estimated useful life of the asset or an increase in the capacity or efficiency of an existing capital asset.

i) Mason County uses the depreciation method to report infrastructure assets. Beginning in 2004 fiscal year, the county capitalized and reported all major infrastructure assets acquired or substantially improved. The initial capitalization shall be based on historical cost. If that cannot be determined, then estimated historical cost may be used. Estimated historical costs can be calculated by using the current replacement cost and using price-level indexes back to the acquisition year. Estimated useful lives shall use (a) general guidelines obtained from professional or industry organization (b) information for comparable assets of other governments, or (c) internal information. (County Code 3.56.020).

j) The cost of a capital asset should include ancillary charges necessary to place the asset into its intended location and condition for use. (County Code 3.56.010). Ancillary costs for land include legal and title fees, professional fees of engineers, attorneys, etc; surveying fees, appraisal and negotiation fees, damage payments, site preparation or demolition. Infrastructure ancillary costs include: professional fees of engineers, attorneys, appraisers, etc; survey fees; appraisal and negotiation fees, damage payments, site preparation and demolition. Buildings and building improvement ancillary costs include: professional fees of architects, engineers, attorneys, appraisers, etc; damage payments; 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. Furnishings and equipment ancillary costs shall include: transportation charges, sales tax, installation costs, and extended maintenance/warranty contracts.

k) Capital assets shall be depreciated over their estimated useful lives unless they are land or land improvements (County Code 3.56.010). Useful life is the number of years, miles, service hours, etc that the County expects to use the asset in operations. An asset that is surplus or held for possible future use is an investment and will not be depreciated. Depreciation will be calculated using the straight-line method where the cost is prorated over the estimated useful life of the asset. Depreciation will be based on the entire cost of the asset including any amounts contributed or donated. Depreciation charges will be made for each full calendar month that an asset is in service. Revisions to expected life of an asset shall be applied prospectively where the rate is recalculated based on the remaining useful life at the time of revision, and the new life will be applied in the present and future accounting periods. Revised estimates will not cause changes to previous years of financial records. Depreciation will generally begin when an asset is purchased or completed. However if an asset is not placed into service immediately, depreciation should begin when placed into service or otherwise begins to lose value.

VII. ASSOCIATED DOCUMENTS:

ASSET PROJECT FORM #______

Approved by & date	Approved by & date:
Originated by:	This Revision Date:

Mason County Capital Asset Procedures