

RESOLUTION NO. 637

ADOPTION OF FINANCIAL POLICY #09: CAPITALIZATION OF ASSETS

WHEREAS, the City of Ridgefield established capitalization policies administratively in 2015; and

WHEREAS, the City of Ridgefield amended these policies administratively in 2017 and again in 2023; and

WHEREAS, these policies provide guidelines to ensure adequate stewardship over City of Ridgefield resources and capital assets; and

WHEREAS, the City deems it necessary to update these policies and procedures by amending the policy to provide a more detailed and complete document; and

WHEREAS, the City deems it necessary to have the City Council review and adopt these policies; and

WHEREAS, these policies are designed to ensure sound and effective financial management and reporting guidelines for the benefit of the City.

NOW THEREFORE, THE CITY COUNCIL OF THE CITY OF RIDGEFIELD, WASHINGTON, DOES HEREBY RESOLVE AS FOLLOWS:

Section 1. The City Council of the City of Ridgefield adopts the Capitalization of Assets policy, a copy of which is attached and referenced as exhibit A.

Section 2. The City Manager, Finance Director and Deputy City Manager are hereby authorized to implement such policies as necessary to carry out the directions of this Resolution.

Section 3. The effective date of this Resolution shall be in full force and effect on the date adopted by the City Council.

ADOPTED AT A REGULAR SESSION BY THE CITY COUNCIL OF THE CITY OF RIDGEFIELD, WASHINGTON ON THE 11th DAY OF JANUARY, 2024.

CITY OF RIDGEFIELD

DocuSigned by:


8822CF05FDE1408

Ron Onslow, Mayor

ATTEST:

DocuSigned by:


BA35ACBCC9B14B1

Julie Ferriss, City Clerk

Exhibit A

Financial Policy #09: Capitalization of Assets

Effective Date: ~~January 1, 2023~~ January 11, 2024

Replaces and Cancels: Financial Policy #9 Dated ~~June 1, 2017~~ January 1, 2023

References: State of Washington, Office of the State Auditor BARS Manual for Cities, Counties and Special Purpose Districts (GAAP) entities, Chapter 3 Capital Assets System Requirements

PURPOSE

This policy is established to provide guidelines to ensure adequate stewardship over City of Ridgefield resources through control and accountability of capital assets, and to collect and maintain complete and accurate capital asset information.

The City uses an accrual basis of accounting, Generally Accepted Accounting Principles (GAAP), and the Budgeting, Accounting, and Reporting Systems (BARS) prescribed by the State of Washington Office of State Auditor. The City Statement of Net Position reflects capital assets and depreciation. The City's Finance Department maintains a subsidiary Fixed Asset system and is required to track capital assets net value and reconcile them to the Statement of Net Position.

DEFINITIONS

Capital Assets: Generally, the term capital assets ~~means~~ mean real and personal property, used in operations, that the City intends to use or keep for more than one year. Capital assets ~~include, but include but~~ are not limited to: land and land rights, capitalizable costs associated with construction-in-progress, improvements and infrastructure, buildings, furnishings, fixtures and furniture, equipment, machinery, vehicles, tools and intangible assets owned by the City. The term infrastructure means roads, bridges, sidewalks, ~~street lights~~ streetlights, water lines, drainage systems, and the like. Infrastructure is capitalized at the activity level (governmental and business-type) in all funds that budget for capital expenditures.

Purchased Assets: Purchased assets are valued at historical costs including applicable taxes as well as all costs to acquire (shipping and handling), install, secure, and prepare an item for its intended use.

Self-Constructed Assets: All direct costs associated with design, construction and management of a self-constructed project will be capitalized. The City includes allocated direct City labor on all capital projects. Capitalization of interest cost (IDC) incurred in connection with the acquisition, construction, or improvement of capital assets are limited to capital assets reported in the enterprise funds.

Donated Assets: Donated assets are recorded at the acquisition value at the time of donation plus all appropriate ancillary costs. Acquisition Value can be determined from the donor's cost or the cost the City would have paid to purchase/construct the asset. For donated land, the assessed tax valuation or appraised value will be used if available. In the event those valuations are not available the tax valuation per square foot of similar property is applied to estimate the acquisition value.

Software or Technology Assets: The original purchase of a software program is considered a capital asset if it meets the \$5,000 threshold established. Improvements to an existing software or technology asset that meets the \$5,000 threshold and extends the life, capacity or utility of the asset are capitalized and depreciated over the remaining useful life of the related asset.

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Financial Policy #09: Capitalization of Assets

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Intangible Assets: Intangible assets, with the exception of land rights (easements and right of way), with an original cost (or acquisition value if received by donation) of \$5,000 and a useful life greater than one year should be capitalized.

An intangible asset should be considered to have an indefinite useful life if there are no legal, contractual, regulatory, ~~technological~~ technological, or other factors that limit the useful life of the asset. Intangible assets having an indefinite benefit period would not experience amortization expense as long as the benefit of the asset has not been compromised.

Intangible assets with a ~~limited-useful-lives~~ limited useful life (e.g. by legal or contractual provisions) should be amortized over their estimated useful lives. Renewals or extensions may be considered in determining useful life of the intangible asset if the City can reasonably anticipate exercising the renewal option and any anticipated outlays to be incurred as part of achieving the renewal are nominal.

Land Rights (Easements and Right of Ways):

Land rights with an original cost (or acquisition value if received by donation) of \$100,000 should be capitalized. Land rights are an intangible asset, although the capitalization threshold will differ from other intangible assets. Land rights should be considered to have an indefinite useful life if there are no legal, contractual, regulatory, or other factors that limit the useful life of the asset. Land rights are not subject to depreciation or amortization expense.

Small & Attractive Assets: Small and attractive assets are tracked when they are valued at \$500 but less than \$5,000 and are defined as assets with a high risk for theft. These assets are not normally consumed within one year. These assets may include items in one or more of the following categories:

- Portable and marketable, either alone or as a component unit.
- Can be utilized for personal gain.
- Are repeatedly reported as lost and/or stolen within the industry and society.

[Refer to Financial Policy #12: Small and Attractive Assets for more detail.](#)

Capital Assets Management System: The set of policies and procedures used to control a government's capital assets. The system should satisfy accounting/reporting requirements and it should demonstrate accountability for the government's capital assets. The City uses a software system to track capital assets by location and ongoing maintenance for all infrastructure, buildings and structures.

ASSETS PRIOR TO GASB 34 IMPLEMENTATION

Infrastructure such as roads, curbs and gutters, and pipes that were not required to be capitalized at the time GASB 34 was implemented, will be capitalized at the time improvements are completed. The expenditure for the current capital improvement will be the amount that is capitalized. Example: Overlay of a road that is not currently capitalized and tracked in the City Capital Asset Tracking System and has had no maintenance or improvements completed after

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implementation of GASB 34 in 2005. The City Finance Department will consult with the Public Works Director to verify when the asset was previously ~~constructed~~ constructed, and Finance staff will verify if the asset is included in the City's Capital Asset Tracking System. The Finance Department will capitalize all direct costs associated with design, construction and management of the current project.

REQUIREMENTS

The duty to make certain that public property is adequately protected and that its use is properly managed is one of the fundamental responsibilities of public officials. Public officials have broad responsibilities with respect to capital assets; these are custody, insurance, maintenance and planning.

CUSTODY

The responsibility for custody means having adequate tracking for the following:

- What property and equipment does the City own?
- Where is the asset located?
- What condition is the asset in?
- Is the asset protected from loss and unauthorized use?

INSURANCE

The City has a responsibility to provide adequate insurance for the capital assets it owns. A capital asset accounting system should provide adequate records to prove any losses. Location, inventory, and maintenance records will confirm that a lost or damaged asset has been in use recently, which will support the validity and timeliness of a theft or damage report.

CAPITAL IMPROVEMENT

A capital improvement is a cost incurred in connection with an existing capital asset that either increases the service capacity of the asset (i.e. effectiveness or efficiency) or extends the estimated useful life of the asset. These costs should be treated as direct adjustments to the related asset account.

The City will capitalize assets that are replacements for a portion of a larger and/or component of an existing asset. Finance staff will remove the portion of the existing asset from the City's Capital Asset Tracking System that was replaced as a new capital asset at the time the new asset is capitalized.

Common examples of improvements include:

- Roads – Street widening, adding sidewalks, curbs or ~~gutters~~ gutters.
- Buildings – Increasing square footage, improvements that extend the total estimated useful ~~life~~ life.

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- Pump Stations – Add a second pump or replace existing pumps that significantly increases the capacity or useful life of the pump ~~station~~ station.
- Water or Storm Pipes – Replacement of a section of existing pipe.

MAINTENANCE AND REPAIR

The City has a responsibility to adequately maintain the assets. As a steward of public property, the City has the obligation not only to safeguard assets from loss but also to ensure they are not neglected or wasted. The City shall maintain adequate historical records to make informed decisions about the costs of certain levels of maintenance.

Expenditures that retain the value of an existing asset should be classified as maintenance expenditures. In most cases, the City repairs or replaces components of an individual asset in order to maintain the original useful life of the capital asset. Any outlay that does no more than return a capital asset to its original condition, regardless of amount, should be classified as maintenance and repairs.

Common examples of maintenance include:

- Roads/Parking lots – Crack seal, slurry seal, striping, mill and fill
- Sidewalks – Section replacement due to tree root damage
- Buildings – Exterior sealing, painting, roof replacement, HVAC or furnace ~~replacement~~ repair, flooring
- Pump stations – Pump repairs
- Vehicles/Equipment – Transmission repair or replacement, other significant repairs
- Water/Storm lines – Patching section of leaking pipe, replacement of valves
- Wells – Screen cleaning

PLANNING (CAPITAL BUDGETING AND UTILIZATION)

The City has a responsibility to plan for future asset needs for both short and long term.

CAPITALIZATION THRESHOLD

All capital assets with a cost meeting the capitalization threshold with a life expectancy of over one year shall be capitalized. Although *Small & Attractive Assets* (those costing \$500 but less than \$5,000) do not meet the City's capitalization threshold, they are considered assets for purposes of marketing and identification, ~~record-keeping~~ record-keeping, and tracking.

The City will input mass quantity for new infrastructure assets if appropriate. The input of quantities such as, each, square feet, linear feet, etc. enable Finance staff to match repair and replacement of sections of new assets to easily remove the assets from the Capital Asset Tracking System at the time the asset is replaced. These quantity assets may individually be under the \$5,000 threshold, however taken as a whole for the full infrastructure system constructed or received as a donation, the value will meet or exceed the threshold.

ASSET CLASS	THRESHOLD (\$)
Land	\$0

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ASSET CLASS	THRESHOLD (\$)
Land Rights (Easements, Right of Ways)	\$100,000
Buildings, Building Improvements, and Building Furnishings	\$5,000
Fixtures and Furniture	\$5,000
Improvements Other Than Buildings	\$5,000
Infrastructure	\$5,000
Machinery and Equipment	\$5,000
Vehicles	\$5,000
Artwork	\$5,000
Construction-In-Progress	\$5,000
Intangible Assets	\$5,000

DEPRECIATION METHOD AND EXPECTED USEFUL LIFE OF ASSETS

All assets are depreciated using the straight-line method of depreciation. Useful life is based on engineering estimates, past experience of similar assets, and best practices. The estimated useful life of acquired or constructed assets are assigned in the following manner:

Asset Category	Useful Life (Years)	Useful Life (Months)
Land	Not Depreciated	Not Depreciated
Buildings	50	600
Building Improvements & Furnishings	10-20	120-240
Streets	50	600
Lighting	50	600
Sidewalks, Curbs and Gutters	50	600
Trails	30-50	360-600
Structures	20-40	240-480
Utility Improvements		
Pipe	75	900
Pumps	20	240
Reservoir	75	900
Mechanical Equipment	20	240
Wells	75	900
Vehicles (Public Safety)	10	120
Vehicles (All other)	12	144
Public Works Equipment	5-20	60-240
Office Equipment/Furniture	5-10	60-120
Software	5-10	60-120
Hardware (Servers etc.)	5-10	60-120

REVISION OF EXPECTED USEFUL LIFE

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The City may need to revise the expected useful life of some of the capital assets. If this is the case, the depreciation should be recalculated based on the remaining useful life at the time of the revision, and the new rate should be applied in the present and future accounting periods. No change should be made to financial records of previous years.

IMPAIRMENT

Impairment of a capital asset is a permanent decrease in the productive capacity of a capital asset. Indicators of impairment may include:

- Evidence of physical damage
- Changes in legal or environmental factors
- Technological changes or obsolescence
- Changes in manner or duration of use
- Construction stoppage (Unable to complete project)

The City will use the restoration cost, service unit of deflated depreciation replacement cost approach when measuring the impairment. The method used will depend upon the indicators giving rise to the impairment.

ASSET REPLACEMENT

The City utilizes an equipment replacement model for large equipment and vehicles. The City reviews and updates the model on an annual basis to determine replacement schedules for these assets. Replacement schedules will follow expected useful life for these assets. The Finance Department will update changes to replacement schedules with a matching revision to the Capital Asset Tracking System for remaining useful life as appropriate.

NEW ASSETS

All assets fitting descriptions of a capital asset, or small and attractive asset shall be recorded on asset listings maintained by the Finance Director. Information included in the asset listing should be parcel number, legal description, make, model, serial number and description of the asset as appropriate.

TRANSFERRING ASSETS

Interdepartmental Transfers: Transfers of assets between departments or funds are allowed by mutual agreement of the departments. If the assets meet the definition of a capital asset or a small and attractive asset, the department transferring the assets must notify the Finance Department by completing an Asset Disposition Form. This form formalizes the transfer and responsibility for maintenance and accountability of the asset by the department receiving the transferred asset.

Asset transfers between governmental funds and proprietary funds will be transferred at current market value and recorded at current book value as determined by the Finance Director. Current market value should be based on open market sales of similar assets if reasonably available. Appraisals are not required for interfund transfers unless requested by the Finance Director.

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Intergovernmental Transfers: Property transferred from another government entity to the City should be recorded in the appropriate account at the asset's acquisition value. The acquisition value is determined by similar properties recently sold in the competitive ~~market place~~ marketplace or assessed value as recorded by the City at the time of the donation. When land is transferred with a structure, the land portion of the donation should be recorded separately from the structure.

In the event of a transfer of an entire operation the assets will be recorded at the transferring agencies book value.

DISPOSAL OF SURPLUS ITEMS

Before a capital or small and attractive asset is sold or otherwise disposed of, it must first be determined if the asset had originally been purchased with grant monies. If this is the case, the City must refer to the grant agreement and follow prescribed procedures for disposition.

When a department decides to surplus or trade-in assets, the Department Director or designee must notify the Finance Department by completing and signing an Asset Disposition Form. To surplus real or personal property refer to Financial Policy #16: Surplus Property for detailed information of the policy and process. ~~The Council must first declare a capital or small and attractive asset surplus before it can be sold or disposed of in any manner.~~ If the asset is to be sold, it will then be sold in accordance with applicable state law. If the asset is no longer in working order and cannot reasonably be repaired for resale, staff will properly dispose of the asset. At the time the asset is disposed of, the Finance Department will be notified to remove the asset from the Capital Asset Tracking System.

LOST, STOLEN OR MISSING PROPERTY

When suspected or known losses of capital assets or small and attractive items occur, the applicable Department Director and Finance Director shall be notified. The Finance Department will remove assets from the Capital Asset Tracking System If it is determined the asset has been stolen, the appropriate authorities shall be notified per RCW 43.09.185.

PHYSICAL INVENTORY PLAN

The Finance Director will coordinate with Department Director's to complete a physical inventory of ~~both fixed and~~ small & attractive assets every two yearson an annual basis.

The physical inventory sheets will be kept until the State Audit for the corresponding years is complete. The sheets will note the following information:

- Assets have been physically located and verified.
- Missing assets will be noted and explained.
- Incorrect and/or incomplete information will be corrected.
- Any new items located but not on the list will be added, with proper serial numbers, location, etc.

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Donated Assets: Donated assets are recorded at the acquisition value at the time of donation plus all appropriate ancillary costs. Acquisition Value can be determined from the donor's cost or the cost the City would have paid to purchase/construct the asset. For donated land, the assessed tax valuation or appraised value will be used if available. In the event those valuations are not available the tax valuation per square foot of similar property is applied to estimate the acquisition value.

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Infrastructure such as roads, curbs and gutters, and pipes that were not required to be capitalized at the time GASB 34 was implemented, will be capitalized at the time improvements are completed. The expenditure for the current capital improvement will be the amount that is capitalized. Example: Overlay of a road that is not currently capitalized and tracked in the City Capital Asset Tracking System and has had no maintenance or improvements completed after

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implementation of GASB 34 in 2005. The City Finance Department will consult with the Public Works Director to verify when the asset was previously constructed, and Finance staff will verify if the asset is included in the City's Capital Asset Tracking System. The Finance Department will capitalize all direct costs associated with design, construction and management of the current project.

REQUIREMENTS

The duty to make certain that public property is adequately protected and that its use is properly managed is one of the fundamental responsibilities of public officials. Public officials have broad responsibilities with respect to capital assets; these are custody, insurance, maintenance and planning.

CUSTODY

The responsibility for custody means having adequate tracking for the following:

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- Where is the asset located?
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CAPITAL IMPROVEMENT

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Common examples of improvements include:

- Roads – Street widening, adding sidewalks, curbs or gutters.
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ASSET CLASS	THRESHOLD (\$)
Land	\$0
Land Rights (Easements, Right of Ways)	\$100,000
Buildings, Building Improvements, and Building Furnishings	\$5,000
Fixtures and Furniture	\$5,000
Improvements Other Than Buildings	\$5,000

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ASSET CLASS	THRESHOLD (\$)
Infrastructure	\$5,000
Machinery and Equipment	\$5,000
Vehicles	\$5,000
Artwork	\$5,000
Construction-In-Progress	\$5,000
Intangible Assets	\$5,000

DEPRECIATION METHOD AND EXPECTED USEFUL LIFE OF ASSETS

All assets are depreciated using the straight-line method of depreciation. Useful life is based on engineering estimates, past experience of similar assets, and best practices. The estimated useful life of acquired or constructed assets are assigned in the following manner:

Asset Category	Useful Life (Years)	Useful Life (Months)
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Streets	50	600
Lighting	50	600
Sidewalks, Curbs and Gutters	50	600
Trails	30-50	360-600
Structures	20-40	240-480
Utility Improvements		
Pipe	75	900
Pumps	20	240
Reservoir	75	900
Mechanical Equipment	20	240
Wells	75	900
Vehicles (Public Safety)	10	120
Vehicles (All other)	12	144
Public Works Equipment	5-20	60-240
Office Equipment/Furniture	5-10	60-120
Software	5-10	60-120
Hardware (Servers etc.)	5-10	60-120

REVISION OF EXPECTED USEFUL LIFE

The City may need to revise the expected useful life of some of the capital assets. If this is the case, the depreciation should be recalculated based on the remaining useful life at the time of the revision, and the new rate should be applied in the present and future accounting periods. No change should be made to financial records of previous years.

IMPAIRMENT

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Effective Date: January 11, 2024

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References: State of Washington, Office of the State Auditor BARS Manual for Cities, Counties and Special Purpose Districts (GAAP) entities, Chapter 3 Capital Assets System Requirements

Impairment of a capital asset is a permanent decrease in the productive capacity of a capital asset. Indicators of impairment may include:

- Evidence of physical damage
- Changes in legal or environmental factors
- Technological changes or obsolescence
- Changes in manner or duration of use
- Construction stoppage (Unable to complete project)

The City will use the restoration cost, service unit of deflated depreciation replacement cost approach when measuring the impairment. The method used will depend upon the indicators giving rise to the impairment.

ASSET REPLACEMENT

The City utilizes an equipment replacement model for large equipment and vehicles. The City reviews and updates the model on an annual basis to determine replacement schedules for these assets. Replacement schedules will follow expected useful life for these assets. The Finance Department will update changes to replacement schedules with a matching revision to the Capital Asset Tracking System for remaining useful life as appropriate.

NEW ASSETS

All assets fitting descriptions of a capital asset, or small and attractive asset shall be recorded on asset listings maintained by the Finance Director. Information included in the asset listing should be parcel number, legal description, make, model, serial number and description of the asset as appropriate.

TRANSFERRING ASSETS

Interdepartmental Transfers: Transfers of assets between departments or funds are allowed by mutual agreement of the departments. If the assets meet the definition of a capital asset or a small and attractive asset, the department transferring the assets must notify the Finance Department by completing an Asset Disposition Form. This form formalizes the transfer and responsibility for maintenance and accountability of the asset by the department receiving the transferred asset.

Asset transfers between governmental funds and proprietary funds will be transferred at current market value and recorded at current book value as determined by the Finance Director. Current market value should be based on open market sales of similar assets if reasonably available. Appraisals are not required for interfund transfers unless requested by the Finance Director.

Intergovernmental Transfers: Property transferred from another government entity to the City should be recorded in the appropriate account at the asset's acquisition value. The acquisition value is determined by similar properties recently sold in the competitive marketplace or assessed value as recorded by the City at the time of the donation. When land is transferred with a structure, the land portion of the donation should be recorded separately from the structure.

Exhibit A

Financial Policy #09: Capitalization of Assets

Effective Date: January 11, 2024

Replaces and Cancels: Financial Policy #9 Dated January 1, 2023

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In the event of a transfer of an entire operation the assets will be recorded at the transferring agencies book value.

DISPOSAL OF SURPLUS ITEMS

Before a capital or small and attractive asset is sold or otherwise disposed of, it must first be determined if the asset had originally been purchased with grant monies. If this is the case, the City must refer to the grant agreement and follow prescribed procedures for disposition.

When a department decides to surplus or trade-in assets, the Department Director or designee must notify the Finance Department by completing and signing an Asset Disposition Form. To surplus real or personal property refer to Financial Policy #16: Surplus Property for detailed information of the policy and process. If the asset is to be sold, it will then be sold in accordance with applicable state law. If the asset is no longer in working order and cannot reasonably be repaired for resale, staff will properly dispose of the asset. At the time the asset is disposed of, the Finance Department will be notified to remove the asset from the Capital Asset Tracking System.

LOST, STOLEN OR MISSING PROPERTY

When suspected or known losses of capital assets or small and attractive items occur, the applicable Department Director and Finance Director shall be notified. The Finance Department will remove assets from the Capital Asset Tracking System If it is determined the asset has been stolen, the appropriate authorities shall be notified per RCW 43.09.185.

PHYSICAL INVENTORY PLAN

The Finance Director will coordinate with Department Director's to complete a physical inventory of small & attractive assets on an annual basis.

The physical inventory sheets will be kept until the State Audit for the corresponding years is complete. The sheets will note the following information:

- Assets have been physically located and verified.
- Missing assets will be noted and explained.
- Incorrect and/or incomplete information will be corrected.
- Any new items located but not on the list will be added, with proper serial numbers, location, etc.