

**Kirkland, WA**  
**Asset Policy and Procedure**  
**Chapter 6**  
**Policy 6-6**  
**Effective Date: March 17, 2006**

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## **General**

The intent of this policy and procedure is to ensure a uniform method for accountability and inventory of the City of Kirkland's assets.

The basic reasons to account for assets are:

1. The City has a responsibility for custody and maintenance of the capital assets that it owns.
2. A considerable amount of public money can be lost or wasted if there is no accountability of capital assets.
3. The audit will report failure to account and/or lack of accountability.
4. It provides a basis for adequate insurance coverage.
5. It provides inventory lists to departments for conducting a physical inventory.
6. It provides a basis for annual depreciation.

To assist in accountability and theft prevention, the Department Director is ultimately responsible for all property assigned to their department. The City may pursue any or all remedies or relief deemed appropriate.

## **Definitions**

These definitions apply for capital and attractive assets purchased by the City of Kirkland:

1. **“Artwork”** is a non-depreciable asset defined by City Council or the Cultural Council to be aesthetically valuable to the City. Artwork is not generally used in the day to day operations of the City. Artwork is recorded using purchase price, estimated fair market value or appraisal at the date of acquisition. Artwork may be recorded even if monetarily below the recording capital asset threshold for tracking and insurance purposes.
2. **“Asset Number”** is a number uniquely assigned to each asset. It is used for identification in the asset database. For moveable property, the asset number is the tag number which is affixed to the asset. If the tag cannot be physically attached to an asset, the asset number will still be assigned and recorded.
3. **“Attractive Assets”** are items that do not meet the minimum capitalization threshold of \$10,000 but require special attention. Special attention may be required to ensure legal compliance, protect public safety or compensate for a heightened risk of theft. Departments have discretion in determining what is operationally appropriate for designation as an attractive asset. Examples of attractive assets are police weapons, video and sound equipment, laptop or tablet computers and riding lawn mowers. These are referred to in accounting literature as “controlled capital-type items”.
4. **“Capital Assets”** are tangible and intangible assets which are intended to be held or used for the long-term. Classifications of capital assets are land, artwork, buildings, improvements, infrastructure, construction-in-progress and machinery and equipment. In common usage, the term refers only to operating facilities and equipment, not to long term investments or other non-current assets. At the City of Kirkland, capital assets are those with a minimum unit cost of \$10,000 and a useful life of two or more years, and that are not specifically excluded by policy.



5. “Capital Lease” is any agreement entered into by the City involving the lease of property and granting the lessor rights to the property similar to those rights which would have existed if the agreement had been that of an outright purchase. Capital leases are recorded at an amount equal to the present value of the minimum lease payments but not to exceed the fair market value of the property. Minimum lease payments include the minimum period payments based on the term of the lease. FASB 13 defines an agreement as a capital lease if it meets any one of the following criteria:
  1. The lease transfers ownership of the property by the end of the lease term.
  2. The lease allows the lessor an option to purchase the property during or at the end of the lease term at a bargain price.
  3. The term of the lease is at least 75% of the estimated useful life of the property.
  4. The total payments under the lease, less interest costs and charges for insurance and maintenance, equal or exceed 90% of the fair market value of the property at the date of the lease.
  
5. “Capitalization Threshold” is the minimum cost per unit at which an asset must be valued to be considered a Capital Asset. Assets purchased with grant funds may have a different threshold amount. Usage and disposal of assets acquired by a grant are subject to the grant agreement which supersedes this policy.

The following table gives the capitalization thresholds for each class of Capital Asset:

<b>Asset Class</b>	<b>Threshold Amount</b>
Land	0
Buildings, Building Improvements and Building Fixtures	10,000
Improvements other than Buildings	10,000
Infrastructure	10,000
Machinery and Equipment	10,000
Artwork	0
Construction-In-Progress	10,000
Intangible Assets	10,000

7. “Construction-In-Progress (CIP)” is a class of capital assets, which represents the cost of buildings, improvements other than buildings, infrastructure or equipment under construction. When completed, the total cost is reported under the appropriate capital asset class.
  
8. “Depreciation” is the systematic allocation of the exhaustible cost of capital assets according to their estimated useful lives. The City of Kirkland uses the straight-line method of depreciating its capital assets.
  
9. “Infrastructure” refers to public property or public domain capital assets. Some examples of infrastructure assets are roads, bridges, curbs, gutters, streets, sidewalks and drainage systems.

10. “Intangible Asset” is a capital asset which has no physical substance but whose value comes from the long-term rights or advantages it offers to the owner. The City of Kirkland only recognizes these amortizable assets in proprietary funds.
11. “Inventory” is a systematic and periodic physical verification of the existence, location and status of attractive and capital assets assigned to a department.
12. “Land” is a class of capital assets which includes all land and land rights acquired by the City for its own use. Acquisition could be by purchase, donation, trade and/or condemnation. Land acquired and converted to parks or open space use and land to be converted to public roads, street, or highways are included. Also included are right-of-ways and easements that provide access to City-owned land. Excluded are “temporary easements” acquired to facilitate maintenance of public infrastructures or used for road right-of-way. Tax title properties are merely held in trust by the City of Kirkland and should be excluded from reported City-owned land.
13. “Operating Lease” is any lease agreement that does not qualify as a capital lease. Periodic lease payments are purely rental payments and no in-substance ownership can be inferred using FASB 13 criteria (see “Capital Leases”). These leases are never capitalized.
14. “Surplus” capital assets are declared by the custodial department as no longer required or useful to that department.
15. “Useful Life” is the estimated average life (in years) over which a depreciable capital asset is expected to provide service.

### **Recording Assets**

#### *Financial Operations Responsibility*

1. Maintain the physical custody of city tag numbers.
2. Assign asset numbers to purchased capital and attractive assets.
3. Record and process journal entries to capitalize, transfer and delete capital assets.
4. Maintain a perpetual list and file of capital and attractive assets owned by the city.
5. Coordinate a periodic physical inventory.

#### *New Asset Purchases*

It is important that all expenditures which fall within the scope of Capital Assets in “Definitions” and “Monetary Value” be coded to the object code series “56” (Capital Outlay). This includes purchases that are physically taggable, have a unit cost \$10,000 or more (including sales tax and all other costs to purchase and put the item into use) and have a useful life greater than two years. The asset value shall be determined by original cost, historical cost or estimated historical cost if actual historical cost is not available. The original cost shall include the cost, sales tax, transportation expenses and the cost of installation.

Periodically Financial Operations generates a list of all entries to the object code series “56” (Capital Outlay). The Capital Outlay list is matched with the equipment asset numbers assigned during the period. The department and object codes are checked to verify that purchases have been charged correctly. Financial Operations also analyzes object code series “531” (Supplies), “535” (Small Tools

and Minor Equipment) and “548” (Leases) periodically to find items that may have been miscoded. If it is determined that asset purchases have been miscoded, the Financial Operations Senior Accounting Associate will contact the departments purchasing the assets to inform them of the errors and will prepare a journal entry to correct the errors in the financial system.

Asset purchases which fall within the scope of Attractive Assets in “Definitions” and “Monetary Value” will be tagged and recorded in the City’s asset database, but will not be included in the City’s Financial Statements. These are assets that are highly susceptible to theft or misuse and fall below the minimum capitalization threshold of \$10,000. Purchases of attractive assets should be coded to object code “5350100” (Small Tools and Minor Equipment).

Once it is determined that attractive and capital assets have been received, the Financial Operations Senior Accounting Associate assigns City of Kirkland asset tags for the assets and prepares Equipment Inventory Memorandums. If it is known at this time that items have been financed with grant money, a remark is added on the Equipment Inventory Memorandum to show the designated percentage of grant money used.

All costs related to the construction of an asset including infrastructure must be capitalized and the thresholds apply to the total cost after completion of the project including allocated indirect costs. These costs generally include amounts paid for contract work (for work done by outside contractors), materials and supplies furnished by the City, labor of City employees and project management costs. Some costs will be direct costs and readily assignable while some will be indirect costs, which should be allocated to benefited assets in a reasonable manner. Costs incurred during construction must be reported as Construction-in-Progress if construction has not been completed by year-end. Once completed, the Construction-In-Progress asset is reclassified as Buildings, Improvements Other Than Buildings, Infrastructure or Equipment. The above rules for constructed assets may also apply to artworks created by commissioned artists.

Long-range planning or other advanced planning costs and costs incurred to conduct feasibility studies or government compliance studies may be capitalized when it can be shown that they provide benefits to existing or future capital assets.

The asset tags and Equipment Inventory Memorandums are sent to the custodial department of the assets. The custodial department attaches the tags to the assets, adds any requested inventory information and returns the memorandum to the Financial Operations Senior Accounting Associate to be recorded in the City’s asset database. Any unprocessed Equipment Inventory Memorandums need to be returned to the Financial Operations Senior Accounting Associate with an explanation of why the tag was not affixed to the asset.

If a single cost covers property that is separable into several departments, proper detail must be secured from the Purchasing Division and/or Department Director to determine distribution of costs.

The costs of normal maintenance and repairs are charges to operations as incurred. Additions or improvements, unlike repairs, either significantly enhance a capital asset’s functionality (effectiveness or efficiency) or they significantly extend a capital asset’s useful life.

### *Donated Items*

Departments must notify the Financial Operations Senior Accounting Associate when property has been donated to the City. If the items qualify as attractive or capital assets, the Financial Operations Senior Accounting Associate assigns a tag number for the donated property, initiates an Equipment Inventory Memorandum and sends the form to the custodial department for completion. The value assigned to a donated capital asset is its estimated fair market value (FMV) on the date the asset is donated. FMV is normally determined by comparing the property received with similar purchases made by the City or with values quoted by reputable vendors of similar products or by qualified appraisal.

### **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 attractive or capital assets, the department transferring the assets must notify the Financial Operations Senior Accounting Associate via an Asset Disposition Form. This form serves to transfer responsibility for maintenance and accountability for assets to the department receiving them.

Asset transfers between governmental funds and proprietary funds will be recorded at current market 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 FMV. FMV is determined by similar properties recently sold in the competitive market place or assessed value as recorded by the City at the time of donation. When land is transferred with a structure, the land portion of the donation should be recorded separately.

### **Disposition of Assets**

#### *Surplus or Trade-In of Assets*

Before an asset is surplus or traded-in, the department must first determine if the asset had originally been purchased with grant monies. If it is determined that grant monies were used, the department 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 purchasing by completing and signing an Asset Disposition Form. The surplus assets remain in the custody of the original department until an assembly point and method of disposition have been determined. Purchasing follows procedures for disposing of surplus assets by following the requirements outlined in Kirkland Municipal Code 3.86.

Purchasing forwards to the Financial Operations Senior Accounting Associate the Asset Disposition Form with notes regarding the assets' disposition or the new location and custodial department.

#### *Sold or Junked Assets*

Purchasing personnel are the only City employees authorized to sell or junk capital and attractive assets. The custodial Department Director is responsible for notifying Purchasing in writing regarding the need to sell or junk assets. Before the assets have been sold or junked, the Purchasing Agent removes the

property tags from the assets and attaches them with a list of sold and junked equipment for delivery to the Financial Operations Senior Accounting Associate. At year-end, the Financial Operations Senior Accounting Associate makes a journal entry to record the disposition of capital items and deletes the sold or junked items from the asset database. Upon disposition, attractive assets are also removed from the asset database.

#### *Lost or Stolen Assets*

Lost or stolen equipment must be reported to the Police Department and Financial Operations as soon as it is discovered the equipment is missing. A police report must be filed. If the equipment is not found within 90 days after a police report has been filed, it shall be removed from the asset database by the Financial Operations Senior Accounting Associate. It is the responsibility of the Custodial Department Director to notify Financial Operations by completing and signing an Asset Disposition Form when it is determined that an item has been lost or stolen, and again after 90 days if it has not been recovered.

#### *Destroyed Equipment*

Equipment which has been destroyed or damaged beyond repair must be reported to Purchasing via the Asset Disposition Form. The Custodial Department must proceed to handle the equipment as outlined in the junked equipment process, noted above. The Financial Operations Senior Accounting Associate will note the status of the equipment in the asset inventory database and will remove them at year-end.

### **Inventory**

#### *Inventory of City Property*

Periodically a complete physical inventory of all City property shall be conducted. Individual department reports by asset tag number will be distributed to custodial departments by the Financial Operations Senior Accounting Associate at least every two years. These lists will contain sufficient information to allow for easy identification of assets. The purpose of this inventory is to provide assurance that all City property is actually in the possession of the City and properly accounted for. The custodial department will verify the existence of the assets, make corrections and additions and identify the persons responsible for the accuracy and completeness of the inventory count. The Department Director in each department will verify the inventory of all property belonging to the City in and under their control by certifying a document prepared by Financial Operations that states:

1. They have the item,
2. Missing items are properly explained and noted as “missing”, “sold”, etc.,
3. Incomplete information is corrected,
4. Items not included in the inventory sheet, but physically located, are added, and
5. Information not reflected in the inventory report, which includes, but is not limited to the information required by grantors, is noted.

Any department may designate another department to perform the annual inventory count for some or all of its assets. For instance, Information Technology inventories the computer equipment for the whole City, Fleet Management inventories vehicles and radios, and the Police Department inventories handguns. These departments also are responsible for coordinating the replacement, purchase and surplus of assets as designated by Financial Operations. At the end of each fiscal year, a copy of their inventory list will be forwarded to Financial Operations.

### *Equipment Inventory Memorandum File*

The Financial Operations Senior Accounting Associate will maintain a copy of the Equipment Inventory Memorandums filed in asset number order. Additions and changes to equipment inventory per the Equipment Inventory Memorandums are entered in the City's asset database by the Financial Operations Senior Accounting Associate.

When assets are disposed, the Equipment Inventory Memorandums are pulled from the “active” file and transferred to the “disposed” file. The disposed file is maintained by year of disposition in tag number order. Disposed asset sheets are kept for seven years.

### **Financial Reporting**

Annual depreciation is recorded as an expense of the fund/function. Depreciation expense is calculated for all new assets commencing in the year following the acquisition year. Provision for depreciation is computed using the straight-line method over estimated service lives as follows:

Buildings	20 - 50 Years
Improvements	5 - 50 Years
Infrastructure	30 - 50 Years
Equipment	2 - 20 Years

Financial Operations and financial staff from support departments prepare the schedule of changes in capital assets for Governmental Activities and Business-Type Activities for inclusion in the Comprehensive Annual Financial Report for the City of Kirkland. When applicable, Financial Operations prepares journal entries to capitalize new assets in the financial system.

### **Recap of Responsibilities and Procedures**

- The Financial Operations Senior Accounting Associate will assign asset numbers for new purchases and forward asset tags to the custodial department to be attached.
- The Custodial department will notify the Financial Operations Senior Accounting Associate when property has been donated to the City of Kirkland.
- Before an asset is surplus or traded-in, the custodial department must notify Purchasing by completing an Asset Disposition Form.
- Lost or stolen equipment must be reported to the Police Department and Financial Operations by the custodial department.
- Periodically, the Financial Operations Senior Accounting Associate will distribute an inventory report to the custodial departments for verification of completeness and accuracy. Completed Department Inventories will be signed by the designee assigned to take the inventory and certified by the Department Director.
- Inventories maintained by other departments need to be forwarded to the Financial Operations Senior Accounting Associate at the end of each fiscal year.

### **References**

- The Budgeting, Accounting, Reporting System (BARS) Manual of the State of Washington (State Auditors Office)
- Financial Accounting Standards Board, Statement Number 13 (Accounting for Leases)  
<http://www.fasb.org/pdf/fas23.pdf>
- Generally Accepted Accounting Principles (GAAP) as promulgated by the National Council of Governmental Accounting (NCGA) Statement 1, Governmental Accounting and Financial Reporting Principles
- The Governmental Accounting Standards Board (GASB) Statement No. 34, Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments
- Kirkland Municipal Code, Chapter 3.86 (Sale and Disposal of Personal Property)  
[http://search.mrsc.org/nxt/gateway.dll/kirkmc?f=templates&fn=kirkpage.htm\\$vid=municodes:Kirkland](http://search.mrsc.org/nxt/gateway.dll/kirkmc?f=templates&fn=kirkpage.htm$vid=municodes:Kirkland)
- Office of Management and Budget, Circular A-110 ( Grant Administration)  
<http://www.whitehouse.gov/omb/circulars/a110/print/a110.html>
- Asset Disposition Form  
<http://srv-portal01/finance/Documents/Forms/Surplus%20Property%20Form.doc>