



Title	Document Code
Capitalization Thresholds for Capital Assets	No. FIN 14-5 (AEP) <i>OK</i> <i>FIN 12-1-1 (AEP)</i>
Department/Issuing Agency Executive Services – Finance and Business Operations Division	Effective Date. 1/27/2012
Approved Dow Constantine	<i>Dow Constantine</i>

1.0 SUBJECT TITLE: Capitalization Thresholds for Capital Assets

1.1 EFFECTIVE DATE: 10 days after signed by Executive.

1.2 TYPE OF ACTION: Supersedes FIN 12-1

1.3 KEY WORDS: Capitalization threshold; Capital assets; Controllable items, Intangible assets

2.0 PURPOSE:

2.1 To establish capitalization thresholds for capital assets, including intangible assets; to establish responsibility for tracking controllable items that fall below the capitalization threshold; and to provide guidance for future issuance of capital assets policies and procedures.

BACKGROUND;

2.1 The Government Finance Officers Association recommends that capitalization thresholds for governments never be less than \$5,000. A survey of counties with comparable populations as King County reveals that most use \$5,000.

3.0 ORGANIZATIONS AFFECTED: All King County Executive Departments.

4.0 REFERENCES:

4.1 Governmental Finance Officer's Association (GFOA) Best Practices and Advisories: "Establishing Appropriate Capitalization Thresholds for Capital Assets (1997, 2001, and 2006)."

4.2 K.C.C. 4.56.30. "Inventory documentation and surplus personal property sales procedures."

4.3 Governmental Accounting Standards Board pronouncements;

4.3.1 GASB Concepts Statement No. 4, *Elements of Financial Statements*,

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

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

4.4 FIN 14-4 (AEP) Capital Asset Accounting and Financial Reporting

4.5 Oracle EBS Chart of Accounts

5.0 DEFINITIONS:

5.1 "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 improvements, etc.

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

5.3 "Capitalization threshold": The minimum dollar value at which King County elects to capitalize its assets for financial reporting.

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

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

5.6 "Construction work-in-process (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-process is also referred to as work-in-process (WIP) and construction-in-process (CIP).

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

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

5.9 “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 to get it ready for 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 historical cost.

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

5.11 “Infrastructure”: Capital assets that are stationary or immovable in nature and that have useful lives that can be preserved over a longer time period than most capital assets. Infrastructure can be either depreciable or non-depreciable. The County currently reports only roads and bridges as non-depreciable infrastructure under the “modified approach” of GASB 34, which requires a County commitment to maintain the asset and the performance of condition assessments. Other County infrastructure is depreciable and includes items such as drainage, water and sewer systems, and tunnels.

5.12 “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, rights of way, other land rights, patents, trademarks, licenses, permits and software.

5.13 “Internally generated intangible assets”: Assets created or produced by the County or an entity contracted by the County, or acquired from a third party vendor requiring more than minimal incremental effort on the part of the County to begin to achieve their expected level of service capacity.

5.14 “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. (Also see definitions under 5.19 Software Development Stages.)

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

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

5.17 "Machinery and Equipment": The class of capital assets which generally includes all movable personal property and includes plant and other fixed equipment.

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

5.19 Software development stages:

5.19.1 "Software preliminary project stage": One of the three stages of development for internally generated computer software specified in GASB Statement No. 51. 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. Outlays associated with this stage are expensed as incurred.

5.19.2 "Software Application development stage": One of the stages of development for internally generated computer software specified in GASB Statement No. 51. 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). Outlays associated with activities in the application development stage should be capitalized.

5.19.3 "Software post-implementation/operation stage": One of the three stages of development for internally generated computer software specified in GASB Statement No. 51. Activities in this stage include application training and software maintenance. Outlays associated with this stage are expensed as incurred.

6.0 POLICIES:

6.1 Capitalization thresholds for applicable capital asset classes are established as follows:

Asset Class	Through December 31, 2012	Effective January 1, 2013
Machinery and equipment	\$ 5,000	\$ 5,000
Buildings and building improvements	50,000	100,000
Improvements other than buildings	50,000	100,000
Depreciable Infrastructure	50,000	100,000
Easements and land rights (temporary)	100,000	100,000
Other intangible assets (patents, trademarks, copyrights, etc.)	100,000	100,000
System software (purchased and internally generated)	25,000	500,000
Internally generated intangible assets	500,000	500,000

The threshold amounts are to be applied to the historical cost of capital assets (or fair market value for contributed assets) at the time of acquisition. Acquisition includes direct purchase, construction, donation/contribution, capital lease, or any other means by which rights or title to property transfer to the County. Land, permanent easements, permanent land rights, and governmental infrastructure are not subject to capitalization thresholds.

6.2 The capitalization thresholds are generally applied to individual items (per unit basis) and not to the total cost of grouped or combined acquisitions.

6.3 Any future change in capitalization threshold shall be applied to the County's existing capital assets inventory retrospectively if immaterial and management determines this to be appropriate treatment. If applied retrospectively, all capital assets having cost or assigned values that fall below the corresponding thresholds shall be removed from the capital assets inventory and the general ledger. All "controllable" equipment that falls below the threshold shall be held in a non-capital inventory for alternative tracking.

6.4 Adequate controls must still be maintained for non-capitalized but "controllable" items of personal property. Weapons shall continue to be controlled countywide to comply with County code. These and other items that may subsequently be identified as countywide "controllable" by the Fleet Administration Division – Personal Property section shall be tracked in the central capital assets system but as separate expense items. Other items that individual departments identify as department controllable will be tracked at the department level in accordance with guidelines established by Fleet Administration Division – Personal Property Section and individual departmental policies.

6.5 Facilities Management Division – Real Estate Services Section shall continue to maintain official property records for all usable buildings including those that fall below the capitalization thresholds. Facilities Management Division – Building Services Section shall continue to track all buildings maintained including minor buildings in County-owned parks.

7.0 PROCEDURES:

Action By: Finance and Business Operations Division – Financial Management Services Section

Action:

7.1 Purge the affected capital assets inventory of all items that fall below the established capitalization thresholds and adjust the general ledger accordingly where retrospective application is applied.

7.2 Modify selection criteria in automated systems that capture capital asset purchases to account for the new thresholds.

7.3 Assist Fleet Administration Division – Personal Property Section and individual divisions in setting up systems for capturing information on non-capitalized but “controllable” equipment.

7.4 Coordinate with Fleet Administration Division – Personal Property Section in future amendments to KCC 4.56.030 where necessary to insure consistency with the definition of capitalization thresholds as used in financial policies.

Action By: Fleet Administration Division – Personal Property Section

Action:

7.5 Issue guidelines for tracking all non-capitalized “controllable” items.

7.6 Determine which categories of personal property should be “controllable” at the countywide level. Coordinate with individual departments on the identification and tracking procedures for other items that may be controllable at the department level.

7.7 Coordinate with Finance and Business Operations – Financial Management on the purging of non-capital and non-controllable items, based on subsequent policy changes, to the capital assets inventory.

Action By: King County Executive Office – Office of Performance, Strategy and Budget

Action:

7.8 Modify budget definitions and budget preparation procedures and instructions related to capital expenditures to account for the capitalization threshold increase.

Action By: FBOD – Procurement and Contract Services Section

Action:

7.9 Modify purchasing definitions and purchase order or contract preparation procedures and instructions related to capital expenditures to account for the threshold increase.

Action By: All Agencies

Action:

7.10 Use the appropriate capital expenditure or expense accounts (56xxx) for capital assets purchases that meet the established capitalization levels in their budgets, requisitions, purchase order contracts, and source documents (Refer to the County's Chart of Accounts).

7.11 Modify procedures in place for the tagging of personal property to account for the new threshold amount. Adhere to Fleet Administration – Personal Property section guidelines for the tracking, inventory, and reporting of “controllable” items.

7.12 Identify all land acquisitions by the parcel number that corresponds to the parcel number in the King County Assessors records.

7.13 Develop or modify procedures for construction work-in-progress, internally generated intangible assets and internally generated computer software to ensure capital costs are appropriately accumulated and report to Finance and Business Operations Division – Financial Management Section when projects are complete or put into service and need to be recorded in the capital asset system.

8.0 RESPONSIBILITIES:

8.1 All Agencies

8.1.1 Ensure that all capital assets that meet the new thresholds are correctly recorded in the County's capital assets system. Perform tracking of agency-owned “controllable” assets.

8.1.2 Ensure that all capital asset acquisitions are budgeted and paid using the appropriate expenditure or expense accounts.

8.1.3 Ensure land is recorded using the parcel number that corresponds to the King County Assessors tax records.

8.1.4 Ensure capital assets from construction work-in-progress projects are reported to FBOD to record in the capital asset system when complete.

8.1.5 Review construction work-in-progress for prior capitalized costs that should be written off under the new accounting requirement.

8.2 Finance and Business Operations Division - Financial Management Services Section

8.2.1 Ensure that the new capitalization thresholds are applied consistently.

8.2.2 Develop and maintain comprehensive policy and procedures for capital assets.

8.2.3 Develop and maintain a comprehensive capital asset manual.

8.3 Fleet Management Administration – Personal Property Section

8.3.1 Develop guidelines for the tracking and inventory of all “controllable” personal property.

8.3.2 Determine which categories of personal property should be “controllable” countywide. Coordinate with individual departments on the identification and tracking of other items controllable at the department level.

8.4 King County Executive Office – Office of Performance, Strategy and Budget

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

9.0 APPENDICES:

None