

**CITY COUNCIL AGENDA ITEM**  
CITY OF SHORELINE, WASHINGTON

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| <b>AGENDA TITLE:</b> | Adoption of Resolution Number 200, which adopts a revised Capital Asset policy |
| <b>DEPARTMENT:</b>   | Finance  |
| <b>PRESENTED BY:</b> | Debbie Tarry, Finance Director<br>AL Juarez, Financial Operations Manager      |

**PROBLEM/ISSUE STATEMENT:**

In July 1995 the City adopted Financial Policies that included policies related to the financial accounting of City assets. Since that time the accounting profession has updated their recommended best practices applicable to the capitalization of assets.

A resolution is attached that would revise the Financial Policies associated with Capital Asset management and control. This policy revision is intended to have our guidelines consistent with the Government Finance Officers Association (GFOA) "Recommended Practices for State and Local Governments." The GFOA recommends that state and local governments consider the following valuation guideline in establishing capitalization policies for their tangible capital assets: "In no case should a government establish a capitalization threshold of less than \$5,000 for any individual item."

Additionally, practice has demonstrated that capital asset management systems that attempt to incorporate data on numerous smaller tangible capital type items are often costly and difficult and/or cumbersome to maintain and operate.

**FINANCIAL IMPACT:**

This action has no monetary financial and/or budgetary implications.

**RECOMMENDATION**

Staff recommends that Council adopt Resolution No. 200, which repeals Section IV of Resolution No. 37, adopted in 1995, and authorizes updated guidelines for control and accountability over the City's Capital Assets.

Approved By:

City Manager 

City Attorney 

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## **INTRODUCTION**

The term "capital assets" is used to describe assets that are used in City operations and that have a useful life greater than one year. Capital assets may be either intangible (e.g., easements, water rights) or tangible (e.g., land, buildings, vehicles, machinery, equipment, and infrastructure).

Items with extremely short useful lives (e.g., less than 2 years) or of small monetary value are properly reported as an "expense" or "expenditure" in the period in which they are acquired.

Because most Governments have a significant investment in their Capital Assets, it is incumbent upon public sector managers to maintain adequate control over all of the Government's resources, including Capital Assets, to minimize the risk of loss or misuse. The monetary criterion used to determine whether a given capital asset should be reported on the balance sheet is known as the "capitalization threshold," and a government's Capital Asset policy should provide a consistent and systematic manner in which to identify, account, and report an entity's Capital Assets.

## **BACKGROUND**

Current Financial Policies which address the City's capitalization threshold were adopted via Resolution No. 37, dated July 31, 1995. These policies set an asset valuation threshold of \$1,000, provide very detailed inventory procedures and include policies related to the disposition of assets (attachment B).

The Government Finance Officer's Association (GFOA) within their publication "Recommended Practices for State and Local Governments," provides guidance on the topic of establishing appropriate capitalization thresholds for Tangible Capital Assets. The recommendation contained within this GFOA publication states: "In no case should a government establish a capitalization threshold of less than \$5,000 for any individual item."

A review of current policies and pursuant to the GFOA authoritative literature, staff proposes raising our current capitalization threshold from \$1,000 to \$5,000. The disposition policies were previously repealed in 2001, and codified in Section 3.50 of the Shoreline Municipal Code. Staff also recommends that instead of providing detailed procedures within the adopted policies that the policies delegate the duty of developing and implementing administrative procedures related to financial Asset Management to the Finance Department.

## **RECOMMENDATION**

Staff recommends that Council adopt Resolution No. 200, which repeals Section IV of Resolution No. 37, adopted in 1995, and authorizes updated guidelines for control and accountability over the City's Capital Assets.

## **ATTACHMENTS**

Attachment A - Resolution Number 200

Attachment B - Asset Policies adopted in 1995

**ATTACHMENT A**

**RESOLUTION NO. 200**

**A RESOLUTION OF THE CITY OF SHORELINE,  
WASHINGTON REVISING FINANCIAL POLICIES  
REGARDING CAPITAL ASSET MANAGEMENT**

WHEREAS, the City Council wishes to provide excellent financial management of the City's capital assets; and

WHEREAS, the City's current capital asset policies, adopted in 1995, do not reflect the Government Finance Officers Association (GFOA) recommended best practices applicable to capital assets; and

WHEREAS, the City Council wishes to set out guidelines for the City Manager in the administration of City capital assets; and

WHEREAS, a comprehensive financial policy provides a solid foundation to meet the City's needs; and

WHEREAS, the City Council wishes to revise the Financial Policies associated with Capital Asset Management; NOW, THEREFORE,

**BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF SHORELINE, WASHINGTON, AS FOLLOWS:**

Section 1. The City Council hereby repeals section IV of the Financial Management Policies (Clerk's Receiving No. 024 adopted by Resolution No. 37, dated July 31, 1995).

Section 2. The City Council hereby authorizes the Finance Department to implement administrative procedures required to protect and account for City Capital Assets.

**ADOPTED BY THE CITY COUNCIL ON NOVEMBER 25, 2002.**

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Scott Jepsen, Mayor

**ATTEST:**

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Sharon Mattioli, CMC  
City Clerk

## ATTACHMENT B

### IV. FIXED ASSETS

#### A. Assets

Land, buildings, improvements, and equipment purchased for all funds, or donated with an original unused value of \$1,000 or more shall be capitalized.

#### B. Buildings

Remodeling costs or changes to existing buildings shall not be capitalized unless it extends the useful life of the structure.

#### C. Equipment Enhancements

Any \$500.00 additions to existing equipment that increase its useful value (example: capacity) shall be capitalized as an enhancement to that equipment.

#### D. Control of Assets

All assets that can be labeled shall have a numbered City of Shoreline tag attached in a prominent location. Assets of a lesser value than the capitalization standard of \$1,000, may be tagged where there is a need for property control and accountability. The identification tags shall be attached by an employee of the department receiving the assets. (Tags will be supplied by the Finance Office.)

#### E. Disposition of Assets

The Finance Division's Accounting Office must be notified of assets sold, traded, transferred, surplus, or lost.

- When sold or traded, the identification tag is to be removed, attached to a disposal form and sent to the Finance Division's Accounting Office.
- When assets are relocated and there is a change of user, it is necessary to inform the Finance Division's Accounting Office by completing the equipment transfer forms. All location changes of personal computers, terminals, monitors and printers shall be made only by an employee authorized by the Computer Services Department.

## ATTACHMENT B

### F. Asset Verification (inventory)

Verification of the existence of assets shall be done by each department on an annual basis. The Finance Division's Accounting Office will provide each department a listing of their assets by user code in November of each year. The listing will include a "sighted" column that is to be check marked to indicate the asset exists. If the asset is not found, the "sighted" column is to be left blank, but indicate next to the column one of the following: removed, lost, surplus, traded, transferred, sold, or junked. Each employee is responsible for the assets they have been assigned and they are to be held accountable for any loss.

The inventory of the assets by each department is required to be completed in November of each year and returned to the Finance Division's Accounting Office on/or before the end of the month.

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