

### 3.

## ACCOUNTING

### 3.3 Capital Assets

#### 3.3.1 Capital Assets System Requirements

##### DEFINITIONS

- 3.3.1.10 Generally, the term *capital assets* means real and personal property the government intends to use or keep for more than one year. Capital assets include land and land rights; improvements and infrastructure; buildings, their furnishings, fixtures, and furniture; equipment, machinery, vehicles, tools, and intangible assets. The term *infrastructure* means roads, bridges, sidewalks, water lines, sewers, drainage systems, and the like. Infrastructure should be capitalized in all funds. See [Infrastructure Reporting](#).
- 3.3.1.20 The term *accounting* is limited to the procedures of keeping books and preparing financial reports (reporting requirements are covered in a different part of this Manual); accounting is one way, but by no means the only way, of demonstrating accountability.
- 3.3.1.30 *Accountability* means the obligation to demonstrate good management of or control over those matters for which a person or agency is responsible. The local governments are accountable for a lot more capital assets than they may ever account for. For example, most local governments do not account for the value of their small assets but they are accountable for these assets.
- 3.3.1.40 A *capital assets management system* is the set of policies and procedures used to control government's capital assets. The system should satisfy accounting/reporting requirements and it should demonstrate accountability for the government's capital assets. This system is different than the asset management system required for infrastructure assets using the modified approach. See [Infrastructure Reporting](#) for more details on the modified approach.

##### GENERAL REQUIREMENTS

- 3.3.1.50 Specific requirements of the State Auditor's Office are contained in subsequent sections. In addition, the federal government has issued property management requirements, which apply to all governments that receive federal assistance. Each federal agency has published a *Federal Agency Implementation of the Common Rule*. Excerpts from the Common Rule have been included here. Note that these requirements involve broad stewardship responsibilities and specific accounting records.

##### RATIONALE

- 3.3.1.60 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. For some types of local governments, the statutes are quite specific about the things that public officials have to do to demonstrate their stewardship of public property. For example, county commissioners are required to inventory all county capitalized assets annually, and the statute is very specific about the content of the inventory report (RCW [36.32.210](#)). But regardless of whether or not the statutes for the particular government identify any specific duties, public officials have several broad responsibilities with respect to capital assets; these are custody, insurance, maintenance and planning.

### Custody

3.3.1.70 The responsibility for custody means having the answers to such questions as:

- What property and equipment does this government own?
- Where is it?
- What condition is it in?
- Is it protected from loss and unauthorized use?

### Insurance

3.3.1.80 The second major responsibility for capital assets is providing adequate insurance. 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. In addition, when a government has elected to self-insure to some degree, the officials should obtain an independent evaluation of the extent of the risk that has been assumed, which cannot be done without knowing what assets are at risk.

### Maintenance and Repair

3.3.1.90 The third major responsibility is maintenance. As a steward of public property, an official has the obligation not only to safeguard assets from loss but also to ensure they are not neglected or wasted. The local government should not find itself surprised by building or equipment repair or maintenance requirements or by predictable problems with down time and availability of spare parts.

3.3.1.100 The basic requirements for demonstrating stewardship in maintaining public property are evidence that, first, the governmental unit knows what maintenance is required to preserve its assets and that it schedules that maintenance; and, second, that needed repairs are promptly identified and performed. In the area of maintenance, record keeping requirements vary according to the kind of asset and its durability. The local government should have adequate historical data to make informed decisions about the costs of certain levels of maintenance or intentional neglect.

### Planning (Capital Budgeting and Utilization)

3.3.1.110 The fourth general category of responsibility is planning for future asset needs both short and long ranges. Here you need answers to questions such as:

How well is the government using the facilities and equipment it already has?

What does the government already own that could be transferred to another facility instead of purchasing additional equipment?

Which items must be replaced, when and at what cost?

When will additional facilities or equipment be needed, where and at what cost?

Which facilities or equipment will not be needed, and what cost reductions in maintenance, insurance, and security will result from liquidating them?

3.3.1.120 The extent and nature of capital planning will vary a great deal, depending on such factors as the size of the governmental unit, whether demand for its services is stable or changing, whether its functions are capital intensive (like public works and utilities) or labor intensive (like education and welfare services), and how capital outlays are funded (through rates, general taxes, special bond issues, or grants).

3.3.1.120 Federal **Common Rule** Excerpts for Property Management

1. All federal agencies administering programs that involve grants are to issue a common grants management rule (Common Rule). The excerpts listed below are the general rule, however some agencies may publish deviations from the Common Rule due to statutory requirements.
2. Real Property
  - a. **Title.** Subject to the obligations and conditions set forth here, title to real property acquired under a grant or subgrant will vest upon acquisition in the grantee or subgrantee respectively.
  - b. **Use.** Except as otherwise provided by federal statutes, real property will be used for the originally authorized purposes as long as needed for that purposes, and the grantee or subgrantee shall not dispose of or encumber its title or other interests.
  - c. **Disposition.** When real property is no longer needed for the originally authorized purpose, the grantee or subgrantee will request disposition instructions from the awarding agency. The instructions will provide for one of the following alternatives:
    - (1) **Retention of title.** Retain title after compensating the awarding agency. The amount paid to the awarding agency will be computed by applying the awarding agency's percentage of participation in the costs of the original purchase to the fair market value of the property. However, in those situations where a grantee or subgrantee is disposing of real property acquired with grant funds and acquiring replacement real property under the same program, the net proceeds from the disposition may be used as an offset to the cost of the replacement property.
    - (2) **Sale of property.** Sell the property and compensate the awarding agency. The amount due to the awarding agency will be calculated by applying the awarding agency percentage of participation in the cost of the original purchase to the proceeds of the sale after deduction of any actual and reasonable selling and fixing-up expenses. If the grant is still active, the net proceeds from sale may offset against the original cost of the property. When a grantee or subgrantee is directed to sell property, sales procedures shall be followed that provide for the competition to the extent practicable and result in the highest possible return.
    - (3) **Transfer of title.** Transfer title to the awarding agency or to a third party designated/approved by the awarding agency. The grantee or subgrantee shall be paid an amount calculated by applying the grantee or subgrantee's percentage in participation in the purchase of the real property to the current fair market value of the property.

### 3. Equipment

- a. **Title.** Subject to the obligations and conditions set forth here, title to the equipment acquired under a grant or subgrant will vest upon acquisition in the grantee or subgrantee respectively.
- b. **Use.**
  - (1) Equipment should be used by the grantee or subgrantee in the program or project for which it was acquired as long as needed, whether or not the project or program continues to be supported by federal funds. When no longer needed for the original program or project, the equipment may be used in other activities currently or previously supported by a federal agency.
  - (2) The grantee or subgrantee shall also make equipment available for use on other projects or programs currently or previously supported by the Federal Government, providing such use will not interfere with the work on the projects or program for which it was originally acquired. First preference for other use shall be given to other programs or projects supported by the awarding agency. User fees should be considered if appropriate.
  - (3) The grantee or subgrantee must not use equipment acquired with grant funds to provide services for a fee to compete unfairly with private companies that provide equivalent services, unless specifically permitted or contemplated by federal statute.
  - (4) When acquiring replacement equipment, the grantee or subgrantee may use the equipment to be replaced as a trade-in or sell the property and sell the property and use the proceeds to offset the cost of the replacement property, subject to the approval of the awarding agency.
- c. **Management requirements.** Procedures for managing equipment (including replacement equipment), whether acquired in whole or in part with grant funds, until disposition takes place will, as a minimum, meet the following requirements:
  - (1) Property records must be maintained that include:
    - (a) a description of the property
    - (b) a serial number or other identification number
    - (c) the source of property
    - (d) who holds title
    - (e) the acquisition date and cost of the property
    - (f) percentage of federal participation in the cost of the property
    - (g) the location, use and condition of the property
    - (h) any ultimate disposition data including the date of disposal and sales price of the property.
  - (2) A physical inventory of the property must be taken and the results reconciled with the property records at least once every two years.

- (3) A control system must be developed to ensure adequate safeguards to prevent loss, damage, or theft of the property. Any loss, damage, or theft shall be investigated.
  - (4) Adequate maintenance procedures must be developed to keep the property in good condition.
  - (5) If the grantee or subgrantee is authorized or required to sell the property, proper sales procedures must be established to ensure the highest possible return.
- d. **Disposition.** When original or replacement equipment acquired under a grant or subgrant is no longer needed for the original project or program or for other activities currently or previously supported by a federal agency, disposition of the equipment will be made as follows:
- (1) Items of 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.
  - (2) Items of equipment with a current per-unit fair market value in excess of \$5,000 may be retained or sold and the awarding agency shall have a right to an amount calculated by multiplying the current market value or proceeds from sale by the awarding agency share of the equipment.
  - (3) In cases where a grantee or subgrantee fails to take appropriate disposition actions, the awarding agency may direct the grantee or subgrantee to take excess and disposition actions.
- e. **Federal equipment.** In the event a grantee or subgrantee is provided federally owned equipment:
- (1) Title will remain vested in the federal government.
  - (2) Grantees or subgrantees will manage the equipment in accordance with federal agency rules and procedures, and submit an annual inventory listing.
  - (3) When the equipment is no longer needed, the grantee or subgrantee will request disposition instructions from the federal agency.
- f. **Right to transfer title.** The federal awarding agency may reserve the right to transfer title to the federal government or a third party named by the awarding agency when such a third party is otherwise eligible under existing statutes. Such transfers should be subject to the following standards:
- (1) The property shall be identified in the grant or otherwise made known to the grantee in writing.
  - (2) The federal awarding agency shall issue disposition instructions within 120 calendar days after the end of the federal support of the project for which it was acquired. If the federal awarding agency fails to issue disposition

instructions within the 120 calendar-day period the grantee shall follow the proceeding guidelines provided in Disposition, (Subsection d).

- (3) When title to equipment is transferred, the grantee shall be paid an amount calculated by applying the percentage of participation in the purchase to the current fair market value of the property.

5. Supplies

- a. **Title.** Title to supplies acquired under a grant or subgrant will vest, upon acquisition, in the grantee or subgrantee respectively.
- b. **Disposition.** If there is a residual inventory of unused supplies exceeding \$5,000 in total aggregate fair market value upon termination or completion of the award, and if the supplies are not needed for any other federally sponsored programs or projects, the grantee or subgrantee shall compensate the awarding agency for its share.

6. Copyrights

The federal awarding agency reserves a royalty-free, non exclusive, and irrevocable license to reproduce, publish or otherwise use, and to authorize others to use, for federal government purposes:

- a. The copyright in any work developed under a grant or subgrant; and
- b. Any rights of a copyright to which a grantee, subgrantee or a contractor purchases ownership with grant support.