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Title: Asset Capitalization

Affected Agencies: All King County Executive Branch Agencies

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King County

I. Purpose

This policy establishes capitalization practices and thresholds for capital assets, including intangible assets, and establishes responsibility for tracking controllable items that fall below the capitalization thresholds of the policy.

Applicability and Audience

This policy applies to all Executive Branch agencies and administrative offices. The audience may include any non-Executive Branch King County departments adopting this policy.

II. Definitions

"Acquisition Value": The price that would be paid to acquire an asset with equivalent service potential in an orderly market transaction at the acquisition date.

"Betterment": an expenditure that improves the quality (improves the efficiency and/or effectiveness of the asset) or extends the life of an asset. If the asset was impaired, betterment includes restoration costs to restore service capacity or life of the asset.

"Buildings and building improvements": The capital asset class that includes all buildings owned by the County. Components of a building not normally replaced, or that would be substantially reduced in value if removed (e.g. heating and air conditioning systems, plumbing, electrical systems), are considered part of the building. Building improvements include subsequent additions of a new wing or extension, structural renovations and improvements, etc.

"Capital asset": Tangible or intangible assets that meet all of the following criteria: has an initial useful life that extends beyond a single reporting period, i.e., one year; is used in the operations of the County; is owned by the County; and is not specifically excluded by policy, e.g., capitalization threshold.

"Capitalization threshold": The minimum dollar value at which the County elects to capitalize assets of a specific type for financial reporting.

"Capitalize": To report capital outlays as capital assets in the statement of net position and recognize their expense over time through depreciation instead of at time of purchase.

"Constructed capital asset": A capital asset that is created or produced by the County or on behalf of the County. Examples of constructed capital assets include the installation, assembly or creation of a new facility; an addition, expansion, improvement, or

replacement of an existing facility; the relocation of a facility; tenant improvements; and internally generated intangible capital assets including software.

"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.

"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 by policies promulgated within each department.

"Direct Costs": Costs that can be identified specifically with a particular asset, or that can be allocated to assets in a group with a high degree of accuracy. Typical costs include the cost of machinery, compensation of employees working on a capital project, and the cost of materials needed to install machinery or construct an asset.

"Estimated Historical Cost": When actual historical cost is not available, historical cost may be estimated by using either the standard costing approach (determining what other governments paid for an equivalent asset at the same time) or the normal costing approach (determining the cost to acquire the asset in current year dollars, and then deflating it to the year of acquisition using a relevant price index).

"General and Administrative Costs": Those expenditures required to administer a County agency. These expenses would still be incurred, although perhaps in a lesser amount, even in the absence of any asset acquisition or construction activity. Examples include central rates, agency human resources, and agency budget and accounting.

"Habitat Restoration": The cost of offsite restoration or replacement of critical areas which must be disturbed on County lands as a result of construction activity or installation of a purchased capital asset.

"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 place it into service.

"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.

"Indirect Costs": Costs incurred for a joint, common, or shared purpose. For example, a construction staging area may be leased to support development of a site which will have a parking lot and two county buildings.

"Infrastructure": Capital assets that are stationary or immovable in nature and that have useful lives that can be preserved over a longer time 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 Executive Policy FIN-12-3-1-EP.

"Intangible assets": An asset that lacks physical substance, is nonfinancial in nature, and has an initial useful life extending beyond a single reporting period / calendar year. Examples of intangible assets are easements, rights of way, patents, trademarks, and rights to use created by contract (leases, PPPs, etc.).

"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.

"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.

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

"Land use rights": Land use rights 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.

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

"Project Review Board" (PRB): The board created by section 2A.380.330 King County Code (KCC) for oversight of County information technology projects.

"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.

"Substantial completion": The state of completion reached when the County has productive occupancy or use of the project asset(s).

III. Policy

A. Asset Capitalization Thresholds

1. Capitalization thresholds for applicable capital asset classes are as follows. Expenditures which are greater than or equal to the threshold amounts and meet the other provisions of this policy shall be capitalized and recorded in the capital asset system. Thresholds apply to the Historical Cost of the capital asset at the

time of acquisition or construction, calculated in accordance with section B of this policy. Thresholds apply to Acquisition Value for donated assets.

Asset Class	Executive branch agencies, except Metro Transit	Metro Transit
Machinery and equipment	\$5,000	\$5,000
Buildings and building improvements	100,000	5,000
Improvements other than buildings	100,000	5,000
Depreciable Infrastructure	100,000	5,000
Easements and land rights (temporary)	100,000	5,000
Other intangible assets (patents, trademarks, copyrights, etc.)	100,000	5,000
System software (purchased and internally generated for on premise use)	500,000	5,000
Internally generated intangible assets	500,000	5,000

2. Land, permanent easements, permanent Land Use Rights, collections (works of art and historical artifacts), and governmental infrastructure are not subject to capitalization thresholds and shall always be capitalized.

3. Agencies will apply the capitalization thresholds in section III.A.1 above to individual items (on a per-unit basis) unless multiple smaller items work together to achieve the same programmatic purpose or objective. If multiple items in the same asset classification, each individually costing less than the capitalization threshold, work together for a common purpose (e.g. all the equipment in a conference room, multiple batteries in an electric vehicle, etc.) then the combined value of the assets should be measured against the lesser of ten-times the item threshold or one million dollars and, if in excess of this threshold, capitalized together as a group.

4. The Real Estate Services (RES) section of the Facilities Management Division (FMD) of the Department of Executive Services (DES) shall maintain official property records for all land and usable buildings, including those that fall below the thresholds in section IV.A.1, in accordance with section 4.56.060 King County Code (KCC).

B. Purchased or Constructed Assets

1. Each Executive Branch Agency shall capitalize all assets purchased or constructed that meet the identified thresholds in section III.A.1 of this policy and have an estimated useful life of more than one year. This capitalization shall be initiated using Oracle EBS or forms provided by FBOD:

- a. For purchased assets, within 60 days of when the asset was purchased

- b. For constructed assets, including internally developed computer software, within 180 days of the earlier date the asset entered service or the date the contractor constructing the asset on behalf of the County was granted substantial completion
- c. For donated assets, within 60 days of the date rights or title transferred to the County

2. Assets are capitalized at Historical Cost, Estimated Historical Cost, or Acquisition Value. The Historical Cost should include Ancillary Charges less any discounts or rebates. Historical Cost shall be calculated as follows.

a. Purchased Assets

- i. Capitalize the cost of acquisition, including taxes and other Ancillary Costs, up to the Acquisition Value of the asset.
- ii. Costs only become eligible for capitalization if they are incurred after the acquisition of the asset has come to be considered probable.
- iii. When the County purchases land with known environmental contamination, having approval to remediate the contamination and redevelop the property, the cost of remediating the contamination may be capitalized as Historical Cost of the land parcel, not to exceed the Acquisition Value of the parcel without contamination.
- iv. Indirect Costs, other than General and Administrative Costs, may be capitalized if they clearly relate to the acquisition of the asset.

b. Constructed Tangible Assets

- i. Historical Cost includes Direct Costs of construction including construction and development costs necessary to create the asset that are incurred after the decision to construct an asset has been made and granted appropriation by the Metropolitan King County Council. Presumptively, work conducted during the Preliminary Design, Final Design, and Implementation stages of an appropriated capital project, as those terms are defined by KCC 4.04.020, qualify for capitalization. Agencies seeking exceptions should apply with the Chief Accountant.
- ii. Indirect Costs may be allocated to a capital project under an indirect cost allocation plan prepared in accordance with Appendix VII of 2 CFR 200 or another cost plan designed to equitably allocate costs of the agency and approved in advance by the Chief Accountant. Indirect Costs that clearly relate to projects under development or construction may be capitalized into the Historical Cost of the resulting asset(s) subject to the limitations in this policy.
- iii. Habitat Restoration costs are not to be capitalized and will be expensed in the period incurred.
- iv. The total cost capitalized (Direct Costs plus Indirect Costs) for a constructed tangible asset may not exceed its Acquisition Value.

c. Internally developed computer software

- i. Capitalize only those costs in the Software Application Development stage of the project, and only if there is a

- documented intent by the County to complete the project (e.g. Project Review Board approval or budgetary appropriation).
- d. Patents, trademarks, and other intellectual property
 - i. Planned Development
Historical cost includes those costs which occur after: (a) the specific objective of the project has been determined, including the service capacity expected from the intangible asset, (b) technical feasibility has been established either through acquisition or internal development, (c) the agency demonstrates its intent, ability, and authorization to continue to develop the intangible asset.
 - ii. Accidental Discovery
Historical cost includes those costs to develop the intangible asset.
 - iii. Registration Cost
Legal charges, registration fees, application fees, and related charges shall be capitalized into the cost of an intangible asset.
 - e. Construction Work In Progress
 - i. Agencies shall evaluate the progress of capital projects at least quarterly. If this review determines that fewer assets than originally anticipated will result (including that no assets will result), the value of previously recorded CWIP will be adjusted accordingly.
 - ii. Agencies shall place only costs anticipated to result in a capital asset into CWIP. All other costs must be expensed in the period incurred. Under circumstances where adjustments to CWIP are required, use of a non-operating expense (e.g. account 59306) is permitted only with respect to costs capitalized into CWIP in prior calendar years. Current year costs must be expensed in the account where incurred.
 - iii. Agencies shall submit copies of annual CWIP reconciliations showing the amount capitalized by project at the beginning of the year, adjustments made during the year (additions and/or subtractions), and balance at the end of the year agreeing to the general ledger to the Finance and Business Operations Division – Financial Management Section by the date specified on the yearend calendar.
 - f. Donated assets
Donated assets are recorded using the Acquisition Value of the asset at the time of acceptance by the County. See section 2.80 KCC for donation acceptance.
3. Assets shall be properly classified based on the definitions in this policy.
- a. Purchased Assets
 - i. Where multiple assets are purchased together (e.g. land purchased with a building on it) the agency shall allocate the total Historical Cost across the multiple assets in a systematic and rational manner and capitalize each asset in the proper category.
 - b. Constructed Assets

- i. Where multiple assets constructed together (e.g. a constructed building with multiple major systems each with a different expected life) the agency shall separate the integral components of the larger asset into separate assets and capitalize each in the proper category with the applicable estimated useful life.
- ii. Requests to capitalize a constructed capital asset where the construction activities have encompassed multiple calendar years shall be accompanied by a CWIP reconciliation showing the location of CWIP on the general ledger (fund, cost center, and project), an itemization of the assets resulting from the construction activity, and the requested disposition of any CWIP balances that are not eligible to be capitalized.

4. Training costs only facilitate the county's use of the asset, and do not impart value to the asset itself. Whether for tangible assets (e.g. buildings) or intangible assets (e.g. software) training expenditures / expenses must be recognized in the period incurred rather than included in the Historical Cost of the asset.

5. Capital assets acquired with grant funds must comply with all state, federal and grantor requirements and be identified as grant funded assets in the County's capital asset accounting system.

6. Betterments are capitalized if the cost is at least ten percent (10%) of the asset's historical cost at the time the request is received by FBOD. For grant-funded assets, Betterments at lesser percentages of historical cost shall be reported if required by the terms and conditions of the grant which funded the asset or betterment.

7. In instances where multiple agencies or funds wish to pool their resources to purchase an asset, a single fund shall conduct the purchase and be identified as the owner of the asset. The other funds will either transfer resources to the acquiring fund through the Oracle EBS PA module, or the owning agency may use Oracle EBS Mass Additions merge functionality to combine the multiple accounts payable distribution lines into a single asset during capitalization.

8. For the centralized long-term vehicle and mobile equipment rental fleet, Fleet Services shall capitalize the asset regardless of the fund recording the expense/expenditure. For all other acquisitions or constructions, the agency that incurred the expense/expenditure shall be considered the owner of the asset and perform capitalization.

C. Controllable Assets

1. FBOD shall establish a minimum list of Controllable Assets which will be tracked in the accounting system's Capital Asset ledger including, but not limited to, those items listed in 4.56.030 KCC.

2. Each Executive Branch Agency shall establish a policy defining controllable items for that agency, which will be tracked outside the accounting system. The criteria for identifying such assets shall include, at a minimum:

- a. The value to replace the asset

- b. Confidentiality of information stored on the asset
- c. Criticality of the asset to operations
- d. Likelihood of the asset being lost or stolen
- e. Suitability of the asset to uses other than official county business

3. In the event an Executive Branch Agency has not established a policy defining Controllable Assets for that agency, all items with a useful life greater than one year and costing more than \$300 for technology items (laptops, cell phones, etc.) and \$1,000 for all other items shall be deemed Controllable Assets.

D. Intangible Assets Generated by Contract

1. Leases where the County is lessee

a. Capitalization Thresholds for leases by asset type under lease are as follows. Copies of contracts which generate lease assets equal to or in excess of the threshold with durations greater than one year must be submitted to the Financial Accounting Unit in the Finance and Business Operations Division within 30 days of execution by the County.

Leased Asset Classification	Threshold
Furniture, Machinery, and Equipment	\$ 1,500
Improvements Other Than Buildings	100,000
Buildings	250,000
Land (including land rights, rights of way, and easements)	500,000

b. Lease assets shall be recorded at the amount of the lease liability at the start of the lease, plus payments made to the lessor at or before the commencement of the lease, plus initial direct costs that are necessary to place the leased asset into service.

2. Subscription Based Information Technology Arrangement (SBITA)

a. The capitalization threshold for SBITAs is \$10,000. Copies of contracts which generate SBITA assets equal to or greater than the threshold must be submitted to the Financial Accounting Unit in the Finance and Business Operations Division within 30 days of execution by the County without respect to the duration of the contract.

b. SBITA assets shall be recorded at the amount of the subscription liability, minus any vendor incentives, plus the amount of any payments made to the SBITA vendor at the commencement of the subscription term, plus capitalizable initial implementation costs.

3. Public-Public and Public-Private Partnerships, and Availability Payment Arrangements (PPP-APA) where the County is operator

a. The capitalization threshold for PPP-APAs is \$10,000. Copies of contracts which generate PPP-APA assets equal to or greater than the threshold must be submitted to the Financial Accounting Unit in the Finance and Business Operations Division within 30 days of execution by the County without respect to the duration of the contract.

- b. The amount of the PPP-APA asset equals the amount of the PPP-APA liability, plus the amount of payment made to the transferor at the commencement of the PPP-APA term, plus the cost of improvements to underlying PPP-APA assets, plus initial direct costs necessary to place the underlying asset into service.

IV. Implementation Plan

- A. This policy becomes effective for Executive Branch agencies on the date that it is signed by the Executive. The Finance and Business Operations Division is responsible for implementation of this policy.
- B. The Finance and Business Operations Division is responsible for communicating this policy to the management structure within their respective agencies and other appropriate parties.
- C. Except as otherwise specified within this policy, requests for exceptions to provisions of this policy should be directed to the Director of the Finance and Business Operations Division.

V. Maintenance

- A. This policy will be maintained by the Finance and Business Operations Division, or its successor agency.
- B. This policy will automatically expire five (5) years after its effective date. A new, revised, or renewed policy will be initiated by the Finance and Business Operations Division, or its successor agency, prior to the expiration date.

VI. Consequences for Noncompliance

- A. Failure to comply with this policy could result in audit findings and loss of the public's trust in their government's ability to manage capital assets. In accordance with Generally Accepted Auditing Standards, audit findings are reported to the Metropolitan King County Council's Government Accountability and Oversight, or its successor, committee.