City of Bellingham Policy

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See Also:	ADM 10.07.01, Disposal of Surplus Property Other Than Real Estate Budgeting, Accounting and Reporting System (BARS) Manual, Vol. 1, Part 3, Chap 7; Vol. 1, Part 4, Chap 2, Sections D/E Government Accounting Standards Board (GASB) 34 & Modification PRO 001, Fixed Asset Acquisition PRO 002, Asset Disposition PRO 003, Asset Transfer

Purpose
The purpose of the Capital and Attractive Asset Policy is to:

- Establish guidelines and criteria for what is a capital asset
- Establish guidelines and criteria for what is an attractive asset
- Monitor and safeguard City assets
- Comply with state regulatory requirements
- Provide accurate information for financial reports
- Provide information for insurance coverage
- Articulate practices to account for assets owned by the City, in accordance with generally accepted accounting principles
- Establish guidelines for physical inventories of assets

Scope
All City of Bellingham funds and departments.

Definitions:

Artwork - consists of art collections or significant works of art that are owned by the City.

Assets - are resources expected to add value to the organization. Assets may be real, intangible or tangible property and acquired through purchase, donation or construction.

Asset Number - is a number uniquely assigned to each asset. It is used for identification in the asset database. For moveable property (equipment), the asset number is the tag number which is affixed to the asset. If the tag cannot be physically attached to an asset because of size, use or structure, the asset number will still be assigned (ghost tag) and recorded. Some examples of equipment that are assigned ghost tags are a sewer camera, trailer and police body wires. All buildings, improvements and infrastructure are assigned ghost tags.

Attractive (Theft Sensitive) Assets - are portable, durable items that do not meet the minimum capitalization threshold, but require special attention because of their potential to be stolen. Examples of these items include but are not limited to computers, laptops, printers, scanners, fax machines, copiers, digital cameras, televisions and DVD players. Regardless of initial acquisition cost, these items are tagged and tracked by the City, but are not capitalized.

Capital Assets - are expensive long-lived assets such as land, buildings, improvements, infrastructure, software, machinery and equipment. These assets can be tangible or intangible assets. The original cost (or fair market value if received by donation) of the asset must exceed the cost threshold amount set out for its asset category. The estimated useful life of the asset must exceed one year. Examples of items not considered to be capital are painting, new carpet and office remodeling.

Capital Asset Cost Threshold - is the minimum cost per unit at which an asset must be valued to be considered a capital asset. The various capital asset categories have different cost thresholds as set out in this policy. Assets purchased with grant funds may have a different threshold amount as stipulated by the grant. Usage and disposal of assets acquired by a grant are subject to the grant agreement which supersedes this policy.

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. For accounting purposes, such leases will be accounted for as capital leases when the lease agreement meets GAAP criteria and the City's capital threshold.

Construction-In-Progress (CIP) - is a category of capital assets, which represent the cost of building, improvements other than buildings, infrastructure or equipment under construction. When completed, the total cost is removed from CIP and reported under the appropriate capital asset category. CIP is not depreciated.

Depreciation - is the systematic allocation of expending the exhaustible cost of capital assets according to their estimated useful lives.

Donations - are defined by GASB Statement No. 33, Accounting and Financial Reporting for non-exchange transactions, as a voluntary non-exchange transaction entered into willingly by two or more parties. Both parties may be governments or one party may be a non-governmental entity, including an individual.

Infrastructure - refers to public property or public domain capital assets. It is defined as long-lived capital assets that normally are stationary in nature and can be preserved for a significantly greater number of years than most capital assets. Examples of infrastructure are roads, sidewalks, water and sewer lines.

Intangible Asset - is a capital asset such as software, which has no physical substance but whose value comes from the long-term rights or advantages it offers to the owner.

Physical Inventory - is a systematic and periodic physical verification of the existence and location of capital equipment and attractive assets assigned to a department.

Land - is a category 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.

Operating Lease- is any lease agreement that does not qualify as a capital lease. Periodic lease payments are accounted for as operating expense.

Original Cost - is the sum of all costs necessary in placing an asset into service. Capital costs begin to accrue when the City commits to purchasing the asset and end when the asset is placed into service.

Right-of-Way- is the area of land needed to provide the right of passage that is a servitude imposed by law or convention, and by virtue of which one has a right to pass through the estate of another.

Surplus- capital assets are declared by the custodial department as no longer required or useful to that department. See DISPOSAL OF SURPLUS PROPERTY OTHER THAN REAL ESTATE ADM 10.07.01.

Useful Life - is the estimated average life (in years) over which a depreciable capital asset is expected to provide service.

Assumptions

1. Capital Asset Accounting vs. Capital Improvement Program Budgeting
Project budget may include funds for aspects of the project that should not be capitalized. In the accounting system, the decision about whether to ñcapitalizeò a particular expenditure ï that is, treat it as an expenditure that creates or adds to a capital asset ï must follow the criteria contained in this policy, regardless of whether capital funding sources were used to build or buy the asset. The exception is for grant-funded projects, where the requirements of a particular grant may supersede the criteria contained in this policy.

2. Capital Assets vs. Attractive Assets
For attractive (theft sensitive) assets, there is no need to estimate or summarize the asset value in the CAFR; there is only the need for procedures to ensure their safekeeping and availability for City use.

3. Acquiring Capital Assets
When purchasing or constructing an asset, the original cost of a single asset must exceed the threshold amount. The City does not capitalize groups of similar assets which individually do not meet the minimum cost threshold amount for its asset category**.**

4. Depreciation of Assets
With the exception of land which has inexhaustible useful life, capital assets have limited useful lives and systematically decrease in value while used in operations. The City uses the straight-line method of depreciating its capital assets. The period of depreciation is based on the estimated useful life of the asset, as determined by department policy or the State of Washingtonõs useful life schedule. In the month an asset is acquired, a full month of depreciation will be calculated. CIP is not depreciated; when the project is completed it is removed from CIP and recorded under its appropriate capital asset category, where it is then depreciated according to its estimated useful life.

Policy/Conditions

1. The City follows Generally Accepted Accounting Principles in accounting for capital assets

2. The City identifies and monitors Attractive Assets (theft sensitive) that cost less than the minimum capital asset cost threshold. These items are tagged and tracked by the City. Assets considered to be theft sensitive include but are not limited to:

    - Electronic assets, specifically copiers, computers, fax machines, printers, laptops, digital cameras, video cameras, TVs, DVDs and other similar electronics. These assets are tracked in a subsidiary system maintained by the Finance Department

        - Specifically excluded are video monitors, keyboards, receipt printers, cellular phones, pagers, radar and bar code scanners, portable radios and other similar electronics as well as art objects and artifacts

3. The Finance Department establishes capital thresholds. The following table provides the capitalization threshold for each category of capital asset:

Asset Category	Examples	Dollar Threshold
Land	Property parcels Right of way Easements	Capitalize All
Land Improvements	Walkways Parking lots Landscaping	$50,000
Buildings & Improvements	Structure Major refurbishment/renovation New roof	$50,000
Improvements Other Than Buildings	Park developments Playgrounds, drainage Splash pools	$50,000
Infrastructure	Roadways, sidewalks Bike paths, bridges Marina, utility lines	$50,000
Intangible Assets	Software developed or obtained for internal use	$50,000
Leasehold Improvements	Land/building improvements made to leased property	$50,000
Capital Leases	Capital leases	$50,000
Network / Communication / Misc. Electronic Systems Equipment	Switches / radio systems / pay stations, Servers, etc.	$25,000
Machinery & Equipment	General tools, printers Office equipment, copiers Office furniture IT equipment, audio/visual equipment	$10,000

Fleet Replacement	Vehicles, machinery and equipment replaced by Fleet Fund	$5,000

Grant-funded Equipment or Improvements	Any asset funded or partially funded by federal or state	**If grant requirements do not specify capitalization criteria, use the thresholds above.*

4. The City capitalizes the following types of assets in accordance with this policy:

- Purchased capital assets are purchased in close-to-serviceable condition, rather than being designed and constructed over time. Each individual item must meet the minimum threshold amount for its particular asset category. In addition to the equipment cost, the City may also incur ancillary charges necessary in placing the asset into service. These costs should be added to the equipment cost when calculating the total original cost for the capital asset. The piece of equipment alone may not have met the threshold cost to be considered capital, but may meet the threshold after including ancillary costs. If the asset meets the criteria for capital, both the equipment and ancillary charges should be coded to capital line items

There are generally three phases to a purchased capital asset, detailed below:

1. Preliminary Phase ï Expensed (treated as non-capital)

    - Conceptual formulation of alternatives
    - Evaluation of alternatives
    - Determination of existence of needed technologies
    - Studies, assessments and comprehensive plans
    - Final selection of alternatives
    - General administrative and overhead

2. Purchased and Installation Phase ï Capitalized (only if committed to project)

    - Cost of asset (equipment, building, land)
    - Ancillary charges necessary in placing the asset into service such as transportation, insurance, shipping/freight, installation, modifications, accessories, professional services and licensing/permitting
    - For completed land and building purchases ï appraisals/surveys
    - Travel costs incurred by employees in their duties directly associated with installation
    - External direct cost of materials and service (third party fees for services)
    - Payroll and payroll-related costs of employees directly associated with or devoting time to this phase of the project

3. Post-Implementation Phases - after testing, when an asset goes into actual operational use ï Expensed (treated as non-capital)

    - End user training
    - General maintenance

- Constructed Capital Assets include project costs from the time the City legally commits to a project, until the project is completed and placed into operation. A project is considered to be ĩcommittedò if money is budgeted either for specific types of improvements or for improvements at a particular site

All costs related to the construction of an asset must be capitalized and the thresholds apply to the total cost after completion of the project. 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 the benefited assets in a reasonable manner.

Capital Asset projects may include stand-alone assets. These will be capitalized individually, apart from the constructed asset.

Costs incurred during construction must be reported as Construction-in-Progress (CIP) if construction has not been completed by year-end. Once completed, the CIP asset is reclassified as Building, Improvements Other Than Buildings, Infrastructure or Machinery and Equipment.

There are generally three phases to a constructed capital asset, detailed below:

1. Preliminary/Feasibility Phase ï Expensed (treated as non-capital)
    - Conceptual formulation of alternatives
    - Evaluation of alternatives
    - Determination of existence of needed technologies
    - Studies, assessments and comprehensive plans
    - Final selection of alternatives
    - General administrative and overhead

2. Project Phase ï Capitalized (only if committed to project)
    - Architectural and engineering
    - Right-of-Ways and/or easements ï appraisals, acquisition and relocation
    - Site preparation
    - Survey, plan specifications
    - Bid process
    - Construction contract, required testing related to construction, engineering and inspection
    - Ancillary charges necessary in placing the asset into service such as transportation, insurance, shipping/freight, installation, modifications, accessories, professional services and licensing/permitting
    - Travel costs incurred by employees in their duties directly associated with project
    - Payroll and payroll-related costs of employees directly associated with or devoting time to this phase of the project
    - Capitalized interest if applicable

3. Post-Implementation Phases (after testing) ï Expensed (treated as non-capital)
    - End user training
    - Future licensing/permitting
    - General maintenance

- Infrastructure is a subset of Constructed Capital Projects. New infrastructure includes development, construction, improvements, restoration and rehabilitation. Infrastructure assets are often linear and continuous in nature. Some examples of infrastructure assets are roads, bridges, curbs, gutters, streets, sidewalks, water lines, sewer lines and drainage systems. The City capitalizes street resurfacing because it is performed at or beyond the end of the original life of the street surface and adds to the life of the street

- Betterments/improvements to existing capital assets provide substantial additional future benefits to an existing asset and meets the following two tests:

    - The incremental cost of the upgrade must exceed the appropriate cost threshold

    - The impact on the original asset must be an enhancement or preserve the asset as described below

        - Enhancement costs *add new capacity or functionality* to the existing capital asset. Examples of enhancements include creating a new lane of roadway or re-channeling an intersection to increase traffic flow. Enhancements meeting the cost threshold are capitalized

        - Preservation costs extend the useful life of a capital asset beyond its original life. If these costs exceed the cost threshold, they are treated as capital cost. Note that land is a type of asset that never has preservation costs. The characteristics of land can be changed or preserved through capital investment, but the land itself will always have an indefinite life

        - Maintenance and routine repair costs are costs that allow an asset to realize its original function and life. Maintenance and routine repair costs are treated as non-capital and expensed as an operating cost when they are incurred

    Major repair should be capitalized if they result in betterments/improvements. The difficulty arises in the case of capital outlays that are partly replacements and partly betterments/improvements. To the extent that the project replaces the õoldòpart of the capital asset, outlays should not be capitalized (unless the õoldò part can be identified and removed from the cost of the asset) and to the extent that the project is betterment/improvement, outlays should be capitalized. When the distinction between replacement and betterment/improvement is not easily determinable, the cost of the entire project should be expensed.

- Intangible Assets include computer software

    Software: The City will capitalize the purchase or development of centralized computer software with costs of $50,000 or greater and has an estimated useful life of more than one year. Software development generally involves three phases detailed below.

1. Preliminary Project Phase ï Expensed (treated as non-capital)

    - Needs assessment
    - Conceptual formulation of alternatives
    - Evaluation of alternatives
    - Determination of existence of needed technologies
    - Final selection of alternatives
    - Data conversion (data is not capital)
    - General administrative and overhead

2. Application Development Phase ï Capitalized (only if committed to project)

    - Design of selected software
    - Travel costs incurred by employees in their duties directly associated with development
    - External direct cost of materials and service (third party fees for services)
    - Costs to obtain software from third parties
    - Software configuration and software interfaces
    - Coding
    - Payroll and payroll-related costs of employees directly associated with or devoting time in coding, installing or testing
    - Testing, including parallel processing phase
    - Initial licensing costs

3. Post-Implementation Phase - after testing, software is ready to be brought online and into use ï Expensed (treated as non-capital)

    - End user training
    - Data conversion (data is not capital)
    - Future licensing costs
    - Application maintenance contracts and activities

Capitalization of software costs should begin when the preliminary project phase is complete and management commits to funding the software project with the intent to complete and use it to perform its planned functions. Capitalization should cease no later than the time at which the substantial testing is complete and the software is ready for its intended purpose or rendered in service.

Costs incurred during software development must be reported as CIP if development has not been completed by year-end. Once completed, the CIP asset is reclassified as Improvements Other Than Buildings.

Computer hardware purchases are not capitalized as part of software capital assets. If the cost of the computer hardware meets the capital asset cost threshold for Machinery and Equipment, it will be capitalized individually, as a separate capital asset. If the cost does not meet the capital asset cost threshold, then it is expensed as non-capital and tracked as an attractive asset.

- Donated assets are capitalized at the fair market value of the asset when the asset is received by the City. Contractor contributions of land or infrastructure are one type of donated asset. If it does not meet the threshold, it will be determined if the asset is an attractive asset and tracked accordingly

  To ensure proper accounting, the following information shall be provided to the Accounting Department by the department receiving the donated asset:

  - Donation date (or estimated date of donation)
  - Detailed description
  - Asset location
  - If there are eligibility requirements to be met before the City claims ownership, describe the requirements and when they are expected to be met
  - Unique identifying numbers (i.e. serial numbers, parcel numbers)
  - Estimated fair value of the asset on the date of the donation

- Capital leases are agreements that meet at least one of the following criteria per GASB 34:

  - Ownership transfers to the lessee by the end of the lease term
  - A bargain purchase option is available in the lease
  - The lease term is equal to at least 75% of the estimated economic life of the leased asset
  - The present value of the lease payments equals at least 90% of the fair value of the leased asset

Leases that do not meet any one of the four criteria listed above are treated as an operating lease and the lease payments are recorded as rent. 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.

5. ñArt Collectionsòand ñSignificant Works of Artòowned by the City are not classified as capital assets when they meet the all of following criteria:

   - The collection is held for public exhibition, education or research in furtherance of public service, rather than financial gain
   - The collection is protected, kept unencumbered, cared for and preserved
   - The collection is subject to an organizational policy requiring that the proceeds from the sales of collection items be used to acquire other items for collections

Per GASB 34, when all three of the above criteria are met, it is optional for the City to capitalize works of art and historical treasures. The City elects not to include works of art in the capital asset inventory, but rather have departments track these items.

6. Grant Funded Assets will be capitalized based on the criteria specified by each individual grant requirements. Depending on the terms of the agreements involved, the federal government could retain an equity interest in these assets. These assets are identified in the asset system as grant funded for tracking purchases in the event of a sale or surplus of the item

7. Pollution Remediation. Remediation costs to bring property value up to fair market value are capitalized when property was purchased at a price less than fair market value. Remediation costs are expensed as operational cost when property is purchased at fair market value and found to be polluted after the fact

8. Interest Capitalization. The City capitalizes interest expense on capital projects constructed with Enterprise Funds in accordance with FASB Statement 34, when;

   - The capital project is constructed over a period greater than one year
   - The capital project expense for the year is greater than $1,000,000
   - There is outstanding debt in the Enterprise Fund constructing the asset

   The interest rate to be used for capitalizing interest expense is based on the weighted average of the rates applicable to the other borrowings of the Enterprise Fund. If the Enterprise Fund has a specific borrowing for the project, that borrowing rate will be used for interest capitalization.

   The interest capitalization period ends when the project is ñsubstantially complete and ready for its intended use.ò

   The City of Bellingham does not capitalize interest cost for governmental and internal service funds.

   The City does not capitalize interest cost for projects funded with grants, unless the funding agency specifically authorizes use of grant funds for that purpose.

9. The City depreciates capital assets according to the following chart of estimated useful asset lives:

Asset Class	Service Life (Years)
General Capital Assets	
Equipment	5-20
IT Equipment	4
Software	7
Buildings	50
Other Improvements	5-50
Leasehold Improvements	10
Telecommunication Equipment	7
Restrooms	40

Playground Structures	25
Parks	40

Fleet Equipment	
Transportation Equipment	3-10
Heavy-Duty Work Equipment	10-20
Fire Trucks	15
Shop/Miscellaneous Equipment	6-30
Infrastructure	
Roadways	20-30
Sidewalks	30
Bike/walking paths	30
Parking Lot	30
Bridges	50
Traffic Signals	20
Street Lighting	30
Sewer Lines	50
Storm Water Lines	50
Water Lines	50
Fish Passage	50
Reservoirs / Pump Stations	40
Improvements	40

10. Recording Assets. Departments are responsible for reporting all capital and attractive assets acquired by purchase, construction, donation or leases to the Finance Department by completion of an asset acquisition (PRO 001)

The Finance Department is responsible for the maintenance of an accurate capital and attractive asset system based on the information provided.

The asset system shall include the following information, if available, about a specific asset:

- Description
- Serial Number
- Model Number
- Asset Tag Number
- Funding Source
- Purchase Date
- Purchase Price
- Location
- Estimated Useful life

A copy of the Fixed Asset Acquisition Form and a copy of the Purchase Invoice shall be kept on file in Finance Department for the life of the asset.

11. Tagging/Numbering of Assets. All assets shall be tagged or identified with a number (PRO 001). In the case of buildings, land and certain improvements, a "ghost tag" number will be assigned to the item; it will not be physically tagged

12. Ownership of Assets. Capital assets shall be owned by the fund and department that purchased the asset, but may be physically located in a different department. Attractive assets will be owned by the department responsible for maintenance and accountability of the asset, but may be located in a different department

13. Transferring Assets between departments is allowed by mutual agreement of the departments. It is the responsibility of transferring department to report all asset transfers to the Finance Department to ensure that proper record keeping (PRO 003)

    - Attractive Assets: If the asset transferred is an attractive asset, ownership and responsibility for the asset will be changed in the asset system

    - Capital Assets: If the asset transferred is a capital asset, unless the asset is being sold to the receiving department, the department who purchased the asset will still remain as owner and responsibility for the asset will remain with that department. If the asset is sold to the receiving department, see Disposition of Assets below

14. Disposition of Assets includes selling, donating, trading-in, surplusing, junking or otherwise removing the asset from use. Assets must be disposed of in accordance with PRO 002

    - Capital Asset: When one department sells a capital asset to another department, the original department shall prepare an Asset Disposition Form (PRO 002), and the department receiving the asset must complete an Asset Acquisition Form (PRO 001). The receiving department must pay a reasonable price for the asset. Ownership and responsibility will be changed in the asset system

    - When an asset is surplus to the City's needs or is broken, an Asset Disposition Form (PRO 002) must be completed by the department surplusing or disposing of the asset or the ITSD Surplus Computer Technician if the asset is computer related equipment being destroyed. The asset will be retired in the asset system

15. Annual Physical Inventory Plan

    - Finance Department will develop annual physical inventory plan including:

        - Providing department with updated list of department assets

        - Instructions for inventory completion

    - City departments conduct annual physical inventory of all the department's capital equipment and attractive assets. Department Head, or designee shall verify in writing the following:

- Assets have been physically located and verified
- Missing assets are properly explained and noted as ñmissingò, ñsurplused" or ñtransferredò
- Incorrect or incomplete information is corrected
- Items not included on the inventory sheet, but physically located, are added to the exceptions list
- Information not reflected in the inventory report is noted

16. Inventory by Outside Consultant. Capital equipment and attractive assets may also be inventoried by an outside consultant hired by the City on a multi-year cycle. The inventory is conducted by building location rather than by department. This inventory is automated by utilizing scanner and bar coded tags. The building locations included in this outside inventory will be excused from the annual departmental inventory for that year

17. Missing or Stolen Assets. Departments report missing or stolen assets as soon as discovered to the Police Department and Finance Department. If after 90 days the equipment has not been recovered, an Asset Disposition Form must be completed by the department owning the asset and sent to the Finance Department. Finance will notify State Auditorôs Office per RCW 43.09.185

18. Updating Fixed Asset Information. Fixed asset information shall be updated on a regular basis as information is received in the Finance Department and all files shall be updated at the time of the annual physical inventory and/or audit

19. Departmental Asset Custodians. Departmental Asset Custodians shall be assigned by the Department Head (PRO 001)