CAPITAL ASSETS
Administrative Rule Adopted by Council
ARC FIN 6.11

Purpose
These administrative rules establish minimum standards for capital assets applicable to all City bureaus for recording assets in the City's Enterprise Resource Planning system, and reporting in the Comprehensive Financial report (CAFR). "Minimum standards" includes documentation supporting the acquisition or donation value for an item used longer than a one-year reporting period by the City bureau with a value outlined by the established thresholds. ~~Bureaus may maintain their own capital asset inventory systems, with additional detail or supporting documentation, as long as the minimum standards are maintained.~~

Authority
Authority for this administrative rule is established in the City Charter and the City Code. This administrative rule has been approved by the City Council.

~~Monitoring~~ Compliance
The Accounting Division of the Bureau of Revenue and Financial Services of the Office of Management and Finance (Accounting Division) will ~~periodically~~ monitor ~~bureaus~~ bureau capital asset inventory schedules to assess compliance with the minimum standards of this rule. ~~As instances~~ Identified instances of non-compliance ~~are identified, bureaus will be~~ ~~required to develop and implement~~ require the development and implementation of a bureau corrective action plan. The Accounting Division will provide assistance to bureaus, if requested, to develop this plan. The Controller will notify ~~report all instances of non-compliance annually to~~ the Chief Financial Officer (CFO) and City Council in conjunction with the CAFR publication process.

~~Definitions~~

~~"Ancillary charges" mean incidental costs necessary to place a capital asset into its intended location, condition, or use. Examples include title fees, attorney or architect fees, freight charges, taxes, and site preparation costs. Ancillary charges are capitalized in addition to the purchase price and/or construction cost of capital assets.~~

~~"Building" means a relatively permanent structure used to house persons or property. Buildings may be purchased or constructed by the City. Major components may be capitalized separately. Also classified as buildings are fixtures that are permanently attached to and made part of buildings in such a manner that removal is not possible without damage to the building.~~

~~"Capital Asset" means a tangible or intangible asset having significant value that is used in operations and has an initial useful life that benefits more than a single CAFR reporting period. Capital assets include land, land improvements, buildings, infrastructure, equipment, leasehold improvements, and construction in progress.~~

~~"Capital Lease" means a lease which transfers the benefits and risks inherent in the ownership of facilities and/or equipment to the lessee, who in turn capitalizes the leased assets and records the capital lease as a liability. See Accounting Administrative Rule FIN-6.07 – Leases.~~

~~"Construction in progress" means costs incurred for buildings, improvements, infrastructure, software, or other projects which remain incomplete and as a result, have not yet been placed into service. Construction in progress is not depreciated.~~

~~"Depreciation" means the systematic allocation of the cost of a capital asset, less any salvage value, over the estimated useful life of the capital asset. The City calculates and records depreciation expense using the straight-line method.~~

~~"Easement" means the right to a specific limited use of land or other property, though it does not transfer actual ownership of the land. An easement is classified as land, and is not depreciated.~~

~~"Equipment" means property with a useful life greater than one year that does not lose its identity when removed from its location and is not changed materially or expended in use. Equipment does not include the cost of internally developed software.~~

~~"Fair value" means the amount paid, or that would be paid, between a willing seller and willing buyer. Fair value may be estimated using catalogs, price lists, historical records, or recent sales or purchases of comparable assets.~~

~~"Historical cost" means the purchase price or construction cost of a capital asset including any ancillary charges.~~

~~"Improvement" means an addition or change to a capital asset, other than maintenance and repairs, which extends its useful life and/or improves its efficiency, capacity, or usability. Improvements to land such as retaining walls, swimming pools, or picnic facilities that have identifiable useful lives, shall be capitalized as Improvements. Improvements to buildings shall be capitalized as Buildings and improvements to equipment as Equipment. Leasehold improvements are classified separately as defined below.~~

~~"Infrastructure" means long-lived capital assets that are normally stationary and can be preserved for a significantly greater number of years than most capital assets. Examples are bridges, roads, street lighting, water mains, and sewer systems. Land associated with infrastructure should be reported as land rather than infrastructure. Buildings may be classified as infrastructure if they represent components of an infrastructure subsystem or network.~~

~~"Intangible asset" means an asset lacking physical substance that has a useful life greater than a single CAFR reporting period, for example, computer software. See also Accounting Administrative Rule FIN 6.09 - Capitalization of Computer Software Developed or Obtained for Internal Use.~~

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~~“Land” means real estate held for productive use. The cost of land shall include any ancillary charges necessary to ready the land for its intended use such as draining, filling, and grading. Land is not depreciated.~~

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~~“Leasehold Improvement” pertains to leased property for which ownership does not transfer to the lessee at the end of the lease and includes additions or changes to prepare leased assets for initial or continued use. Ownership of such improvements reverts to the lessor upon expiration of the lease.~~

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~~“Maintenance and repairs” mean periodic expenditures that sustain an asset in good working order throughout its estimated useful life. Maintenance and repairs do not expand the capacity or extend the useful life of the asset and are therefore not capitalized.~~

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~~“Minor equipment” means tools and equipment with a unit cost of less than 5,000. Minor equipment is expensed at acquisition and is not capitalized.~~

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~~“Network” means a group of assets that provide a particular service, for example, a water distribution system or a sewage treatment plant.~~

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~~“New component” means the addition of an item, structure, or function to an existing asset for which no such item, structure, or function previously existed. A new component shall be treated as a separate asset.~~

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~~“Salvage Value” means the expected residual value of a capital asset at the end of its useful life. Salvage value is deducted from cost in calculating depreciation.~~

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~~“Subsystem” means all assets that comprise an identifiable segment of a network or system of assets. For example, within a water distribution network are subsystems of pumping stations, storage facilities, and water mains.~~

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~~“Useful Life” means the typical estimated life of a capital asset placed into service at the purpose for which the asset was acquired.~~

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~~“Works of art and historical treasures” mean visual creations and artifacts sited where accessible to the public.~~

Capitalization

Acquisition

1. Capitalize direct cost(s) and ancillary cost(s) when acquiring an asset meeting the value threshold that has a useful life greater than one reporting period.
   a. The purchase acquisition includes the following:
      i. direct and indirect cost

ii. incidental cost in acquiring ownership or title
iii. other cost for preparation for the intended use
iv. shipping cost or other cost required for:
    1. installation
    2. function
    3. efficiency and utility of the asset
v. Computer software developed or obtained for internal use
    1. Purchased or leased from a commercial vendor
    2. Internally developed
    3. Modified/developed by contractor to meet the City's internal needs
    4. Stored off-site by vendor or other third party

2. Expense direct cost(s) and ancillary cost(s) when acquiring minor equipment, computer software or intangible assets meeting the value threshold of less than $5,000 and a useful life greater than one reporting period.

3. Useful life should be estimated at the time of acquisition and compared to the City useful life tables established and maintained by the Accounting Division. The Accounting Division will periodically review the useful life tables to ensure appropriate assigned life length.

Donation

1. Receipt of an asset by donation includes the acquisition value of a received donation designated by the donor via written documentation.
    a. The donation value includes the following:
        i. any direct and indirect cost
        ii. incidental cost in acquiring ownership or title
        iii. other cost for preparation for the intended use
        iv. shipping cost or other cost required for the
            1. installation
            2. function
            3. efficiency and utility of the asset

Computer Software Developed or Obtained for Internal Use

1. Capitalize or expense based on the stage of computer software acquisition or development and the nature of the cost incurred.

    a. Costs during the preliminary stage are expensed

i. Begins once management has authorized investigating or trial of the project and is considering alternatives, but no decision has been made as to which strategy or vendor to use.
    1. Assemble evaluation team
    2. Evaluating proposal from vendors
    3. Final stage of alternative selection

b. Costs incurred during application development stage are capitalized.
    i. Begins once management has authorized and committed to funding the project and it's probable that the project will be completed and put to its intended use.
        1. Direct material or services
        2. Payroll and payroll-related costs for employees directly associated with the project
        3. Data conversion software
        4. Design, coding, installation and testing of new software

c. Costs incurred post-implementation/operation stage are expensed
    i. Begins once management puts the software in use
        1. Training employees to use the software
        2. Software maintenance
        3. Annual license cost

d. Cost of upgrades and enhancements may be capitalized or expensed
    i. Capitalize – when additional functionality is provided
    ii. Expense – when required by the software application vendor

2. Interest Cost
    a. Incurred during the application development stage by Proprietary funds is capitalized
    b. Incurred during the application development stage by Governmental funds is expensed

Valuation Dollar Thresholds

a. Land – $0
b. Buildings – $0
c. Computer Software – $5,000
d. Computer Software (internally developed) – $10,000
e. Building or Land Improvements – $10,000
f. Infrastructure – $10,000
g. Intangible Assets (permanent land use or owning rights) – $0

h. Intangible Assets (all other land use or owning rights for a designated period) – $5,000
i. Leasehold Improvements – $10,000
j. Equipment – $5,000
k. Grant-funded assets (regardless of the asset class) – $5,000

l. Bureau discretion may be applied at the following levels:
   i. Individual assets
   ii. Similar types of assets grouped together in a class
   iii. A subsystem of assets, which make up a segment of a network; or
   iv. A network of assets
   v. Expensed minor equipment, computer software, or intangible assets
   vi. Capital Projects – Construction in progress assets

Valuation of Capital Assets

1. Capital assets meeting the threshold shall be recorded at original historical cost.

2. Historical cost shall include purchase price, constructions cost, value of donated goods and/or services, and ancillary charges.

3. If historical cost is unknown, estimated cost may be calculated or otherwise determined based on a documented valuation methodology.

4. Ancillary charges shall be reduced by any proceeds from the sale of salvaged materials.

5. Interest costs may be capitalized, where appropriate, in accordance with GAAP. Consult the Accounting Division for guidance regarding the propriety of capitalizing interest.

6. Capital assets received by donation shall be recorded at an acquisition value (an entry price) on the date of transfer plus any required ancillary charges.

7. Assets acquired by capital lease shall be recorded at the lower of fair value or present value of minimum lease payments in accordance with Accounting Administrative Rule FIN-6.07 Leases.

8. Capital Projects – Construction in progress shall be recorded at original historical cost

9. Works of art and historical treasures are not capitalized as long as:
   a. Collections are held for public exhibition rather than financial gain
   b. Such items are protected, unencumbered, cared for, and preserved; and

c. Proceeds from any sales are used by the City to acquire other works of art and historical treasures.

Depreciation of Capital Assets

1. The cost of capital assets less estimated salvage values, if appropriate, shall be depreciated over the estimated useful life of the assets.

2. Assets may be depreciated individually, by class grouping, as a subsystem, or as a network (see Valuation Dollar Thresholds above).

3. Asset useful lives shall be applied consistently by all bureaus as suggested by the City useful life default tables established and maintained by the Accounting Division.

4. Leasehold improvements shall be depreciated over the lesser of useful life or the remaining term of the lease term.

5. Depreciation is calculated with the straight-line method with a convention of zero depreciation during the fiscal year of acquisition and/or donation receipt and a full year's depreciation in the fiscal year of retirement.

6. Residual or value of 10% shall be associated with vehicles. Assets other than vehicles are identified as retaining no economic value beyond the end of their depreciable lives. These assets are to be assigned a residual value of zero.

Amortization of Intangible Assets

1. The cost of intangible assets less estimated salvage values, if appropriate, shall be amortized over the estimated useful life of the asset.

2. Assets may be amortized individually or by class grouping (see Valuation Dollar Thresholds above).

3. Asset useful lives shall be applied consistently by all bureaus as suggested by the City useful life default tables established and maintained by the Accounting Division.

4. Amortization is calculated with the straight-line method with a convention of zero amortization during the fiscal year of acquisition and/or donation receipt and a full year's amortization in the fiscal year of retirement.

Non-Depreciating Capital Assets

1. Land is considered inexhaustible and has an indefinite useful life and is not depreciated.

2. Construction in progress has not been placed in service and is not depreciated.

3. Easements with an indefinite useful life is not depreciated

4. Specific type of permanent land use elements for rights of way, water, timber, air and mineral rights with an indefinite useful life is not depreciated

5. Owning rights for a product or service with an indefinite useful life is not depreciated.

Transfer of Capital Assets

1. Capital assets may be transferred between bureaus and between funds.

2. The bureau transferring assets shall properly document the transfer by the completion of a Capital Asset Disposal & Transfer Form and by prompt submittal of the form to the Accounting Division.

3. Historical cost of transferred assets, along with any related accumulated depreciation (net book value), shall be removed from the transferring owner's balance sheet and added to that of the new owner. Difference between agreed upon purchase price and net book value will be recorded as gains or losses.

Shared Assets

1. Ownership and the related accounting treatment shall be arranged in advance of purchase or construction for capital assets acquired by one bureau for use by another bureau.

2. A formal interagency agreement shall be prepared to clearly delineate each bureau's responsibilities and ensure that capital assets are properly recorded by the parties involved.

3. Unless otherwise specified in the interagency agreement, the bureau with primary responsibility for managing the asset shall capitalize it.

4. Purchased with a federal award must be used for the intended program or project and be available for use on other programs or projects as long as shared use will not interfere with the work on the original intended program or project or until no longer needed.

Grant-funded Assets

1. Capital assets purchased with grant funds shall adhere to the provisions of each grant.

2. Federal grants often include specific requirements and instructions relating to recordkeeping, frequency of physical inventories, maintaining of physical controls to safeguard the property, and restrictions or conditions relating to disposition of the property.
   a. Property records must have the following information recorded for bi-annual physical inventory
      i. Description
      ii. Serial number or other identification number
      iii. Title ownership
      iv. Acquisition date
      v. Acquisition cost
      vi. Percent of federal participation
      vii. Source of funding including the Federal Award Identification Number (FAIN)
      viii. Location,
      ix. Use and condition
      x. Date of disposal and sale price, if applicable

3. Such requirements may attach to the property acquired under the grant and may extend beyond the life of the grant.

Debt-funded Assets

For debt-funded assets, please refer to Debt Management Policy (FIN 2.12).

~~Responsibilities and Accounting for Capital Assets~~ Safeguarding of Capital Assets

1. Bureaus shall maintain assets in working condition.

2. Bureaus shall maintain effective internal controls to safeguard capital assets, including:

   a. Separation of duties among personnel
      i. Authorizing purchase ~~of capital assets;~~
      ~~ii.~~ Accepting delivery ~~deliveries of assets purchased;~~
      ~~iii. Preparing payment vouchers for such purchases;~~

iv. Authorizing ~~vouchers~~ invoice for payment
v. Serving as custodian ~~for the assets; and~~
~~vi.~~ Conducting physical inventories ~~of the capital assets.~~
vii. Alternative compensating controls may be used where limited staff size precludes full segregation of duties.

b. Measures to physically safeguard assets, such as asset tags, locks, passwords, and other security devices deemed appropriate by the circumstances.

3. Bureaus acquiring ~~capital~~ assets shall promptly and accurately record such expenditures throughout the fiscal year as items are placed into service. ~~Supporting documentation for each asset recorded shall include an Asset Acquisition Form completed in accordance with instructions provided by the Accounting Division~~.

4. Bureaus accepting donated capital assets shall do so in compliance with City Code 5.36.090 and shall promptly and accurately record such assets upon receipt. ~~Supporting documentation shall include an Asset Acquisition Form completed in accordance with instructions provided by the Accounting Division.~~

~~5.~~ Bureaus shall attach Accounting Division pre-numbered asset tags to equipment items whenever practical. ~~As assets are acquired and Asset Acquisitions Forms received, the Accounting Division shall provide bureaus with official pre-numbered asset tags.~~

6. All capital assets should be recorded in the City's current Enterprise Resource Planning system.

~~7. Capital asset and depreciation records shall be maintained in accordance with Generally Accepted Accounting Principles (GAAP) under the direction of the Accounting Division.~~

~~8. Capital asset acquisition records shall be retained, even after an item becomes obsolete or is no longer in service, in accordance with City policies and retention schedules published by the City Auditor.~~

~~9. Original titles for real property shall be presented to the City Auditor's office for permanent retention.~~

~~10. Title to works of art and historical treasures shall vest in the City; however, the Regional Arts and Culture Council shall select, maintain, and make decisions regarding deaccessioning per City Code section 5.74, "Acquisition of Art."~~

Minor Equipment

1. Tools or equipment with a unit cost of less than $5,000 used in operations and may have an initial useful life that benefits more than one year reporting period.
   a. The tools or equipment shall be tracked by the bureau or by central accounting.

i. Bureaus shall attach Accounting Division pre-numbered minor equipment tags to minor equipment items whenever practical.

2. Minor Equipment is not capitalized.

3. Disposal of minor equipment shall be subject to the General Guidelines for Disposal of Capital Assets included in the Accounting Administrative Rule FIN-6.12 - Disposal of Capital Assets.

Record Retention

1. Capital assets, depreciation and amortization records shall be maintained in accordance with Generally Accepted Accounting Principles (GAAP) under the direction of the Accounting Division.

2. Asset acquisition records shall be retained, even after an item becomes obsolete or is no longer in service, in accordance with retention schedules published by the City Auditor.

3. Original titles for real property shall be presented to the City Auditor's office for permanent retention.

4. Title to works of art and historical treasures shall vest in the City; however, the Regional Arts and Culture Council shall select, maintain, and make decisions regarding deaccessioning per City Code section 5.74, "Acquisition of Art."

Definitions

"Acquisition value" means the price that would be paid to acquire an asset with equivalent service potential in an orderly market transaction at the acquisition date, or the amount at which a liability could be liquidated with the counterparty at the acquisition date. It is a market-based entry price.

"Ancillary charges" mean incidental costs necessary to place a capital asset into its intended location, condition, or use. Examples include title fees, attorney or architect fees, freight charges, taxes, and site preparation costs. Ancillary charges are capitalized in addition to the purchase price and/or construction cost of capital assets.

"Amortization" means the systematic allocation of an intangible asset over the estimated useful life of the intangible asset.

“Asset Management Record” (AMR) number means the unique asset number assigned by the City’s current Enterprise Resource Planning system, which holds all identifying and calculating information about the asset.

“Building” means a relatively permanent structure used to house persons or property. Buildings may be purchased or constructed by the City. Major components may be capitalized separately. Also classified as buildings are fixtures that are permanently attached to and made part of buildings in such a manner that removal is not possible without damage to the building.

“Capital Asset” means a tangible or intangible asset having significant value that is used in operations and has an initial useful life that benefits more than one year reporting period. Capital assets include land, land improvements, buildings, infrastructure, equipment, leasehold improvements, and construction in progress.

“Capital Lease” means a lease which transfers the benefits and risks inherent in the ownership of facilities and/or equipment to the lessee, who in turn capitalizes the leased assets and records the capital lease as a liability. See Accounting Administrative Rule FIN 6.07 – Leases.

“Capital Project” means the method used for costs incurred to construct or develop a tangible or intangible capital asset before it is substantially ready to be placed into service.

“Capitalization thresholds” means dollar value at which a government elects to capitalize tangible and intangible assets that are used in operations and that have initial useful lives extending beyond a single reporting period.

“Construction in progress” means incurred costs accumulated in a capital project for buildings, improvements, infrastructure, software, development sites, or other projects which remain incomplete and as a result, have not yet been placed into service. Construction in progress is not depreciated.

“Computer software” means developed or obtained for internal use and purchased or leased via cloud computing categories: infrastructure as a service (IaaS), platform as a service (PaaS), or software as a service (SaaS), software on demand, or hosted by a commercial vendor, internally developed, or contractor-developed to meet the City’s internal needs.

“Depreciation” means the systematic allocation of the cost of a capital asset, less any salvage value, over the estimated useful life of the capital asset. The City calculates and records depreciation expense using the straight-line method.

“Depreciable Land Use Right” means the right to use land for a specific limited element use though it does not transfer actual ownership of the land, but grants temporary specific element property use, which are a specific type of easement for a limited length of time. An example is rights of way, water, timber, air or mineral rights.

"Depreciable Owning Right" means temporary ownership of a product or service and is legally reserved for the exclusive use of the owner by limited length of time governed by contractual or legal provisions. An example is a trademark, copyright, or a patent.

"Easement" means the right to use of land, though it does not transfer actual ownership of the land. An easement is typically classified as land, and is not depreciated if the easement is permanent. There are specific land use easements, which are classified by type, such as land use right (see the definition of Land Use Right for additional details).

"Equipment" means tangible property with a useful life greater than one year that does not lose its identity when removed from its location and is not changed materially or expended in use. Equipment does not include the cost of internally developed software.

"Fair value" means the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date exit price. Fair value measurement is an exit price from the perspective of a market participant that controls the asset or is obligated for the liability. The preferable valuation technique is observable inputs such as quoted prices in active markets, rather than internally generated unobservable information. The valuation approach can be either the market approach, cost approach or income approach.

"General and Administrative expenses" means the set of expenses required to administer a business, and which are not related to the construction or sale of goods or services. The expenses will still be incurred, even in the absence of any construction, sales or selling activity.

"Historical cost" means the purchase price or construction cost of a capital asset including any ancillary charges.

"Improvement" means an addition or change to a capital asset, other than maintenance and repairs, which extends its useful life and/or improves its efficiency, capacity, or usability. Improvements to land such as retaining walls, swimming pools, or picnic facilities that have identifiable useful lives and meet the dollar threshold, shall be capitalized as Improvements to land. Improvements to a building such as significant alterations, renovations, or structural changes that have identifiable useful lives and meet the dollar threshold, shall be capitalized as Buildings. Improvements to equipment such as adding additional storage space to a computer server, or increasing the efficiency of the equipment that has an identifiable useful life and meets the dollar threshold, shall be capitalized as Equipment.

All other additions or changes to buildings, which may include leasehold improvements, or equipment meeting the dollar threshold will be classified as follows:

- Improvements to buildings, which may include leasehold improvements shall be capitalized as Buildings
- Improvements to equipment shall be capitalized as Equipment
- Leasehold improvement is defined below.

"Indirect cost" means cost incurred typically after the acquisition of an asset, and may be a proportionate share of costs clearly related to the purchase, construction, development, or improvement of capital assets as a group, but not to the purchase, construction, development, or improvement of a specific asset. Examples are legal fees incurred discussing several projects or asset purchases. On a construction project, the office cost for the field office at the project site and the administrative staff at the field office is an example of indirect cost.

"Infrastructure" means long-lived capital assets that are normally stationary and can be preserved for a significantly greater number of years than most capital assets. Examples are bridges, roads, street lighting, water mains, and sewer systems. Land associated with infrastructure should be reported as land rather than infrastructure. Buildings may be classified as infrastructure if they represent components of an infrastructure subsystem or network.

"Intangible asset" means an asset lacking physical substance that is identifiable and has a useful life greater than a one year reporting period, for example, computer software, land use rights, or arises from contractual or other legal rights.

"Land" means real estate held for productive use. The cost of land shall include any ancillary charges necessary to ready the land for its intended use such as draining, filling, and grading. Land is not depreciated.

"Land use Rights" means the right to use land for a specific limited use though it does not transfer actual ownership of the land, but grants specific property use, which are a specific type of easement. An example is rights of way, water, timber, air or mineral rights.

"Leasehold Improvement" pertains to leased property for which ownership does not transfer to the lessee at the end of the lease and includes additions or changes to prepare leased assets for initial or continued use. Ownership of such improvements reverts to the lessor upon expiration of the lease.

"Maintenance and repairs" means periodic expenditures that sustain an asset in good working order throughout its estimated useful life. Maintenance and repairs do not expand the capacity or extend the useful life of the asset and are therefore not capitalized.

"Minor equipment" means tools and equipment with a unit cost of less than $5,000. Minor equipment is expensed at acquisition and is not capitalized. Bureaus shall maintain their own separate inventory system for minor equipment.

“Network” means a group of assets that provide a particular service, for example, a water distribution system or a sewage treatment plant.

“New component” means the addition of an item, structure, or function to an existing asset for which no such item, structure, or function previously existed. A new component shall be treated as a separate asset.

“Owning rights” means ownership of a product or service and is legally reserved for the exclusive use of the owner. An example is a trademark, copyright, or a patent.

“Replacement” means a substitution of an existing asset by a new asset.

“Salvage Value” means the expected residual value of a capital asset at the end of its useful life. Salvage value is deducted from cost in calculating depreciation.

“Subsystem” means all assets that comprise an identifiable segment of a network or system of assets. For example, within a water distribution network are subsystems of pumping stations, storage facilities, and water mains.

“Useful Life” means the typical estimated life of a capital asset placed into service at the purpose for which the asset was acquired.

“Works of art and historical treasures” mean visual creations and artifacts sited where accessible to the public.

Related Policies and Procedures

6.11.01	Asset Classification Examples
6.11.02	Physical Inventory of Capital Assets
6.12	Disposal of Capital Assets

~~Capitalization Thresholds~~

1. ~~Asset capitalization thresholds shall be established and maintained by the Accounting Division.~~

2. ~~Thresholds by asset category have been established as follows:~~
   a. ~~Land – none.~~
   b. ~~Buildings – none.~~
   c. ~~Improvements – $10,000.~~
   d. ~~Infrastructure – $10,000.~~
   e. ~~Leasehold Improvements – $10,000.~~
   f. ~~Equipment – $5,000.~~

3. ~~Asset capitalization thresholds shall be applied consistently by all bureaus.~~

4. ~~Thresholds for assets acquired by donation shall be the same as their purchased capital asset counterparts.~~

5. ~~Thresholds for assets acquired by capital lease shall be the same as their purchased capital asset counterparts.~~

6. ~~At the acquiring bureau's discretion, capitalization thresholds may be applied at the following levels:~~
   a. ~~Individual assets;~~
   b. ~~Similar types of assets grouped together in a class;~~
   c. ~~A subsystem of assets, which make up a segment of a network; or~~
   d. ~~A network of assets.~~

~~Valuation of Capital Assets~~

1. ~~Capital assets shall be recorded at original historical cost.~~

2. ~~Historical cost shall include purchase price, constructions cost, value of donated goods and/or services, and ancillary charges.~~

3. ~~If historical cost is unknown, estimated cost may be calculated or otherwise determined based on a documented valuation methodology.~~

4. ~~Ancillary charges shall be reduced by any proceeds from the sale of salvaged materials.~~

5. ~~Interest costs may be capitalized, where appropriate, in accordance with GAAP. Consult the Accounting Division for guidance regarding the propriety of capitalizing interest.~~

6. ~~Donated capital assets shall be recorded at fair value on the date of transfer plus any required ancillary charges.~~

7. ~~Assets acquired by capital lease shall be recorded at the lower of fair value or present value of minimum lease payments in accordance with Accounting Administrative Rule FIN 6.07 Leases.~~

8. ~~In accordance with GAAP, the City does not capitalize works of art and historical treasures as long as:~~
   a. ~~Collections are held for public exhibition rather than financial gain;~~
   b. ~~Such items are protected, unencumbered, cared for, and preserved; and~~
   c. ~~Proceeds from any sales are used by the City to acquire other works of art and historical treasures.~~

~~Depreciation~~

1. ~~The cost of capital assets less estimated salvage values, if appropriate, shall be depreciated over the estimated useful life of the assets.~~
   a. ~~Land is considered inexhaustible and is, therefore, not depreciated.~~
   b. ~~Construction in progress by definition has not yet been placed into service and is, therefore, not depreciated.~~

2. ~~Assets may be depreciated individually, by class grouping, as a subsystem, or as a network (see Capitalization Thresholds above).~~

3. ~~Capital asset useful lives shall be applied consistently by all bureaus in accordance with City useful life tables established and maintained by the Accounting Division.~~

4. ~~Leasehold improvements shall be depreciated over the lesser of useful life or the remaining term of the lease term.~~

5. ~~Depreciation shall be calculated using the straight-line method with a convention of zero depreciation during the fiscal year of acquisition and a full year's depreciation in the fiscal year of retirement.~~

6. ~~Residual or salvage value of 10% shall be associated with Buildings, Improvements, and Equipment except for those classes or groupings specifically identified as retaining no economic value beyond the end of their depreciable lives. These classes or groupings are to be assigned a residual value of zero.~~

~~Physical Inventories of Capital Assets~~

1. ~~The Accounting Division shall annually provide capital assets listings to the bureaus to serve as the basis for physical inventory counts.~~

2. ~~Bureau management shall be responsible for completing annual physical inventories of capital assets.~~

3. ~~Physical inventory counts shall be conducted or observed by bureau personnel having no direct custodial responsibility for the assets being counted.~~

4. ~~Physical inventory discrepancies shall also include items counted that are not listed on inventory records.~~

5. ~~Physical inventory discrepancies shall be accounted for and resolved by completing and forwarding to the Accounting Division either an Equipment Transfer and Disposal Report or an Asset Acquisition Form, whichever is appropriate.~~

6. ~~Documentation of physical inventories shall be submitted to the Accounting Division for review.~~

7. ~~Disposal of capital assets shall be in accordance with Accounting Administrative Rule FIN-6.12 - Disposal of Capital Assets.~~

~~Transfer of Assets~~

1. ~~Capital assets may be transferred between bureaus and between funds.~~

2. ~~The bureau transferring assets shall properly document the transfer by the completion of a Transfer and Disposal Report and by prompt submittal of the form to the Accounting Division.~~

3. ~~Historical cost of transferred assets, along with any related accumulated depreciation, shall be removed from the transferring owner's balance sheet and added to that of the new owner.~~

~~Shared Assets~~

1. ~~Ownership and the related accounting treatment shall be arranged in advance of purchase or construction for capital assets acquired by one bureau for use by another bureau.~~

2. ~~A formal interagency agreement shall be prepared to clearly delineate each bureau's responsibilities and ensure that capital assets are properly recorded by the parties involved.~~

3. ~~Unless otherwise specified in the interagency agreement, the bureau with primary responsibility for managing the asset shall capitalize it.~~

~~Grant-funded Assets~~

1. ~~Capital assets purchased with grant funds shall adhere to the provisions of each grant.~~

2. ~~Federal grants often include specific requirements and instructions relating to recordkeeping, frequency of physical inventories, maintaining of physical controls to safeguard the property, and restrictions or conditions relating to disposition of the property.~~

3. ~~Such requirements may attach to the property acquired under the grant and may extend beyond the life of the grant.~~

~~Minor Equipment~~

1. ~~Minor Equipment is not capitalized.~~

2. ~~Bureaus may, however, independently track these items.~~

3. ~~Disposal of minor equipment shall be subject to the General Guidelines for Disposal of Capital Assets included in the Accounting Administrative Rule FIN-6.12 - Disposal of Capital Assets.~~

History
Resolution No. 36435, adopted by Council September 6, 2006.