Section 1  Organizational Responsibilities

1 Purpose
2 Objectives
3 Scope
4 Responsibilities
5 Acquisitions
6 Transfers
7 Retirements and Disposals
8 Asset Inventory
9 Annual Financial Reporting
10 Records Maintenance
11 Definitions

Section 2  Asset Valuation

1 Purpose
2 Scope
3 Guidelines
4 Valuation Terms
5 Valuation of Land
6 Valuation of Buildings
7 Valuation of Improvements Other than Buildings
8 Valuation of Machinery and Equipment (Including Vehicles)
9 Valuation of Construction Projects in Progress
10 Self-Constructed Assets
11 Multiple-Unit Acquisitions
12 Make-Ready Costs
13 Multiple Funding Sources
14 Recording Valuation Information in the FAMS
15 Controlled Items
# FIXED ASSET ACCOUNTING AND MANAGEMENT PROCEDURES MANUAL

## Table of Contents

### Section 3  Multiple Unit Assets

- 1 Purpose ................................................................. 25
- 2 Scope ........................................................................ 25
- 3 Guidelines ................................................................. 26
- 4 Recording an Asset System ....................................... 27
- 5 Recording a Group Asset .......................................... 29
- 6 Recording a Component Asset .................................... 30

### Section 4  Fixed Asset Classification and Useful Lives

- 1 Purpose........................................................................ 35
- 2 Scope ........................................................................ 35
- 3 Guidelines ................................................................. 35
- 4 General Procedure ....................................................... 36
- 5 Standard Asset Descriptions ....................................... 37
- 6 Asset Class and Useful Life Table ............................... 38

### Section 5  Numbering and Tagging Fixed Assets

- 1 Purpose ........................................................................ 43
- 2 Scope ........................................................................ 43
- 3 Guidelines ................................................................. 43
- 4 Tagging Methods and Placement ............................... 44
- 5 Fixed Asset Identification (FAI)/Tag Numbering Systems ................................................... 44
- 6 Tag Supplies and Inventory ............................................ 45
- 7 Cross References in the Fixed Asset Management System (FAMS) ........................................ 45
- 8 Location Assignment Tags ............................................. 47
- 9 Responsibilities for Assignment of Numbers and Tagging .................................................. 47
- 10 Procedures for Assigning Numbers and Tagging ............................................................. 49
- 11 Replacing Numbers for Lost or Damaged Tags .............................................................. 51
- 12 Sample Approaches .................................................... 52
FIXED ASSET ACCOUNTING AND MANAGEMENT PROCEDURES MANUAL

Table of Contents

Section 6 Depreciation ........................................................................................................... 55
1 Purpose ............................................................................................................................. 55
2 Scope ................................................................................................................................ 55
3 Guidelines ......................................................................................................................... 55
4 Assigning Useful Life and Salvage Value ....................................................................... 55
5 Methodology and Calculation .......................................................................................... 58
6 Period Processing ............................................................................................................. 59
7 Depreciation Adjustment Procedure ................................................................................ 60

Section 7 Asset Acquisitions ............................................................................................. 63
1 Purpose ............................................................................................................................. 63
2 Scope ................................................................................................................................ 63
3 Guidelines ......................................................................................................................... 63
4 Responsibilities by Major Asset Category ....................................................................... 65
5 Responsibilities by Organization or Position Assignment ............................................... 66
6 Asset Acquisition by Purchase Order (PO) Procedure .................................................... 68
7 Procedure for Recording Related Accounting Transactions ............................................ 70
8 Verification Procedure for Assets Tagged and Recorded in the FAMS ......................... 71
9 Capitalization of Rolling Stock Procedure ....................................................................... 71
10 Capitalization Procedure for Machinery and Equipment Purchased by Contract ........... 72
11 Procedure for Recording Multiple Fixed Assets Acquired by a Single Purchase ........... 73
12 Capital Leases .................................................................................................................. 74
13 Grant Funded Assets ........................................................................................................ 75

Section 8 Asset Acquisition by Donation, Confiscation, Condemnation, Eminent Domain, Annexation, or Foreclosure .............................................................................. 79
1 Purpose ............................................................................................................................. 79
2 Scope ................................................................................................................................ 79
3 Guidelines ......................................................................................................................... 79
4 General Procedure ............................................................................................................ 80
5 Donated Assets ............................................................................................................... 82
6 Confiscated Assets .......................................................................................................... 83
7 Eminent Domain ............................................................................................................. 83
8 Annexation ...................................................................................................................... 85
9 Foreclosure .................................................................................................................... 85
10 Assets in the Temporary Custody of the City ................................................................. 87
## Table of Contents

**Section 9  Constructed Assets** .............................................................................................................. 89

1  Purpose .................................................................................................................................................. 89
2  Scope .................................................................................................................................................... 89
3  Guidelines ............................................................................................................................................ 89
4  Responsibilities .................................................................................................................................... 91
5  Procedure for Accumulating and Tracking Construction Costs ...................................................... 92
6  Procedure for Placing Constructed Assets in Service ....................................................................... 93
7  Final Close-Out Processing Procedure ............................................................................................ 95
8  Capitalization of Interest .................................................................................................................... 97

**Section 10  Improvements, Betterments, and Maintenance** ................................................................. 99

1  Purpose ................................................................................................................................................ 99
2  Scope .................................................................................................................................................... 99
3  Guidelines ............................................................................................................................................ 99
4  Background for Understanding .......................................................................................................... 101
5  Determining Whether to Capitalize or to Charge an Expense to Maintenance .............................. 103
6  Procedure for Recording Improvements and Betterments in the Fixed Asset Management System (FAMS) ......................................................................................................................... 104
7  Retirements Related to Replacements and Renovations .................................................................. 106

**Section 11  Transfer of Fixed Assets** ..................................................................................................... 107

1  Purpose ................................................................................................................................................ 107
2  Scope .................................................................................................................................................... 107
3  Guidelines ............................................................................................................................................ 107
4  Types of Transfers .............................................................................................................................. 109
5  Departmental Transfers ...................................................................................................................... 110
6  Interdepartmental/Interfund Transfers ............................................................................................... 112
7  Interdepartmental/Intrafund Transfers ............................................................................................... 114
8  Transfers of Assets via the Property Disposal Management Office (PDMO) .................................. 115
9  Transfers of Federal or Grant Funded Assets ..................................................................................... 115
# FIXED ASSET ACCOUNTING AND MANAGEMENT PROCEDURES MANUAL

## Table of Contents

### Section 12 Transfer and Removal of Surplus Property

1. **Purpose** .......................................................... 117
2. **Scope** .......................................................... 117
3. **Responsibilities** .................................................. 117
4. **Forms** .......................................................... 118
5. **Procedure** ....................................................... 118
6. **Property Redistribution** ....................................... 119

### Section 13 Retirement and Disposal

1. **Purpose** .......................................................... 121
2. **Scope** .......................................................... 121
3. **Responsibilities by Major Asset Category** ............... 121
4. **Disposal Criteria** ............................................... 123
5. **Disposal Methods** ............................................ 123
6. **General Disposal Procedure** ............................... 125
7. **Disposal by Transfer to the PDMO** .......................... 125
8. **Disposal by Sale** ............................................... 127
9. **Disposal by Trade-In** ........................................... 131
10. **Disposal by Return to Supplier for Credit** ................. 131
11. **Disposal of Stolen Assets** ..................................... 132
12. **Disposal of Missing Assets** ................................. 133
13. **Disposal of Damaged, Destroyed, or Cannibalized Assets (Including Scrap)** .............. 134
14. **Abandonment of Fixed Assets** ............................ 134
15. **Disposition of Federal and Grant Funded Assets** ........ 135

### Section 14 Physical Inventory

1. **Purpose** .......................................................... 137
2. **Scope** .......................................................... 137
3. **Responsibilities** .................................................. 137
4. **Inventory Frequency** ........................................... 138
5. **Conducting the Physical Inventory** .......................... 138
6. **Reconciliation Results and Actions** ......................... 139
7. **Reporting Final Results** ...................................... 141
8. **Damaged or Defaced Tags** .................................... 141
9. **Grant Funded Assets** .......................................... 141
Section 15  Periodic and Year-End Procedures and Records Maintenance...............143
  1 Purpose ..........................................................................................................................143
  2 Scope ................................................................................................................................143
  3 Periodic Procedures .........................................................................................................143
  4 Financial Statements .......................................................................................................144
  5 Disclosure Requirements for Leases .............................................................................145
  6 Records Retention ........................................................................................................146

Appendix A  Glossary ..........................................................................................................151

Appendix B  Forms ...........................................................................................................157
1 Purpose
The purpose of this section is to establish organizational responsibilities of City departments and managers for fixed asset management, control, accounting, and record keeping and to define fixed assets and controlled items and the guidelines for their capitalization.

2 Objectives
The objectives of this document are as follows:

- To ensure consistent Citywide procedures for fixed asset accounting, management, control, and accountability
- To ensure that management has adequately minimized risk to assets through internal controls
- To ensure proper financial accounting and reporting in accordance with Generally Accepted Accounting Principals (GAAP), the Governmental Accounting Standards Board (GASB), the National Association of Regulatory Utility Commissioners (NARUC), and other applicable government accounting standards

3 Scope
This procedure applies to all City departments and City employees, regardless of classification or function. All City managers and employees shall exercise the utmost care and diligence in the use, maintenance, and protection of all public assets.

4 Responsibilities

4.1 City Controller
- Maintains the financial accounting records and reports on these resources on behalf of the citizens.
- Manages the assets assigned to the Controller’s Office.
- Establishes general ledger accounts for major asset classes, including applicable depreciation according to established guidelines.
- Establishes fixed asset accounting and financial reporting policies that conform to GAAP.
4.2 Director of Finance & Administration

- Establishes a fixed asset management program within Finance & Administration (F&A) to coordinate the development and dissemination of fixed asset policies and procedures and to facilitate all of the necessary activities to establish asset accountability.

- Manages the assets assigned to F&A.

- Provides central administration and support for a standardized Fixed Asset Management System (FAMS) capable of producing consolidated Citywide management reports.

- Assists in meeting the administration’s custodianship responsibilities.

- Issues a manual containing Citywide fixed asset accounting and management procedures and revises the manual as necessary.

- Establishes within the department a disposal operation to assist City departments in the removal, redistribution, and sale of surplus assets.

4.3 Department Directors

- Serve as custodians of the fixed assets and controlled items, including land, land improvements, buildings, machinery, and equipment (including rolling stock), that are assigned to their departments.

- Ensure full departmental compliance with the established fixed asset accounting polices and procedures, as promulgated by the Mayor, the City Controller, and the Director of Finance & Administration or their designees, in order to maintain adequate records of the City’s fixed assets and controlled items.

- Designates a Department Fixed Asset Coordinator (DFAC). The DFAC must be a manager within the department in the position of Division Manager or above. The appropriate level of management will be based upon the size, value, complexity, and nature of the departments’ fixed assets.

4.4 Department Fixed Asset Coordinator (DFAC)

The DFAC is responsible for managing the fixed asset records in accordance with F&A’s established procedures.

5 Acquisitions

Departments will identify and record all fixed assets and controlled items in the appropriate asset management system. Cost by funding source will be recorded with each asset record. Fixed assets and controlled items, including purchases, capital leases, construction,
improvements, donations, eminent domain, or annexation, will be recorded regardless of acquisition type.

Identification and tagging of assets will take place in accordance with the following guidelines:

- It is the department’s responsibility to assign, record, and affix identification numbers (tags) to all fixed assets and controlled items except vehicles. Fleet Management will assign shop numbers to all vehicles.
- All fixed assets and controlled items will be assigned an asset number upon receipt and before the item is placed into service.
- The department will affix tags to an asset in a conspicuous and convenient location.
- Tags will remain on the asset throughout the life of the asset. Damaged tags will be replaced as needed.

6 Transfers

6.1 Transfer of Assets

The transfer of assets will take place in accordance with the following guidelines:

- Both the transferring and receiving department or section will appropriately account for fixed asset transfers. This applies to transfers between departments (interdepartmental transfers) or within departments (intradepartmental transfers).
- The transferring and receiving department directors will approve interdepartmental transfers.
- Once a transfer has been completed, the receiving department will confirm asset transfer information. For intradepartmental transfers, the department is responsible for recording information related to the transfer and for updating the FAMS record.

6.2 Transfer of Federal or Grant Funded Assets

It may be necessary to obtain specific grantor approval prior to the transfer of federal or grant funded assets when it is determined that the fixed asset is no longer needed for the original grant purpose. Guidelines for the transfer of grant funded assets, as outlined in the Office of Management and Budget (OMB) Circular A-102, will apply.
7 Retirements and Disposals

Departments will identify and record all fixed assets and controlled items that are removed from service, retired, and disposed of. All assets that are sold, exchanged, traded, stolen, damaged beyond repair, worn beyond utilization, cannibalized, or in any other way removed from service will be reported as retirements in the current fiscal reporting period. All disposals and retirements for fixed assets, controlled items, and other City property will be performed in accordance with asset management guidelines and procedures established by the Director of Finance & Administration or a designee.

8 Asset Inventory

Departments will conduct a full inventory of all property under their stewardship, in accordance with the inventory schedule developed by F&A, and will provide the results of that inventory to the Director of Finance & Administration or a designee. Should reconciliation of the asset counts and the fixed asset system reveal discrepancies, it will be the department’s responsibility to locate assets and reconcile all discrepancies.

The Director of Finance & Administration or a designee will produce a Citywide inventory report and provide this report to the Mayor and the City Controller upon request.

9 Annual Financial Reporting

The Director of Finance & Administration or a designee will present a schedule of general fixed assets to the Controller’s Office in accordance with the established fiscal year-end close schedule and will comply with the reporting and disclosure requirements of current GAAP for governmental entities.

10 Records Maintenance

Fixed asset records will be a complete and accurate accounting for fixed assets of significant value and are fundamental to sound financial management. The responsibilities of stewardship involved in safeguarding such a large public investment is of the utmost importance. This responsibility can only be discharged effectively through adequate fixed assets accounting and control. Fixed asset records will be maintained for the life of each asset and retained in accordance with the requirements of the City for the retention of accounting records.
11 Definitions

Capital Asset – Any fixed asset with an original cost equal to or greater than $5,000. These items have significant value and will be capitalized.

City Property – All property owned by the City, whether purchased, leased, confiscated, donated, received by eminent domain, constructed, or annexed. City properties may include supplies, real property to be sold for delinquent taxes, police property, lost and found items, scrap materials for recycling, capital assets, and controlled items.

Controlled Item – A property item that meets the criteria for a fixed asset but with a value less than $5,000 and equal to or greater than $1,000. These items will be subject to management control.

Fixed Asset – Items of property that are tangible in nature; have significant value; have an economic useful life longer than 1 year; maintain their identities, either as separate entities or as identifiable components; are not repair parts or supply items; and are used in the conduct of City activities.

Infrastructure – Long-lived capital assets that are stationary in nature and normally can be preserved for a significantly greater number of years than most capital assets. Examples include, but are not limited to, roads, bridges, tunnels, drainage systems, water and sewer systems, dams, and lighting systems.

Personal Property – All tangible property other than real estate, such as furniture, fixtures, movable equipment, materials, and supplies.

Real Property – All real estate assets, including land, buildings, and improvements to land or buildings. In legal terminology, land and items growing on, permanently erected on, or affixed to the land; also, rights to use land.
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1 Purpose

The purpose of this section is to define procedures and organizational responsibilities for establishing total fixed asset acquisition costs.

All fixed assets and controlled items acquired by the City will be capitalized in accordance with the guidelines in this section.

2 Scope

Assigning proper values to fixed assets and controlled items is critical to maintaining accurate accounting records. Depending upon the classification of the asset (land, buildings, improvements, equipment, vehicles, or infrastructure), the information required to establish and properly record asset values will come from various organizations or departments. Therefore, there will be shared responsibilities.

While other City organizations may provide supporting information, it remains the ultimate responsibility of each Department Fixed Asset Coordinator (DFAC) to ensure that the proper and complete valuation has been recorded for each asset in the department’s Fixed Asset Management System (FAMS).

3 Guidelines

3.1 Designation of Property as a Fixed Asset

Fixed assets are items of property that

- are tangible in nature;
- have an economic useful life longer than 1 year;
- maintain their identities throughout their useful lives, either as separate entities or as identifiable components of larger conglomerations of property;
- are not repair parts or supply items; and
- have significant value.

With respect to the City, any fixed asset with an original cost equal to or greater than $5,000 is considered to have significant value and therefore will be capitalized.
Assets acquired with federal grant funds must be capitalized and controlled in accordance with the federal property management standards outlined in the Office of Management and Budget (OMB) Circular A-102, which requires the capitalization of grant funded assets equal to or greater than $5,000 for local government entities. Capitalization limits for federal grant funded assets will conform to the federal guidelines in effect when the assets are acquired.

### 3.2 Designation of Property as a Controlled Item

Due to their sensitive, portable, or theft-prone natures, certain property items with a value less than $5,000 but equal to or greater than $1,000 may be subject to control as if they were fixed assets. This allows for systematic control over high pilferage and other items that do not meet all the guidelines for capitalization. These items include audio-visual equipment, power tools, radio equipment, cellular telephones, laboratory instruments, hand-held electronic devices, etc. For management and control purposes, such noncapital controlled items will be tagged and inventoried as controlled items, recorded in the City’s fixed assets accounting records, and recorded at their original acquisition cost in the FAMS master records.

Unlike fixed assets, controlled items will not be capitalized. There will be a capitalization flag in the FAMS to indicate that these assets will be controlled and not capitalized.

### 3.3 Fixed Asset Classifications

Fixed assets to which the City has title will be entered into the City’s accounting records and managed by the procedures in this manual.

Fixed assets will be recorded in the appropriate fund.

Fixed assets that the City controls in a fiduciary capacity, but for which it does not have title, will be recorded at a cost of $0 in the FAMS and will be tagged and inventoried for control purposes in a manner similar to controlled items. Fiduciary fixed assets will be identified in a separate asset category for reporting purposes.

General classifications of fixed assets that will be subject to the procedures in this section are described below. More detailed breakdowns can be found in Table 4-1 in Section 4 (Fixed Asset Classification and Useful Lives).
3.3.1 Land

This classification includes all land parcels purchased or otherwise acquired by the City for building sites, street right of way, recreation, future use, etc.

Land acquired through foreclosure or seizure that is to be liquidated in a reasonably short time frame, with the proceeds earmarked to settle claims of the City or to support operations, is normally classified as a current asset rather than a fixed asset.

3.3.2 Buildings and Improvements

This classification includes all buildings, improvements to buildings, and structures that function as buildings (such as movable field offices).

The subsequent addition of equipment will be recorded as machinery and equipment unless it meets the definition of a component asset. See Section 3 (Multiple Unit Assets).

Major improvements, such as additions and large-scale renovations to buildings, should be capitalized.

3.3.3 Improvements Other than Buildings

This classification includes improvements, such as airport runways and taxiways, parking lots, fences and walls, permanent signs, water and sewer lines, nonbuilding structures, and similar property, that are not directly associated with a building and are not otherwise classified as public domain or infrastructure (e.g., roads, bridges, storm sewers).

3.3.4 Machinery and Equipment

This classification includes all motor vehicles, rolling stock, construction and maintenance equipment, office equipment and furnishings, etc., for which one of the following criteria apply:

- The unit cost exceeds the minimum capitalization amount.
- The nature and use of the item dictates that groupings of identical smaller items, such as library books or warehouse shelving units, should be capitalized and controlled as group assets. See Section 3 (Multiple Unit Assets).

3.3.5 Construction in Progress

This classification includes all partially completed construction projects. Upon completion of construction and placement into service, these assets will be transferred from this category to a permanent fixed assets classification.
3.3.6 Infrastructure

This classification includes public domain fixed assets, such as roads, bridges, curbs and gutters, streets and sidewalks, traffic lighting systems, storm sewer systems, and similar assets, that are not mobile and are of value only to the City as a public entity or in accordance with Governmental Accounting Standards Board (GASB) statements.

Note: Maintenance activities, repair parts, and supply items will not be considered fixed assets, even if their unit cost exceeds the minimum dollar limit for capitalization. Maintenance and repair include activities required to maintain an asset in good working condition but neither change the basic functions for which the asset was designed nor extend its useful life.

4 Valuation Terms

The following terms are used in this section and in the City FAMS:

Acquisition Cost – The total cost of obtaining a fixed asset and putting it in place and in condition for use. This cost will be recorded in the FAMS, representing the value of the asset when it was acquired. The acquisition cost is generally the historical or original cost but may be based on a different valuation for certain types of transactions.

Book Value – The portion of an asset’s historical or original cost not yet depreciated or used. Book value can be calculated by subtracting accumulated depreciation from the historical or original cost of the asset.

Depreciation – An amount charged against the historical cost of an asset representing the loss in value of the original asset as it is used and ages. Depreciation reduces the accounting value of an asset and is accumulated over the estimated life of the asset.

Estimated Cost – Professional (certified) appraisals of the cost of an asset; used in those instances where historical cost records are not available. The estimated cost is determined by inventorying existing assets. When required, the estimated cost will be used as the acquisition cost.

Fair Market Value – The price at which a willing seller would sell something to a willing buyer, neither being under any compulsion to buy or sell. This is the price that would be paid for an item in a condemnation proceeding.

Historical Cost (or Original Cost) – The actual amount paid for an asset at the date of acquisition, including any normal costs associated with preparing the asset for use. In the case of most new assets, particularly machinery and equipment, this is the acquisition cost.
Replacement Cost – The estimated cost of acquiring a new equivalent asset. Replacement cost may be approximated through the use of a specific price index. For example, a building constructed in 1940 for $200,000 would cost considerably more to rebuild today. Therefore, replacement cost will usually be higher than the original cost (personal computers may be an exception).

5 Valuation of Land

5.1 Responsibilities

5.1.1 Department Fixed Asset Coordinator (DFAC)

Records acquisition costs (as provided by the following sources) of assets in this category and under the DFAC’s custody in the department FAMS.

5.1.2 Public Works & Engineering (PW&E) Real Estate Division (or Designee)

- Accumulates and identifies all real estate acquisition costs incurred in connection with PW&E Real Estate Division activities.
- Transmits these costs to the PW&E Capital Improvement Program (CIP) Accounting personnel, F&A Asset Management, and the benefiting department. These costs include the purchase price approved by the City and any ancillary or outside costs incurred or contracted by the PW&E Real Estate Division and subsequently billed as a cost recovery to a CIP project.
- Prepares Citywide summary reports concerning PW&E Real Estate Division current activities or the City’s property inventory as requested by the Mayor or the Director of Finance & Administration.

5.1.3 Legal Department

- Accumulates legal services costs associated with acquiring the property.
- Identifies these costs with the appropriate CIP project when they are billed to a CIP fund as a cost recovery.
- Provides complete documentation of these costs to the PW&E Resource Management Division for CIP projects that are not yet closed.
- Provides information to the Controller’s Office, PW&E Resource Management Division, Asset Management, and the department benefiting from the use of the asset for capital projects that are closed, so that FAMS records can be properly updated.
5.1.4 PW&E Accounting (e.g., CIP, Fiscal) (or Designee)

- Records all real estate acquisition costs, including information provided by the PW&E Real Estate Division in the appropriate CIP project cost records.
- Prepares the Financial Management System (FMS) Final Close-Out Summary upon project completion and acceptance, summarizing all project costs to be capitalized.
- Identifies the appropriate balance sheet account distribution of such costs when project cost summaries are provided to the Controller’s Office, Asset Management, and the benefiting department(s) at the time the project is closed and construction costs are reclassified from construction in progress to fixed assets.
- Provides the benefiting department(s) with a copy of the FMS Final Close-Out Summary so that costs can be recorded in the department FAMS.

5.1.5 Department of Aviation

Accumulates and records all real estate acquisition costs for capital improvement projects under its jurisdiction.

5.2 Documentation

The following documents will be the source of required valuation information:

- Report of Property Acquisition (PW&E Real Estate Division)
- Legal Services Cost Summary (Legal Department)
- FMS Final Close-Out Summary (PW&E Resource Management Division)

5.3 Acquisition Cost

5.3.1 Fees Normally Included

- Original contract price
- Broker’s commission
- Legal fees for examining and recording ownership
- Cost of ownership guarantee insurance policies
- Cost of real estate surveys
- Cost of razing old buildings, structures, or other improvements acquired with the property (less salvage)
• Cost incurred to put the property in condition for its intended use, including draining, clearing, demolition of unwanted improvements, landscaping, land filling, and grading costs
• Title fees
• Surveying

5.3.2 Fees Normally Excluded

• Ownership searches
• Legal and other expert services on land not ultimately purchased
• Expenditures in connection with disposal of refuse
• Costs of easements
• Assessments for repairs to roads and sidewalks
• Repairs to other improvements

**Note:** Land improvements (nonbuilding improvements having a limited life, e.g., paving, fencing, and lighting) will be set up in a separate asset account and depreciated. See subsection 7 in this section. This applies to improvements that are to remain on the property after it is put to its intended use.

**Note:** Asset-related costs that are incurred after acquisition, such as additions, improvements, betterment, or replacements, are specifically discussed in Section 10 (Improvements, Betterments, and Maintenance). Assets acquired through donation, confiscation, condemnation, eminent domain, annexation, or foreclosure are covered in Section 8 (Asset Acquisition by Donation, Confiscation, Condemnation, Eminent Domain, Annexation, or Foreclosure).
6 Valuation of Buildings

6.1 Responsibilities

6.1.1 Department Fixed Asset Coordinator (DFAC)
Records acquisition costs (as provided by the following sources) of assets in this category and under the DFAC’s custody in the department FAMS.

6.1.2 Public Works & Engineering (PW&E) Real Estate Division
Accumulates and identifies acquisition costs for buildings purchased by the City in the same manner as for valuation of land. See subsection 5 in this section.

6.1.3 Legal Department
Accumulates and identifies all building acquisition costs incurred in connection with its activities in the same manner as for valuation of land. See subsection 5 in this section.

6.1.4 PW&E Accounting
- Accumulates and records all building construction costs in the appropriate CIP project cost records.
- Prepares the FMS Final Close-Out Summary upon project completion and acceptance, summarizing all project costs to be capitalized.
- Identifies the appropriate balance sheet account distribution of such costs when project cost summaries are provided to the Controller’s Office, Asset Management, and the benefiting department(s) at the time the project is closed and construction costs are reclassified from construction in progress to fixed assets.
- Provides the benefiting department(s) with a copy of the FMS Final Close-Out Summary so that costs can be recorded in the department FAMS.

6.1.5 Department of Aviation
Accumulates and records all building acquisition costs for capital improvement projects under its jurisdiction.
6.2 Documentation

The following documents will be the source of required valuation information:

- Report of Property Acquisition (PW&E Real Estate Division)
- Legal Services Cost Summary (Legal Department)
- FMS Final Close-Out Summary (PW&E Resource Management Division)

6.3 Acquisition Cost

6.3.1 Fees Normally Included

- Original purchase contract price or price of construction
- Expenses incurred in remodeling, reconditioning, or altering a purchased building to make it suitable for the purpose for which it was acquired
- Cost of excavation, grading, or filling land as a part of the construction of a specific building
- Expenses incurred for the preparation of plans, specifications, blueprints, etc.
- Cost of building permits
- Architects’ and engineers’ fees for design and supervision
- Other costs, such as temporary buildings used during the construction period, that are not movable or reusable and are razed at the end of construction

6.3.2 Fees Normally Excluded

- Extraordinary costs that are merely incidental to the erection of the building (e.g., those due to strike, flood, fire, or other casualty)
- The costs of abandoned construction
- The cost of razing an existing City-owned building to prepare a site for construction (This cost may be included with the retirement of the old building or expensed.)

Note: Removable building equipment (contents) that has a shorter life than the building and is subject to replacement without impairment of the integrity of the building will be recorded separately as equipment and will be separately depreciated.
7 Valuation of Improvements Other than Buildings

7.1 Responsibilities
The organizational responsibilities for accumulating and recording capitalized costs for improvements other than buildings are the same as those outlined in subsection 6 in this section.

7.2 Documentation
The following documents will be the source of required valuation information:

- Legal Services Cost Summary (Legal Department)
- FMS Final Close-Out Summary (PW&E Resource Management Division)

7.3 Acquisition Cost

7.3.1 Fees Normally Included
- Materials
- Direct labor
- Professional fees
- Design fees
- Inspection fees
- Installation costs
- Testing costs
- Project administration costs

7.3.2 Fees Normally Excluded
- Extraordinary costs that are merely incidental to the completion of the improvement (e.g., those due to strike, flood, fire, or other casualty)
- The costs of abandoned construction
8 Valuation of Machinery and Equipment (Including Vehicles)

8.1 Responsibilities
The DFACs of individual departments will have the primary responsibility for accumulating and identifying all machinery and equipment costs and will be responsible for recording acquisition costs of assets in this category and under their custody in their FAMS.

8.2 Documentation
The following documents will be the source of required valuation information:
- Purchase order (PO)
- Vendor invoice
- FMS payment voucher

8.3 Acquisition Cost

8.3.1 Fees Normally Included
- Original contract or invoice cost
- Freight-in, handling, and storage costs
- Specific in-transit insurance costs
- Installation costs (if performed by vendor)
- Costs for testing and preparation for use
- Costs of reconditioning items that were purchased used

8.3.2 Fees Normally Excluded
The acquisition cost of machinery and equipment will normally exclude trade-in allowances.

Note: Any asset-related costs that are incurred after asset acquisition, such as additions, improvements, betterment, or replacements, will also be capitalized if the cost is greater than $5,000 and the life of the asset is extended by more than 1 year. See Section 10 (Improvements, Betterments, and Maintenance). Otherwise, the cash outlay will be expensed in the period in which it is incurred.
9 Valuation of Construction Projects in Progress (Including Infrastructure)

Note: All assets acquired with capital project funds will be recorded and accounted for in accordance with Section 9 (Constructed Assets).

9.1 Incomplete, Unoccupied Construction Projects

For all projects that have not yet reached 100% completion, the PW&E Resource Management Division personnel will have sole responsibility for tracking construction in progress. The PW&E Resource Management Division will perform a review of the nature and status of all construction in progress (excluding Department of Aviation projects) to verify the following:

- The construction in progress has been appropriately capitalized.
- The aggregate of individual project records accurately reflects the current status of active construction in progress.

Such reviews will be performed on at least an annual basis, regardless of activity levels, and upon completion and placement into service of an individual project.

Annually, PW&E Resource Management Division will provide the Controller’s Office, Asset Management, and benefiting departments with a Schedule of Construction in Progress, detailing accumulated costs and percent completion information for each project that is open and has not yet been placed into service.

9.2 Completed or Occupied Construction Projects

For all projects, including infrastructure, that have reached completion and are accepted or are occupied (buildings/structures), the PW&E Resource Management Division will submit information to the Controller’s Office, Asset Management, and the benefiting department(s) in accordance with the procedures in Section 9 (Constructed Assets).
10 Self-Constructed Assets

When the City (or department) uses internal staff, resources, equipment, and/or materials to construct a building or piece of machinery or equipment for its own use that meets the capitalization criteria (greater than or equal to $5,000), an acquisition cost will be established and the asset will be recorded in the FAMS as if it had been purchased.

All direct costs, including materials and labor costs, will be included in the total cost of the asset. Overhead (indirect) costs will not be included unless they are increased by the construction of the asset.

11 Multiple-Unit Acquisitions

11.1 Unit Cost Calculation for Similar Assets Acquired Through a Multiple-Unit Purchase or Construction Project

Acquisitions involving the purchase or construction of multiple units of like assets (e.g., rolling stock, utility plant machinery, outdoor lighting fixtures) often include common or shared costs that are not directly identifiable to an individual asset (e.g., delivery, installation).

These common costs will be equitably allocated to each of the asset units being purchased or constructed as a part of the determination of capitalized costs and included in total asset valuation amounts.

11.2 Cost Calculations for Dissimilar Assets Acquired Through a Single Purchase

To allocate common costs associated with dissimilar multiple assets acquired under a single purchase, the determination of capitalized costs will include an apportionment based upon some applicable indicator of the relative values of the several assets involved (e.g., cost, size, capacity).

Example

Assume $120,000 was paid for an alarm system consisting of components installed in different configurations in three adjacent buildings. Of this amount, $20,000 was for wire, cable, and installation at all three sites. If the totals of the list prices of the items of equipment installed in each building were Building 1, $30,000; Building 2, $50,000; and Building 3, $20,000, the wire, cable, and installation could be allocated as shown in Table 2-1.
Table 2-1  Example Cost Calculation for Dissimilar Assets Acquired Through a Single Purchase

<table>
<thead>
<tr>
<th>Location</th>
<th>Equipment Value</th>
<th>Proportion</th>
<th>Apportioned Cost</th>
<th>Total Acquisition Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Building 1</td>
<td>$30,000</td>
<td>3/10</td>
<td>$6,000</td>
<td>$36,000</td>
</tr>
<tr>
<td>Building 2</td>
<td>50,000</td>
<td>5/10</td>
<td>10,000</td>
<td>60,000</td>
</tr>
<tr>
<td>Building 3</td>
<td>20,000</td>
<td>2/10</td>
<td>4,000</td>
<td>24,000</td>
</tr>
<tr>
<td></td>
<td>$100,000</td>
<td></td>
<td>$20,000</td>
<td>$120,000</td>
</tr>
</tbody>
</table>

The costs of the three equipment configurations, including the wiring, cable, and installation costs, would then be recorded in the appropriate FAMS machinery and equipment accounts that were associated with the separate building location codes.

12 Make-Ready Costs

All costs that can be identified as having been incurred after acquisition but prior to placement in service in order to prepare a fixed asset for use should be capitalized as a part of the cost of the asset.

For example, the following costs directly related to a building, whether purchased new or used, should be capitalized as make-ready costs:

- Rearrangement and reinstallation of machinery
- Rearrangement of building partitions
- Renovation of the building
- Overhead items, such as insurance, and other incidental expenditures directly related to a purchased existing building during renovation prior to use

Make-ready costs may be accumulated by work order (WO), purchase order (PO), contract, or CIP project, depending upon how the project is budgeted. When a project involving make-ready costs is completed, PW&E Resource Management Division or the DFAC of the acquiring department will include such costs as a part of the total capitalized costs shown on the Capitalization Form–Data Entry Form Fixed Asset Acquisitions (FA-1) used to enter the project-related asset into the FAMS.

Depreciation should not be recorded on such make-ready costs prior to the in-service date of the related asset.
13 Multiple Funding Sources

13.1 General

The term *multiple funding sources* refers to funding of an asset acquisition from more than one fund on the equity side of the transaction.

This term does not include funding of asset purchases that is chargeable to more than one budget account within a single fund. The FAMS will provide for the allocation of acquisition cost and depreciation to each funding source resulting in the Net Book Value by Funding Source to show the relative ownership or equity of various funds in an asset.

This term is also not meant to apply to assets acquired by an organization other than the one in which the original expenditure funding was budgeted. In these cases the actual custodial organization should be charged for the cost of the asset when a voucher is issued. If necessary, a budget funds transfer to the correct organization should be completed prior to receipt of the asset. Once an item is capitalized, subsequent changes in ownership or responsibility should be treated as Fixed Asset Transfers. See Section 11 (Transfer of Fixed Assets).

13.2 Original Acquisition Cost

Once the capitalized cost of a multiple fund acquisition is determined, the total cost will be allocated to each funding source (e.g., where an item is acquired with both operating budget and grant funds) and entered on the FA-1.

The DFAC will determine the funding sources for the asset by referring to the PO, contract, CIP budget, Certificates of Obligation budget, or grant project funding agreement or application that authorized the acquisition of the asset.

13.3 Depreciation

The FAMS allocates both depreciation and accumulated depreciation to funding sources according to the proportion of total acquisition cost allocated to each source.

*Example*

If an asset was funded 60% by an enterprise fund and 40% by a grant fund, 60% of the depreciation expense will be allocated to the enterprise fund and 40% will be allocated to the grant fund.
13.4 Net Book Value

The FAMS calculates the remaining fixed asset value (net book value) by funding source based on the proportion of each funding source to the total cost. These figures are derived by subtracting the accumulated depreciation by funding source from the acquisition cost by funding source.

14 Recording Valuation Information in the FAMS

The DFAC will complete the FA-1 as appropriate. A copy of the source documentation used to establish the valuation of the asset will be attached to the FA-1. Key valuation information is to be completed as follows.

14.1 Capitalization Form–Data Entry Form Fixed Asset Acquisitions (FA-1) Section 1

14.1.1 Purchase Order (PO)/Document Number

If a PO is involved, record the PO number; otherwise, record the payment voucher number.

14.1.2 Acquisition Method

Indicate the method by which the asset was acquired (P = purchased; C = constructed; etc.).

14.1.3 Total Cost

Determine the total acquisition cost of the asset. Use the FA-1 to accumulate and add all appropriate costs, including voucher costs, make-ready costs, and costs from other sources.

Note: For constructed assets, the total cost should be available on the Contract Close-Out Summary and the City Council ordinance accepting the project and placing the asset in service.

14.1.4 Funding Split

Enter the FMS fund code and the percent of the total asset’s cost paid for from that fund. If the total cost was paid for from one fund, the percent will be 100%.
14.2 Capitalization Form–Data Entry Form Fixed Asset Acquisitions (FA-1)  
Section 2

14.2.1 Project Number

If the asset is being acquired through a capital project, enter the CIP project number assigned to this asset.

14.2.2 Vendor

Enter the vendor or prime contractor responsible for the project. If the asset is self-constructed, enter *Self-Constructed*.

14.2.3 Ordinance Number

If there is an ordinance number associated with the acquisition, enter the number.

If the asset is a constructed asset, enter the ordinance number associated with the City Council action accepting the completion of work and placement of the asset into service.

15 Controlled Items

15.1 Standard Controlled Items

The Director of Finance & Administration will define controlled items. A standard list will be compiled and maintained of commonly purchased items that do not meet the City’s capitalization policy but will still be assigned asset numbers and tracked in the FAMS in the same manner as capitalized assets for control purposes.

All items within the following classifications with a unit cost **less than $5,000 but equal to or greater than $1,000** and with a useful life of 1 year or more will have fixed asset identification (FAI) numbers assigned and tags applied and will be recorded and tracked in the FAMS as controlled items, with noted exceptions:

- Artwork
- Audio-visual equipment
- Automotive testing and repair equipment
- Communications equipment
- Fax machines and photocopiers
- Hand-held gauges and testing devices
• Laboratory equipment
• Medical equipment
• Personal computers, printers, monitors, PDAs, and other peripherals*
• Portable power tools, ladders, and tool boxes
• Weapons**

*Personal computers/peripherals will be accounted for in the City’s FAMS with a minimum monetary threshold of $500.00. Personal computer components and peripherals with a value equal to or less than $499.99 will not be recorded and tracked in the City’s FAMS.

**Weapons will be accounted for in the City’s FAMS with no minimum monetary threshold.

15.2 Additional Controlled Items
Department directors may control additional noncapitalized items. Methods of tracking and controlling these items are at the discretion of the department director, and the department is not required to include these in the FAMS. Department directors will implement procedures to safeguard the City’s investment of all capital, controlled, or expendable assets.

15.3 Valuation Guidelines
• Controlled items will be recorded and tracked in the FAMS in the same manner as capitalized fixed assets.
• All items (subject to prescribed dollar limits) in the classifications that are included on the list of controlled items will be recorded without exception by all departments.
• Controlled items will be designated as noncapital assets in the FAMS and will be excluded from accounting reports required for City Comprehensive Annual Financial Report (CAFR) presentation purposes.
• All physical control and inventory procedures pertaining to fixed assets will also apply to controlled items.
1 Purpose

The purpose of this section is to establish procedures for distinguishing multiple unit assets from individual property units and creating records for this type of asset.

2 Scope

A careful distinction will be made in the definition and determination of individual fixed assets in those cases where a property unit comprises distinguishable interdependent parts or subunits that will be used together in normal operations. These property units will be referred to as *multiple unit assets* and will be classified as follows:

*Asset Systems* – Multiple property subunits that function together as a single fixed asset.

*Group Assets* – Multiple property subunits of like items.

*Component Assets* – Individual fixed assets that can function independently, but will be related to or associated with a larger property unit for management or control purposes.

An asset in the FAMS can represent either an individual asset unit or a multiple unit asset. Multiple unit assets provide a way of grouping related property subunits together for capitalization, control, and record-keeping purposes. Multiple unit assets generally are created to facilitate, control, and simplify record keeping.

When classifying a unit into one of the multiple unit asset categories, it is important to consider the accounting that will occur over the life of an item. As an asset ages and is used, maintenance and replacement to its subunits or components will usually be required. Proper accounting practice calls for the retirement of a component unit and capitalization of the replacement component if the replacement substantially increases the value of the asset or extends its life; otherwise, the replacement will be expensed as maintenance.

**Note:** Retirement of components and capitalization of replacement components must be done consistently.

The multiple unit asset’s classification will dictate whether the replacement of a subunit or component is handled as a retirement of the subunit and recapitalization of the replaced subunit (improvement or betterment), or simply charged to maintenance expense.
3 Guidelines

3.1 Definition of an Asset System
An asset system consists of multiple property subunits that function together as a single fixed asset; the life and usefulness of the individual subunits are mainly dependent on the property unit as a whole and are not likely to be transferred. Assets of this type, such as communication networks, will be entered in the fixed asset records as a single unit. Asset systems are not dependent on another asset to exist or function.

3.2 Definition of a Group Asset
A group asset consists of multiple property subunits of like items that are not practical to control on an individual basis and have unit values that are not considered significant. Assets of this type will not be entered in the fixed asset system.

3.3 Definition of a Component Asset
Component assets are tangible property that can function independently but generally are related to or associated with a larger property unit for management or control purposes. These assets may meet the general definition of a fixed asset (cost equal to or greater than $5,000, useful life greater than 1 year) and may be either

- added, attached, or in some other way permanently affixed to a larger unit of property that has previously been placed into service (e.g., renovation, improvement); or
- one of the original structural components of a building asset (e.g., roof and drainage, plumbing, electrical).

A component asset differs from an asset system in that the component, while a subunit of a larger property unit, individually may meet the capitalization criteria, whereas the subunits in an asset system do not. A subunit of property or equipment will generally not be considered for componentization if its cost represents less than 10% of the cost of the larger unit with which it is associated.

For buildings, component assets can refer to the following structural elements:

- General construction (base unit or parent)
- Heating, ventilation, and air conditioning
- Roof and drainage
- Electrical
- Plumbing
• Fire protection and life safety systems
• Elevators

Component assets will be recorded and accounted for as individual asset records. Component assets may be related as individual asset records (child records) to the base unit (parent record) to which they have been added, attached, or in some way permanently affixed.

3.4 Capitalization Criteria for Multiple Unit Assets

An asset system is generally acquired and placed into service simultaneously and must, as a whole, meet the basic capitalization criteria of a value equal to or greater than $5,000 and 1-year useful life. If the combined costs of the subunits do not exceed the $5,000 criteria, then the unit will not qualify as an asset system and will not be capitalized.

Group assets generally have individual unit costs of less than $1,000 and will not be capitalized or recorded in the FAMS. If the units meet the criteria for controlled items, they will be entered in the FAMS as individual controlled items. Departments may track group assets with an appropriate subsidiary tracking system, at the discretion of the department director.

A component asset is capitalized if it meets the basic criteria of a value equal to or greater than $5,000 and 1-year useful life.

4 Recording an Asset System

4.1 Characteristics

An asset system has the following characteristics:

• The multiple property subunits function together as a single fixed asset.
• The subunit costs are generally not individually significant.
• The lives and usefulness of the individual subunits are mainly dependent on the property unit as a whole.
• The subunits are not likely to be transferred.
4.2 Criteria

The key criteria for determining that multiple property subunits should be capitalized as an asset system are as follows:

- The individual subunit costs are generally not significant in comparison to the conglomeration. Individually, the subunits generally do not meet the capitalization criteria. Taken as a whole, however, the group qualifies as a fixed asset ($5,000 acquisition cost, 1-year useful life, etc.).

- The estimated useful life of the asset system is considered to be the life of the conglomeration operating as a whole, and not the life of the subunits.

- When a subunit is replaced, it generally does not extend the overall life of the conglomeration. Therefore, replacement will generally be expensed. However, if maintenance is not routinely performed and “major catch-up” is performed, a partial retirement and recapitalization may be considered.

- Each subunit is permanently integrated and configured in such manner as to make identification of individual components difficult. Therefore, it is impractical to tag, track, and inventory each unit of the group.

- The grouping of items basically stays together throughout its useful life, and subunits are not subject to significant cannibalization or transfer.

Exception: *If the individual units of a conglomeration actually qualify as individual fixed assets, but otherwise involve the same identification and tracking problems outlined above, they may also be capitalized as an asset system.*

4.3 Examples of Commonly Classified Asset Systems

- Outdoor sprinkler system (pumps, timers, sprinkler heads, piping) (e.g., golf course or athletic field system)
- Ticket counter (cabinet, permanently mounted monitor, internal ticket dispenser)
- Conveyor frame (conveyor sections, motor, computer operating system)
- Underground pipe sections
- Retaining wall sections
- Security system (sensors, cabling, transmitter, activation panels, base control unit)
4.4 Recording Procedure

Recording the asset system in the FAMS is the responsibility of the Department Fixed Asset Coordinator (DFAC), in accordance with asset system guidelines, and will involve the following:

1. A single fixed asset identification (FAI)/tag number will be assigned to the asset system by the DFAC. The quantity will be 1.

2. A single Capitalization Form–Data Entry Form Fixed Asset Acquisitions (FA-1) will be initiated.

3. The serial number (if appropriate) will be from the major subunit component.

4. The acquisition cost will be the aggregate of the subunit costs (if broken out separately).

5. The description will identify the various subunits included in the asset system.

6. A class (from which useful life is obtained) will be assigned that is representative of the composite lives.

4.5 Subunit Replacement

The replacement of a subunit that does not extend the overall life of the conglomeration will be expensed. However, if maintenance is not routinely performed and “major catch-up” is performed, a partial retirement and recapitalization may be considered.

4.6 Depreciation

The FAMS will depreciate asset systems as one asset on the basis of the total cost and useful life of the asset system class assigned.

5 Recording a Group Asset

5.1 Characteristics

A group asset has the following characteristics:

- The asset comprises multiple property subunits that are the same as or similar to others in the conglomeration.

- The subunits require general control but are impossible or impractical to tag, identify, track, and inventory individually.
• The individual subunit costs are insignificant and do not meet the capitalization criteria.
• The lives and usefulness of the individual subunits are the same.

5.2 Criteria
The key criteria for determining that multiple property subunits are not capitalized or recorded for control purposes are as follows:

• The individual subunit costs are generally insignificant and generally do not meet the capitalization or controlled item criteria.
• A subunit that is lost or disposed of would not usually be replaced, resulting in the reduction of the number of units and value of the original group. The overall replacement of subunits would generally be accomplished through the acquisition of new units.
• The estimated life is the same for all subunits. The conglomeration does not have a life of its own as a unit.
• It is impractical to tag, identify, track, and inventory each unit individually outside of the group.

Note: Departments may track group assets with an appropriate subsidiary tracking system, at the discretion of the department director.

6 Recording a Component Asset

6.1 Characteristics
A component asset has the following characteristics:

• Multiple property subunits function together as a single fixed asset, but can also function independently as individual units.
• The subunits are attached to, affixed to, or contained in a larger host unit of property or make up a structural component of a building (i.e., items normally classified as building systems and improvements).
• Subunit costs generally are individually significant and individually meet the capitalization criteria.
• The lives and usefulness of the individual subunits differ and are not dependent on the property unit as a whole.

• Subunits may be subject to transfer between hosts.

6.2 Criteria

The key criteria for determining that multiple property subunits should be capitalized as component assets are as follows:

• The individual subunit costs are generally significant in comparison to the host asset and are easily separately identifiable. To prevent the overaccumulation of small components, an individual component should generally not be less than 10% of the cost of the conglomeration. Individually, the subunits generally do meet the capitalization criteria. Taken as a whole, component assets function together as a single entity that in itself qualifies as a fixed asset ($5,000 acquisition cost, 1-year useful life, etc.).

• When a subunit is replaced, while it may not extend the life of the conglomeration as an overall unit, it can increase its value and usefulness. Therefore, replacement is generally treated as a retirement and recapitalization.

• The estimated lives of the subunits are finite and readily identifiable and not necessarily related to the useful life of the host asset taken as a whole. They generally are maintained independently of the other subunit components.

• Each subunit is integrated and configured in such manner that identification of individual components is feasible. Each unit can be tagged, tracked, and inventoried.

• The grouping of the subunits is required for the operation of the conglomeration/host; however, the individual subunits may be readily transferable to other similar hosts.

6.3 Examples of Commonly Classified Component Assets

6.3.1 Buildings

The building shell is generally classified as the host or parent component. Building systems are then classified as individual asset systems that are child components of the host, such as the following:

• Roof and drainage
• Plumbing
• Electrical
• Heating, ventilation, and air conditioning
• Fire protection and life safety systems
• Elevators and escalators
• Interior construction and improvements
• Other building systems (e.g., power generators, preconditioned air systems)

6.3.2 Specialty Vehicles

The chassis and cab are generally classified as the host or parent component. Other subunits are then classified as individual asset systems that are child components of the host, such as a motor or winch and utility bed (dumb bed, ambulance “box”).

6.3.3 Mainframe Computer

The primary central processing unit (CPU) and cabinet are generally classified as the host or parent component. Other subsystems are then classified as individual asset systems that are child components of the host, such as the following:

• External digital storage drives
• Tape units
• Front-end processors (FEPs)
• Modems and modem pools

6.4 Recording Procedure

Recording the component assets in the FAMS is the responsibility of the DFAC, in accordance with asset system guidelines, and will involve the following:

1. Individual fixed asset identification (FAI)/tag numbers will be assigned to each component asset of a conglomeration/host by the DFAC. The quantity will be 1.
2. An FA-1 will be initiated for each component asset.
3. The serial number (if appropriate) will be that of the individual component.
4. The acquisition cost will be the cost of the subunit or component alone.
5. The description will identify the subunit alone.
6. A parent/child relationship will be established in the FAMS between the component assets and the larger host asset that incorporates them.
7. A hierarchical structure will incorporate the component asset (child) record into the host asset (parent), providing a total for the combined asset. It is assumed that a department owning building facilities will also maintain or have access to engineering drawings, plant catalogs, or similar records from which the host-component structure can be verified.

8. A class (from which useful life is obtained) will be assigned that is representative of the individual component.

6.5 Subunit Replacement
The replacement of a subunit of the conglomeration will be treated as a retirement and recapitalization.

6.6 Depreciation
The FAMS will depreciate component assets individually, on the basis of the total cost and useful life of the component asset treated as a separate unit.
1 Purpose

The purpose of this section is to identify the standard asset classifications and associated useful lives to be used for recording assets and calculating depreciation in the Fixed Asset Management System (FAMS).

2 Scope

Fixed assets will be recorded and accounted for in accordance with the classification structure specified in Table 4-1, which assigns the associated economic useful life for each asset class and identifies funding sources.

3 Guidelines

3.1 Reporting Classes

The fixed asset reporting classifications used for the City Comprehensive Annual Financial Report (CAFR) and the financial statement presentations of individual departments will include the following fixed asset classifications, as defined in Section 2 (Asset Valuation) of this manual.

- Land
- Buildings and improvements
- Improvements other than buildings
- Machinery and equipment
- Construction in progress
- Infrastructure

3.2 Asset Subclasses

Detailed fixed asset classification listings must correlate with the City’s Financial Management System (FMS) Chart of Accounts structure, indicating the fixed asset object category for the CAFR presentation, as well as the object class and object description for recording and classifying individual fixed assets.
3.3 **Useful Lives**

Depreciation of fixed assets is calculated based upon the estimated life years indicated by the fixed asset classification listing. *Estimated life years* represents the reasonable expected life of an item, as judged by management, in accordance with applicable standards and guidelines. Published sources of such data include Internal Revenue Service (IRS) guidelines and other recognized sources whose expertise is acknowledged by the accounting profession.

3.4 **Sources of Funds**

The sources of funds through which assets are acquired will be identified and recorded for each asset. The following funding source classifications will be used:

- Bonds or notes
- Current budget appropriations (fund)
- Gifts
- Special assessments, property owners’ shares
- Special assessments, government’s share
- State aid grants
- Federal aid grants
- Other financing

Sources of funds will be tracked within the FAMS via system data fields indicating the source of funds, acquisition method, and the applicable amount.

4 **General Procedure**

Standard asset classifications and associated useful lives will be established and administered by the Director of Finance & Administration. Table 4-1 provides the standard asset classifications and useful lives for the most common categories used in the City.

1. Finance & Administration (F&A) Information Services (IS), as directed by the Director of Finance & Administration and the City FAMS Program Administrator, will be responsible for maintaining the FAMS table of standard asset classifications and associated useful lives.

2. The classifications and associated useful lives in Table 4-1 will be used by all City departments, without exception, in providing fixed asset valuation and accounting
information to the Controller’s Office for financial reporting purposes and to F&A for management reporting purposes.

3. Requests to establish new asset classes to meet specific department needs and/or to change useful lives for existing asset classes will be addressed, in writing, to the Director of Finance & Administration (with a copy to the City FAMS Program Administrator) through the Department Fixed Asset Coordinator (DFAC).

4. Additional asset classes will be considered in order to meet specific new and/or unique tracking needs of the department or the Controller’s Office. Changes in useful lives will be considered in light of new information regarding specific City maintenance, service life, or utilization experience and/or as dictated by changes in standard industry, IRS, or other authoritative tables and indicators.

5. DFACs and other department staff responsible for completing information for the Capitalization Form–Data Entry Form Fixed Asset Acquisitions (FA-1) will become familiar with the asset classifications and will be conscientious in their efforts to properly assign the correct classification to a fixed asset or controlled item for entry into the FAMS.

5 Standard Asset Descriptions

Standard descriptions of assets will be included in the FAMS to maintain consistency in the way assets are entered and described. For this purpose, the FAMS contains a Fast Code Table, accessible during data entry, which provides standard descriptions and automatically assigns the asset to the proper asset class.

1. Standard descriptions are established and will be administered by the City FAMS Program Administrator.

2. F&A IS, as directed by the City FAMS Program Administrator, will be responsible for maintaining the FAMS table of standard descriptions (Table 4-1). The standard descriptions will be used by all City departments, as applicable.

3. Departments will have the ability to establish additional standard descriptions in their department FAMS that are unique to their department operations.

4. New standard descriptions and fast codes established by departments will be reviewed annually for incorporation in the Citywide Fast Code Table.

5. Departments will not replace the Citywide standard descriptions with their own versions. Where such changes are desired, the DFAC will request the change or enhancement, in writing, from the City FAMS Program Administrator.
6 Asset Class and Useful Life Table

The City Table of Standard Asset Classifications and Associated Useful Lives is included in Table 4-1.

Departments cannot change this table (Class Table) in the department FAMS. Changes and additions must be addressed, in writing, to the Director of Finance & Administration (with a copy to the City FAMS Program Administrator) through the DFAC, as outlined in the general procedure in subsection 4 in this section.
### Table 4-1 Table of Standard Asset Classifications and Associated Useful Lives

<table>
<thead>
<tr>
<th>Class</th>
<th>Useful Life</th>
<th>Class Description</th>
<th>Balance Sheet Account</th>
<th>Accum. Depr. Account</th>
<th>Capital Outlay Account</th>
</tr>
</thead>
<tbody>
<tr>
<td>1001</td>
<td>0</td>
<td>Land</td>
<td>1802</td>
<td>1806</td>
<td>4105</td>
</tr>
<tr>
<td>1002</td>
<td>0</td>
<td>Land – Donated</td>
<td>1803</td>
<td>1806</td>
<td>4105</td>
</tr>
<tr>
<td>2000</td>
<td>45</td>
<td>Buildings – Permanent</td>
<td>1804</td>
<td>1806</td>
<td>4200</td>
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<tr>
<td>2005</td>
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<td>Buildings – Temporary</td>
<td>1804</td>
<td>1806</td>
<td>4201</td>
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<tr>
<td>2010</td>
<td>20</td>
<td>Buildings – Special Purpose</td>
<td>1804</td>
<td>1806</td>
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<tr>
<td>2015</td>
<td>0</td>
<td>Leased and Maintained</td>
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<td>2020</td>
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<td>Occupancy Agreement W/R&amp;M</td>
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<td></td>
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<td></td>
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<tr>
<td>2045</td>
<td>0</td>
<td>Leased to 3rd Party Not Maint. or Insured</td>
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<td></td>
</tr>
<tr>
<td>2500</td>
<td>20</td>
<td>HVAC Equipment</td>
<td>1805</td>
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# Fixed Asset Classification and Useful Lives

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### Fixed Asset Classification and Useful Lives

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1 Purpose

The purpose of this section is to maintain a positive identification system for City-owned assets and to ensure that all City fixed assets and controlled items specified herein are assigned asset numbers and are issued a fixed asset tag for identification and inventory purposes.

2 Scope

Departments or Fixed Asset Control Groups will be responsible for assigning, recording, and affixing identification tag numbers to all fixed assets and controlled items.

3 Guidelines

3.1 Responsibilities

Departments will be responsible for assigning, recording, and affixing tag numbers for all fixed assets except vehicles, which will be the responsibility of Fleet Management (using shop numbers).

Asset tags will also be assigned to those items determined to be controlled items, as defined in Section 2 (Asset Valuation).

The department director will determine which assets, in addition to those specified by Citywide requirements, will be considered controlled or high-pilferage items within his or her area of responsibility.

3.2 Assignment of Fixed Asset Numbers

All fixed assets and controlled items will be assigned an asset number at the time of receipt. This serves as the record number for the asset in the City’s Fixed Asset Management System (FAMS).

3.3 Assignment of Tag Numbers

All qualified fixed assets and controlled items will be tagged and assigned a tag number before the item is placed into service. This number will be used and referenced as the inventory number when physical inventories are conducted.

Tag numbers will be issued with no duplicates.
4 Tagging Methods and Placement

Bar coded tags that clearly identify the City of Houston will be placed on all City property. All tags will be affixed to the asset in a conspicuous and convenient location that is easily accessible for scanning and inventory purposes (the upper-right front of most equipment). Asset tags will remain in this location throughout the life of the asset and will be replaced when damaged. Suggested tag locations (including typical controlled items) are as follows:

- Computers, typewriters, and copiers – Upper-right front
- Moveable or hand-held machinery – Near the manufacturer’s identification plate (where the tag will not hinder normal usage)
- Stationary equipment – In front, on the right-hand side or, if necessary, in a protected area as close to the front right-hand side as possible

Where the application of a tag is not possible or practical, departments will have the option of using alternative methods of applying the assigned FAI number to the asset to account for varying environments and usage. Alternative methods include etching, engraving, dye marking, die stamping, etc., that may be used without, but preferably with, a standard fixed asset tag.

Certain assets will not be tagged physically, e.g., buildings, land, and improvements other than buildings. These assets will have a tag and or facility number assigned and supporting manual ledgers where the tag will be placed, along with descriptive information identifying the asset.

5 Fixed Asset Identification (FAI)/Tag Numbering Systems

5.1 Primary Numbering System

The primary numbering system will use bar code tags that clearly identify the City of Houston and a unique number that is prefixed with a letter designator indicating the major fund type as follows:

- S designates the asset as an Aviation asset.
- C designates the asset as a Convention & Entertainment Facilities Department asset.
- G designates the asset as one of the following general fund departments: Affirmative Action; Building Services; City Council; City Secretary; Controller’s Office; Finance & Administration; Fire, Health & Human Services; Human Resources; Housing & Community Development; Legal; Library; Mayor’s Office; Parks & Recreation; Planning & Development; or Police.
5.2 Other Numbering Systems

Number schemes other than the above will not be assigned by a Department Fixed Asset Coordinator (DFAC) without prior approval and coordination of the numbering scheme with Asset Management (to ensure number uniqueness on a Citywide basis). The following additional numbering schemes are currently authorized.

5.2.1 Vehicles

An FAMS asset number for vehicles will be assigned by Fleet Management and will consist of a letter V prefix, indicating that the asset is a vehicle, followed by the vehicle’s five-digit shop number.

5.2.2 Public Works & Engineering (PW&E)

The FAMS asset number for PW&E assets is a 10-digit number.

6 Tag Supplies and Inventory

The Finance & Administration (F&A) Central Stores will maintain the City’s central supply of bar coded tags. Each DFAC will request a supply of additional tags from Central Stores as necessary.

Central Stores will issue a block of 100 to 500 tags per request and will maintain a log of the number block issued, the issue date, and the department to which the tags were issued.

The DFAC will implement adequate controls over the department tag inventory. When it is impossible or impractical (e.g., unusual configuration, extreme environmental conditions) to affix a tag number to an asset, a bar coded tag number will still be assigned to the asset. The physical tag will be filed and stored with the source documentation for the asset, or maintained in a Non-Tag (NT) Number Log Book by the DFAC.

7 Cross References in the Fixed Asset Management System (FAMS)

The FAMS recognizes that assets may be recorded in other tracking systems for maintenance management or other purposes. In addition, it is common to associate an acquired asset with a Capital Improvement Program (CIP) project number or an ordinance number. Therefore, the FAMS will provide additional fields to track these cross-reference numbers as follows:

- **FAMS Asset Number** – The primary record identifier in FAMS; synonymous with the FAI/tag number or NT number.
- **FAMS Alternate Tag #** – The primary identifier of the asset in an alternate tracking system, e.g., maintenance management, property management.
• *FAMS Old Tag #* – A previously assigned asset number.
• *FAMS Project #* – The project number associated with the asset.
• *Ordinance #* – The number of the ordinance/action authorizing the asset.
• *Council Motion #* – The number of a City Council or board motion authorizing the asset.

The following numbers may be recorded in the FAMS for each asset classification.

### 7.1 Land Assets
• *FAMS Asset Number* – The FAI number (an NT number).
• *FAMS Alternate Tag #* – The parcel number that the PW&E Real Estate Division assigns to identify the property.
• *FAMS Old Tag #* – Left blank for land assets.
• *FAMS Project #* – The CIP project number associated with the parcel acquisition.
• *Ordinance #* – Used to identify the ordinance or action authorizing the asset.
• *Council Motion #* – Used to identify a City Council or board motion authorizing the asset.

### 7.2 Buildings and Improvements
• *FAMS Asset Number* – The FAI number (an NT number).
• *FAMS Alternate Tag #* – Left blank for buildings and improvements.
• *FAMS Old Tag #* – Left blank for buildings and improvements.
• *FAMS Project #* – The CIP project number associated with the acquisition or construction project.
• *Ordinance # – User-Defined Field 1* – Used to identify the ordinance or action authorizing the asset (if applicable).
• *Council Motion # – User-Defined Field 2* – Used to identify the City Council or board motion authorizing the asset (if applicable).

### 7.3 Machinery and Equipment
• *FAMS Asset Number* – The FAI number (an NT number).
• *FAMS Alternate Tag #* – The primary identifier of the asset in an alternate tracking system (e.g., maintenance management, property management).
• *FAMS Old Tag #* – A previously assigned asset number (if applicable).
7.4 Vehicles and Rolling Stock

Note: Fleet Management will assign FAI numbers for all vehicles and rolling stock as outlined in subsection 10.4 in this section.

8 Location Assignment Tags

In addition to the FAI tags, Asset Management will maintain a supply of location assignment tags. These tags will have a unique six-digit number, prefixed with an L (for location), and will be used, at the department’s discretion, to identify a location. These tags are generally placed in the doorjambs of rooms to facilitate annual inventories.

9 Responsibilities for Assignment of Numbers and Tagging

9.1 Department Fixed Asset Coordinator (DFAC)

- Has ultimate responsibility for the assignment of FAI numbers and tags as follows:
  
  Land – The DFAC may assign an NT number as outlined in subsection 6 in this section. The parcel number that the PW&E Real Estate Division uses to identify the property will be stored in the FAMS as the Alternate Tag Number or as the FAI number.
Buildings and improvements – The DFAC will assign an NT number as outlined above.

Machinery and equipment – The DFAC will assign and affix an FAI tag number (or, if necessary, an NT number) as outlined above.

- Develops department-level responsibilities and procedures (in City departments where responsibilities are delegated by the DFAC) to ensure that fixed assets and controlled items have FAI numbers assigned and tags affixed in accordance with this procedure.

- Decides whether number assignment and physical tagging are delegated to remote/individual receiving locations within the department or performed by a central fixed asset group.

- Documents specific receiving and tagging responsibilities for the DFAC’s department. A copy of the assigned responsibilities will be provided to Asset Management.

9.2 Fleet Management

- Assigns the FAI number to all vehicles and rolling stock.

- Maintains a hard copy file on each vehicle and other rolling stock asset throughout the life of the asset. The file will include license plate data, the assigned shop number, and the Capitalization Form–Data Entry Form Fixed Asset Acquisitions (FA-1).

9.3 Asset Management

- Monitors the overall number assignment and tagging processes of all purchased fixed assets and controlled items to ensure that all assets are properly recorded and identified.

- Is responsible for controlling and approving other numbering schemes for uniqueness when NT numbers must be assigned.

- Assists departments in implementing fixed asset management tagging policies and procedures.

- Monitors pending and completed capitalization to ensure that all purchased assets are entered into the FAMS.

- Provides periodic reports to the DFAC when a pending capital purchase is received in the City’s Financial Management System (FMS) but is not entered into the department FAMS within a reasonable period of time.
10 Procedures for Assigning Numbers and Tagging

As a rule, only machinery and equipment will be physically tagged. Buildings, land, improvements other than buildings, and rolling stock will have FAI numbers assigned but normally will not be physically tagged.

The FAI numbering procedures below are applicable to both capitalized fixed assets and controlled items, as defined in Section 2 (Asset Valuation).

10.1 General Procedure

1. The DFAC will attempt to assign FAI numbers in sequential order. Where this is not possible due to decentralized receiving or delegation of tagging responsibility, the DFAC will be responsible for accounting for the tags.

2. The DFAC will establish and maintain a department procedure to monitor the procurement and receiving process within the DFAC’s department and will provide for the timely assignment of an FAI number and affixing of the tag to all fixed assets and controlled items received by the department.

Sample departmental approaches and procedures for assigning FAI numbers and applying tags are included in subsection 12 at the end of this section. Departments will modify one of the sample approaches to suit their needs, consistent with applicable City policies and procedures. Samples are provided for two types of situations:

- Departments where tagging and number assignment is the responsibility of a central Fixed Asset Group or DFAC (the preferred approach)
- Departments where responsibility for tagging and number assignment is delegated to remote receiving locations

3. Once an FAI number has been assigned, the DFAC will initiate an FA-1 and proceed with the capitalization procedure for purchased assets, as appropriate.

10.2 Procedure for Land, Buildings, and Improvements

1. Land, buildings, and improvements (both constructed and purchased) generally will not be physically tagged. However, a tag number will be assigned by the DFAC to each such asset when the asset is placed in service.

2. Departments will receive the report on property acquisition from the PW&E Real Estate Division as official notification that the land or property has been acquired and placed in service.
3. Departments will receive the FMS Final Close-Out Summary from the PW&E Resource Management Division as official notification that the constructed building or improvement has been placed in service.

10.3 Procedures for Machinery and Equipment

10.3.1 Machinery and Equipment Acquired by Contract

The procedure for assigning an FAI number to machinery and equipment purchased by contract will follow the same general steps as outlined in the sample approaches in subsection 12 at the end of this section.

**Exception:** When an item of capital equipment acquired by contract has been received and accepted, the departmental Contract Administrator for the related contract will notify the DFAC to initiate the FAI number assignment process. If no specific Contract Administrator has been assigned to the contract under which the capital equipment has been purchased, the departmental purchasing Single Point of Contact will be responsible for initiating the process.

10.3.2 Procedure for Machinery and Equipment Acquired as Part of a Capital Project

1. PW&E Capital Improvement Program (CIP) Accounting will identify and provide an itemized inventory, when available, of taggable capitalized fixed assets and noncapitalized controlled items acquired as part of a capital project.

2. PW&E CIP Accounting will provide the itemized inventory to the DFAC as part of the source documentation prepared when the asset is placed in service.

3. The DFAC will then assign FAI numbers to each of the assets and arrange for affixing the tags as appropriate.

10.4 Procedure for Vehicles and Rolling Stock

1. Fleet Management will assign an FAI number to all vehicles and rolling stock. The FAI number for FAMS purposes will consist of a letter prefix of V, followed by the shop number assigned in the Fleet Management system.

2. A tag may be affixed to vehicles or rolling stock, or decals identifying the shop number will be placed on the unit.
3. The assigned FAI number will be provided as the FAMS asset number in the Monthly Vehicle File, which will be provided to each department for direct importation into their department FAMS from the Fleet Management system.

**Note:** The procurement and receiving process, along with requirements for establishing a vehicle master record and preparing a vehicle for service, are covered in the Citywide Fleet Management procedures.

4. As part of the make-ready and final delivery and acceptance process, the Department Vehicle Coordinator (DVC) will forward the FA-1 information (e.g., the closed Vehicle Work Order, the Unit Information Acceptance Form) to the DFAC so that supplemental information about the vehicle can be entered in the department FAMS. See Section 7 (Asset Acquisitions).

5. The DFAC will initiate and process the FA-1.

### 11 Replacing Numbers for Lost or Damaged Tags

When a new FAI number must be assigned to an asset (e.g., a tag requires replacement due to age or is missing), the DFAC will issue a new tag for the asset, noting the reason for the change on a FAMS Capitalization Form–Financial Adjustments/Other Changes (FA-3).

If an item of a type normally recorded as a fixed asset is found without a fixed asset tag during an inventory, inspection, etc., the following steps will be taken:

1. The custodial division will issue a memo to the DFAC with the model and serial number and other available descriptive data for the asset. The custodial division will work with the DFAC to identify an existing asset tag number, if possible.

2. If an existing tag number is identified, the DFAC will assign the item a new tag number to replace the lost or destroyed tag. The DFAC will then initiate an FA-3, noting the issuance of a replacement tag. The DFAC will place the completed form into the asset’s master file.

3. If an existing tag number is not identified (e.g., the asset was never recorded or was received through an unauthorized interdepartmental transfer), the custodial department will notify the DFAC, who will then be responsible for assigning a tag number and completing an FA-1 in accordance with Section 7 (Asset Acquisitions) and the tagging procedures in this section.

If an original acquisition cost for an untagged item cannot be determined from City records, the DFAC will be responsible for obtaining a qualified appraisal for the item that will be used as the cost basis for capitalization and depreciation of the asset.
12 Sample Approaches

12.1 Approach #1 (Preferred) – Assigning FAI Numbers and Tags with Responsibility Assigned to a Central Fixed Asset Group or DFAC

1. When a Purchase Order (PO) or other procurement document has been issued for an item to be tagged, a copy will be forwarded to the DFAC as notification of a pending fixed asset receipt.

2. A pending fixed asset file and record will be initiated. This is a “tickler” file for tracking fixed asset receipts. It can be coordinated with other purchasing or payables files as appropriate.

3. The DFAC will notify the receiving location and/or contact person designated on the PO, requesting notification when the item is received.

4. When the item is received and accepted, the receiver or PO contact person will immediately notify the DFAC of receipt using fax, phone, or an FA-1. The receiving document will be retained and a copy forwarded to the DFAC.

Departments will also consider having the department purchasing unit (DPU) or payables unit of the department forward the receiving related paperwork for the fixed asset or controlled item to the DFAC as back-up notification in the event the actual receiving location fails to forward the required paperwork.

Note: Asset Management will provide a monthly report to each DFAC of FMS purchases received that have a fixed asset flag setting.

5. The DFAC will initiate the FA-1 for the receipt. See Section 7 (Asset Acquisitions) for detailed guidelines for completing and processing the FA-1.

6. The DFAC’s copy of the PO (or other procurement document) associated with the item will be retrieved from the files.

7. The DFAC will enter as much information as possible in Section 1 of the FA-1.

8. An FAI number will be assigned. The next tag number will be posted as the Asset Number on the FA-1. If the tag is to be affixed to the asset, the physical bar code tag will be attached to the form. If the tag is not to be affixed to the asset, the physical bar code tag will be filed and stored with the source documentation for the asset or maintained in an NT Number Log Book by the DFAC.
9. The DFAC will arrange with the receiving personnel to go to the receiving location to tag the item. Whenever possible, this should be completed prior to pickup by or delivery to the owner or user in the division or section. If the DFAC cannot go to the site prior to the asset being delivered or placed into service, the DFAC will coordinate with the receiving personnel to obtain the information needed to complete the FA-1.

10. The DFAC will take the pending fixed asset file and record (along with the physical tag) to the receiving location.

11. Once at the receiving location, the DFAC will
   • identify the asset to be tagged,
   • affix the tag to the asset in accordance with the tag placement guidelines in subsection 4 in this section,
   • verify the serial number,
   • post the serial number to the FA-1, and
   • initial and date the bottom of the FA-1 (Dept Tagging fields).

12. Upon the return of the completed FA-1 from tagging, if all required information is completed on the FA-1, the DFAC will approve the asset for entry or enter a new asset record in the FAMS. If the FA-1 still requires additional information (e.g., awaiting invoice information), it will be refiled, pending the availability of all information.

12.2 Approach #2 – Assigning FAI Numbers and Tags with Responsibility Delegated to a Remote Receiving Location

1. When a PO (or other procurement document) has been issued for an item to be tagged, a copy will be forwarded to the DFAC and the receiving location as notification of a pending fixed asset receipt.

2. A pending fixed asset file and record will be initiated by the receiving location and the DFAC. This is a “tickler” file for tracking fixed asset receipts. It can be coordinated with other purchasing or payables files as appropriate.

3. When the item is received and accepted at the remote receiving location, the receiver or PO contact person will be responsible for initiating the FA-1 for the receipt.

4. The PO (or other procurement document) associated with the item will be retrieved from the receiving location’s file.

5. The receiver or PO contact person will enter as much information as possible in Section 1 of the FA-1. See Section 7 (Asset Acquisitions) for detailed guidelines for completing and processing the FA-1.
6. An FAI number will be assigned. The next tag number will be posted as the Asset Number on the FA-1. If the tag is to be affixed to the asset, the physical bar code tag will be attached to the form. If the tag is not to be affixed to the asset, the physical bar code tag will be filed and stored with the source documentation for the asset or maintained in an NT Number Log Book by the DFAC.

7. The receiver or PO Contact Person at the receiving location will
   • identify the asset to be tagged,
   • affix the tag to the asset in accordance with the tag placement guidelines in subsection 4 in this section,
   • verify the serial number,
   • post the serial number to the FA-1, and
   • initial and date the bottom of the FA-1 (*Dept Tagging* fields).

8. A representative from the owner or user of the division or section will sign and date the FA-1 when custody is taken of the item.
1 Purpose
The purpose of this section is to establish procedures for calculating and recording depreciation of fixed assets.

2 Scope
Depreciation will be calculated and recorded for the City’s depreciable fixed assets (excluding land) in accordance with the applicable financial reporting model.

Financial accounting and reporting for depreciation of fixed assets must be in accordance with the *Codification of Governmental Accounting and Financial Reporting Standards* (the *Codification*) and any future revisions and applicable pronouncements by the Governmental Accounting Standards Board (GASB) or other governing boards, as well as applicable pronouncements of the Financial Accounting Standards Board (FASB).

3 Guidelines

3.1 Depreciation Charges
Depreciation costs associated with the depreciable assets of proprietary funds, regardless of funding source, will be budgeted, calculated, and charged annually to the operations of the fund. Depreciation begins in the month the fixed asset is placed into service.

3.2 Method
All depreciable fixed assets will be depreciated using the straight-line method. Land is not depreciated. Depreciation will be calculated based upon the estimated useful lives outlined in Section 4 (Fixed Asset Classification and Useful Lives).

3.3 Salvage Values
In general, the salvage value of City fixed assets will be $0. The City’s Fixed Asset Management Program administrator will conduct a review of the amounts and calculation methods used for any exceptions to these guidelines.

Available guidelines and judgment will be used by the departments to estimate a salvage value for assets that may be operational or useable beyond their designated useful lives.
3.4 Changes in Asset Life or Value

If the estimated useful life or value of an asset is changed at some point during its service (e.g., through improvement or betterment), no adjustment of prior depreciation will be made.

If a change is made to useful life, the remaining book value will be depreciated over the remainder of the adjusted useful life.

If a change is made to the book value of an asset (change in salvage value), the adjusted book value will be depreciated over the remaining useful life.

3.5 Depreciation of Grant Funded Assets

In accordance with the Codification, Section G60, assets acquired wholly or in part through grant funding will be recorded as fixed assets with a corresponding credit to a contributed capital account equaling the amount of the grant funding.

Depreciation and accumulated depreciation will be calculated and recorded in the normal manner. However, the annual depreciation expense for grant funded assets will be closed directly to the contributed capital account, rather than the retained earnings account, as is the case with non-grant assets.

4 Assigning Useful Life and Salvage Value

4.1 Useful Life – General

An estimated useful life will be assigned to each asset at the time the asset is entered into the FAMS, based on the listing of assets by class and associated useful lives, as outlined in Section 4 (Fixed Asset Classification and Useful Lives) and as maintained in the Class Table of the FAMS. The FAMS Class Table will be maintained in accordance with the following guidelines:

- Useful lives will be standardized for each asset class as defined in the FAMS Class Table.
- The DFAC will be responsible for assigning assets to the appropriate asset class, which in turn will determine the standard useful life of the asset for depreciation purposes.
- The FAMS will include a table of standard asset classes, useful lives, and salvage values for department use.
- F&A Information Services (IS), as directed by the Director of Finance & Administration and the City FAMS Program Administrator, will be responsible for maintaining the FAMS table of standard asset classifications and associated useful lives.
Standard useful lives for vehicles and rolling stock will be established in coordination with and with input from Fleet Management.

4.2 Useful Life – Used Assets

If a “used” asset is acquired, the DFAC will determine whether the useful life associated with the class assigned to the asset is appropriate. If the estimated remaining life of the used asset is different from the standard life in the Class Table, an adjustment reflecting a change in estimate will be entered into the FAMS for the asset. See the depreciation adjustment procedure in subsection 7 in this section for the specific steps involved in making the estimate adjustment.

4.3 Salvage Value

Salvage value for assets will be assigned to each asset at the time the asset is entered into the FAMS based on the listing of assets by class and associated useful lives, as outlined in Section 4 (Fixed Asset Classification and Useful Lives) and as maintained in the Class Table of the FAMS. Salvage values are determined as follows:

- Unless otherwise determined for a specific asset class, the salvage value for all City of Houston fixed assets and controlled items will be $0.
- Salvage value will be standardized for each asset class as defined in the FAMS Class Table. Salvage value normally is not assigned at the individual asset level; rather it is pulled from the FAMS based on the class code assigned to the asset.
- The DFAC will be responsible for properly assigning assets to the appropriate asset class, which in turn will determine the standard salvage value of the asset for depreciation purposes.
- The FAMS will include a table of standard asset classes, useful lives, and salvage values for department use.
- F&A IS, as directed by the Director of Finance & Administration and the City FAMS Program Administrator, will be responsible for maintaining the FAMS table of standard asset classifications and associated useful lives. Salvage values for vehicles and rolling stock, if applicable, will be established in coordination with and with input from Fleet Management.
- If the DFAC determines the standard salvage value needs to be changed, an adjustment reflecting a change in estimate will be entered in the FAMS for the asset. See the depreciation adjustment procedure in subsection 7 in this section for the specific steps involved in making the change in estimate adjustment.
4.4  **Secondary Useful Life**

Where it is appropriate and allowable (e.g., Enterprise Funds for rate-setting purposes), the FAMS will provide the capability, and departments may assign a secondary useful life to be used for rate-setting purposes only.

**Note:** Financial reporting information provided to Asset Management will always be based on the standard useful life and not the secondary useful life.

5  **Methodology and Calculation**

5.1  **Depreciation Method**

Depreciation will be calculated using the straight-line method only. The basis used in straight-line depreciation is calculated by subtracting the salvage value, if any, from the acquisition cost. The result is the adjusted basis. Depreciation is then calculated by dividing the adjusted basis by the useful life. The total amount depreciated can never exceed the adjusted basis. At the end of the asset’s estimated life, any salvage value will remain until the asset has been disposed of.

**Example of straight-line depreciation**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Asset Cost</td>
<td>$21,000</td>
</tr>
<tr>
<td>Estimated Useful Life</td>
<td>5 years (60 months)</td>
</tr>
<tr>
<td>Monthly Depreciation</td>
<td>$350</td>
</tr>
<tr>
<td>Annual Depreciation</td>
<td>$4,200</td>
</tr>
</tbody>
</table>

5.2  **Acquired Assets**

Depreciation for acquired assets will be computed using the following *mid-month rule*: If an asset is acquired on or before the 15th of the month, depreciation will be charged for the full month. If the asset is acquired after the 15th of the month, no depreciation is charged for that month.

The same mid-month rule applies to disposals: If an asset is disposed of on or before the 15th of the month, the FAMS will not charge depreciation for the last month. If the asset is disposed of after the 15th of the month, depreciation is charged against the last month.
5.3 Calculation Frequency and Scope

Depreciation will be calculated at least annually, prior to closing the fiscal year processing for the FAMS.

For management reporting purposes, depreciation will be calculated on all assets in the FAMS, regardless of fund (including general fund) or whether they are capital or controlled items.

5.4 Group Assets

The DFAC will depreciate assets normally as individual units under the single-unit method of depreciation. The group method of depreciation will only be used for group assets or where single-unit depreciation is not feasible (with the prior agreement of the City’s FAMS Program Administrator).

5.5 Idle and Reserved Assets

In the case of assets that are temporarily idle or being held in reserve pending future use, the DFAC will continue to depreciate the asset without adjustment to the remaining useful life or periodic depreciation charges.

5.6 Related Accounting Transactions

The FAMS will identify and assign depreciation charges for an asset to the appropriate balance sheet accumulated depreciation account and fund. The accumulated depreciation accounts to be used for each asset category are those defined in the chart of accounts.

Where multiple funding sources are involved for an asset, calculated depreciation will be allocated by funding source, according to the percentage of cost funded by each source. Accumulated and year-to-date depreciation by funding source will be reported for each fixed asset.

6 Period Processing

The DFAC will initiate depreciation processing in the FAMS and will ensure that depreciation is processed, at a minimum, for the last period of the fiscal year, prior to the fiscal-year-end close. After the depreciation process is run, the DFAC will review the Depreciation Register and other available reports for reasonableness of the processing and posting.
7 Depreciation Adjustment Procedure

1. When an adjustment is made to an asset value that affects calculated depreciation, the DFAC will determine the nature of the change for financial reporting purposes, with assistance from accounting staff as appropriate.

   If the adjustment involves a change to cost, salvage value, or useful life (i.e., class code), and the change is the result of an error in the original information or data entry, the depreciation adjustment will be classified as an accounting error for financial reporting purposes.

   If the adjustment involves a change to either salvage value or useful life of the asset, and the change is the result of new events, changing conditions, more maintenance service life experience, or additional information, the depreciation adjustment will be classified as a change in accounting estimate for financial reporting purposes.

2. The depreciation adjustment for an accounting error will be calculated as follows:
   - Depreciation will be recalculated based upon the new information from the asset’s acquisition date through the last date depreciated.
   - The adjustment will be taken in full (cumulative effect) in the period the adjustment is made, using the last date depreciated for the asset as the accounting transaction date for the adjustment.

3. The depreciation adjustment for a change in accounting estimate will be calculated as follows:
   - The depreciation adjustment is not accounted for by restatement of prior years’ financial statements. The effect of the change will be accounted for in the period of change, if the change affects only that period, or in the period of change and future periods, if the change affects both.
   - The FAMS will provide the following support to calculate a change in estimate:
     - If the change does not result in full depreciation of the asset’s cost basis as of the last date the asset was depreciated, the remaining balance will be depreciated over the remaining useful life after the change.
     - If the change does result in full depreciation of the asset’s cost basis as of the last date the asset was depreciated, the remaining balance will be charged to depreciation using the last date the asset was depreciated as the date of the additional (close-out) depreciation charge.

4. Upon determination of the type of adjustment to be made, the DFAC will complete a FAMS Capitalization Form–Financial Adjustments/Other Changes (FA-3) indicating the
information to be adjusted (acquisition cost, salvage value, useful life) and the type of
adjustment to be made (accounting error or change in accounting estimate).

5. The FA-3 will be signed by the DFAC and forwarded to the data entry clerk for entry into
the FAMS.

6. The item will be entered into the FAMS as a financial adjustment.
1 Purpose

The purpose of this section is to establish procedures for capitalizing and recording fixed assets acquired through purchases from outside suppliers.

2 Scope

Fixed assets will be recorded at original (historical) cost, plus or minus, if applicable, the effects of claims and judgments arising from the acquisition of assets (i.e., recoveries from contractors or judgments against the City). Adjustment due to gain or loss contingencies will be made as follows:

- Gain Contingencies – Fixed asset book values will be adjusted only when recoveries have been received.
- Loss Contingencies – Fixed asset book values will be adjusted when a fixed asset has been impaired and the amount of the loss can be reasonably estimated.

Original cost will include both the purchase price or construction cost of the asset and any other necessary and reasonable costs incurred to place the asset in service in its intended location. Cost by funding source will be recorded in each asset record.

In those instances where the original (historical) cost is not available, assets will be valued in accordance with professional appraisal standards to estimate the historical cost.

3 Guidelines

3.1 Land

The original cost of purchased land will include the purchase price and any other charges necessary to purchase the land.

If the City acquires both land and building(s) as one parcel, the value of the land will be determined separately from the building(s) and recorded in the land asset classification account.

Other charges may include site preparation expenditures, such as demolition and/or removal of existing buildings and structures, professional fees, and legal claims that will be directly attributable to the land acquisition.

Costs related to the demolition or removal of existing structures (less salvage value) will generally be considered to be part of the cost of the land and will be capitalized, provided the land was acquired with the expressed intent of demolition and clearing of the existing structure.
3.2 Buildings and Improvements

The original cost of buildings will be recorded at purchase price or construction cost. All charges associated with the building, such as broker fees, architect and legal fees, interest on construction (when applicable), inspection, testing, design, and project administration costs, will be included. The cost of asset systems may be capitalized separately or included in the original cost of the building.

3.3 Improvements Other than Buildings

The original cost of improvements other than buildings (i.e., airport runways and taxiways, parking lots, fences and walls, signage, and similar property not associated with a building or otherwise classified as public domain or infrastructure) will be recorded at purchase price or construction cost. All costs applicable to the improvement, such as professional fees, design, inspection, testing, and project administration costs, will be included.

3.4 Machinery and Equipment (Including Vehicles)

The original cost of machinery and equipment will be recorded at purchase price and will include any fees necessary to place the equipment in service, such as title fees, decals, freight, handling, installation, and inspection costs. Purchases of vehicles and rolling stock will be coordinated through the Fleet Management Division of Finance & Administration (F&A).

Costs that are excluded from the cost of equipment and are charged directly to expense include, but are not limited to, the following:

- Required licensing and registration fees for City vehicles and operational equipment
- Expenditures for repairing a piece of equipment damaged during shipment
- Relocation and rearrangement of existing equipment to accommodate the acquisition

3.5 Construction in Progress

*Construction in progress* includes all partially completed projects for the construction of an asset. The cost of construction in progress will not be capitalized until the construction is complete and/or the constructed asset is placed into service.

For purposes of capitalization (placement into service or capitalization within the system), a constructed asset will be considered completed when occupied or upon acceptance by the City of the total project construction cost. Prior to capitalization, project expenditures should be charged to *Construction in Progress* in the appropriate capital project fund.
Internal labor charges and other administrative costs directly associated with a capital project may be charged to *Construction in Progress* and subsequently capitalized. The following criteria should be applied to determine whether such project-related costs should be capitalized or treated as normal periodic expenditures:

- Costs are chargeable to a capital project if they would not have been incurred during the specified time period in the absence of the project.
- Costs for dismantling, removal, or disposition of existing City-owned equipment and improvements in preparation for a new project may be capitalized by project. See the guidelines for land in subsection 3.1 in this section.

### 3.6 Group Purchases/Unit Cost

Fixed assets purchased in quantities of two or more will be capitalized and recorded based upon a determination of whether the multiple units meet the definition of an asset system or are individual assets in multiple quantity.

If the purchase is determined to be individual assets in multiple quantity, individual asset records will be established if the aggregate (combined) cost of the group purchase when divided by the number of units purchased results in a unit cost equal to or greater than $5,000 and the units have an expected useful life of more than 1 year.

If the purchase is determined to be a group asset of multiple like items, a single asset record (with a count equal to the number of multiple units) will be established only if the aggregate (combined) cost of the group exceeds the $5,000 capitalization criteria, the units have an expected useful life of more than 1 year, and the units will remain together physically for control purposes.

If the individual units do not meet any of the above group asset criteria, they will be treated as expense items in the current accounting period.

### 4 Responsibilities by Major Asset Category

#### 4.1 Machinery and Equipment (Excluding Rolling Stock)

**4.1.1 Purchase Order (PO) Acquisitions**

Receipt, tagging, and capitalization will be coordinated by the Department Fixed Asset Coordinator (DFAC) of the acquiring department.

**4.1.2 Contracts or Capitalized Lease Acquisitions**

The Contract Administrator of the contracting department, working through the DFAC, will coordinate receipt, tagging, and capitalization.
4.2 **Vehicles, Motorized Equipment, and Other Rolling Stock**

Fleet Management, working through the Department Vehicle Coordinator (DVC) of the acquiring department, will coordinate receipt and capitalization.

4.3 **Purchased Land, Buildings, and Improvements**

The Public Works & Engineering (PW&E) Real Estate Division completes the acquisition for land purchases. The PW&E Resource Management Division processes other related project and capitalization information. This information is then provided to the DFAC for recording in the Fixed Asset Management System (FAMS). The procedure is explained in Section 9 (Constructed Assets).

5 **Responsibilities by Organization or Position Assignment**

5.1 **Department Fixed Asset Coordinator (DFAC)**

- Coordinates all aspects of the tagging and capitalization of fixed asset and controlled item purchases of machinery and equipment (excluding rolling stock), whether acquired by PO or contract. This includes coordinating and integrating the activities of other procurement and receiving functions within the DFAC’s department for fixed assets and controlled items.

- Monitors and processes into the FAMS the capitalization of vehicle and rolling stock purchases provided by Fleet Management.

- Establishes the initial item records in the FAMS for all of the above.

- Coordinates subsequent transactions, such as betterment, transfers, dispositions, etc., in accordance with all applicable fixed asset management procedures.

5.2 **Department Purchasing Unit (DPU)**

- Advises and coordinates with the DFAC on purchase activity related to fixed assets and controlled items.

- Enters, in accordance with guidelines provided by the DFAC, the appropriate asset code (1, 2, or 3) in the *Commodity Type* field on the requisition screen of the Financial Management System (FMS).

**Note:** Procedures will be established within each department to provide fixed asset purchase and receiving information to the DFAC.
5.3 **Department Receiving Staff**

- Initiates and carries out required tagging tasks as defined in Section 5 (Numbering and Tagging Fixed Assets) and associated internal department tagging procedures, in conjunction with the DFAC.
- Provides timely notification, in conjunction with DPU staff, to the DFAC of the receipt of a fixed asset or controlled item.
- Provides information for tagging and for the FAMS Capitalization Form–Data Entry Form Fixed Asset Acquisitions (FA-1), as appropriate, to the DFAC.

5.4 **Department Contract Administrator**

- Oversees and reviews, with assistance from the DFAC, all departmental contracts to ensure that all contract purchases involving purchases of machinery and equipment (excluding rolling stock) are properly identified and capitalized.
- Coordinates with the DFAC to ensure that contract items, when received or accepted by the City, are tagged in a timely fashion and have a properly initiated FA-1.

5.5 **Department Accounts Payable Staff**

Provides the DFAC with all invoiced costs associated with a fixed asset or controlled item receipt for items purchased either by PO or contract.

5.6 **Department Vehicle Coordinator (DVC)**

- Coordinates vehicle and rolling stock acquisitions required by the Fleet Management system, which take place concurrently with acquisitions in the FMS purchasing system.
- Provides vehicle and rolling stock information required by the FAMS (e.g., FA-1 information) to the acquiring DFAC on a timely basis.

5.7 **Asset Management**

- Functions as a Fixed Asset Control Group to monitor capital fixed asset and controlled item purchases.
- Verifies the establishment of records in the Central FAMS.
5.8 Fleet Management

- Functions as a Fixed Asset Control Group to coordinate all vehicle and rolling stock purchases.
- Assigns fixed asset identification (FAI) numbers.
- Provides each department with basic vehicle fixed asset record information to create the vehicle acquisition record for new vehicles for input into the FAMS.

6 Asset Acquisition by Purchase Order (PO) Procedure

Requisitions and POs for fixed assets and controlled items acquired through purchase will be processed in accordance with the City’s procurement procedures as detailed in Administrative Procedure 5-2 and other applicable administrative procedures and executive orders.

1. The ordering section will initiate the requisition request for a fixed asset or controlled item (including Capital Outlay Justification as appropriate) and forward it to the DPU in accordance with department procedures.

2. The DPU will enter the approved Purchase Requisition in the FMS. The DPU will be responsible for coding and entering a correct FAMS code in the Commodity Type field on the PO. A FAMS code is required for all line items that are
   - charged to FMS capital expenditure objects (the 4000 series) and have a cost equal to or in excess of $5,000; or,
   - meet FAMS recording requirements for a controlled item.

   **Note:** Requisition line items chargeable to capital expenditure accounts (4000) are not to be coded to a high-level commodity code.

The following codes may be used:
- Fixed Asset
- Controlled Item
- Either Asset System or Group Asset as outlined in Section 3 (Multiple Unit Assets)

3. When the PO has been issued, the DPU will forward copies to the ordering and receiving sections in accordance with department procedure. In addition, a copy will be forwarded to the DFAC and the receiving location (if the remote receiving location is responsible for tagging and FA-1 initialization) as notification of a pending fixed asset receipt.
4. Upon receipt, the item will be accepted and processed by the receiving location in accordance with City policy and department procurement procedure. This includes entry of the appropriate FMS Receiver and forwarding of receiving documentation to the appropriate department staff.

Additionally, as notification of the item’s receipt, a copy of the accepted shipping documents, with the FMS Receiver number noted where possible, will be forwarded to the DFAC.

5. The item will be tagged and a FA-1 will be initiated and completed.

6. The FA-1, including the assigned FAI/tag number, will be forwarded to the DFAC. At a minimum, the following fields of the FA-1 are to be completed:

- **Asset Number**
- **Asset Description**
- **Purchase Order Number**
- **Ordering Department**
- **Ordering Location**
- **Received Date**
- **Manufacturer**
- **Model**
- **Serial Number**
- **Quantity**
- **Unit or Total Cost**

7. Periodically, F&A Asset Management will forward a copy of the Posted Receiving Report to the DFAC as additional verification/notification that an item with a fixed asset commodity type has been entered as an FMS Receiver.

8. The DFAC will complete the FA-1 in preparation for data entry into the FAMS. The DFAC will determine whether any additional information is required on the form for data entry as follows:

- If a tag could not be physically affixed to the asset, the nontagged (NT) asset may be recorded in the NT log book and the tag bearing the number assigned to the asset will be attached to the asset file or stored in the log book, if established. See Section 5 (Numbering and Tagging Fixed Assets).

- The Asset Class or Fast Code (standard descriptor code) will be assigned.
• The DFAC will verify or determine the costs and provide any applicable funding split information to include in the capitalized value of the asset according to the procedures outlined on the FA-1. This information may include a) final invoice cost information from the Department Accounts Payable section, preferably by copy of vendor invoice; b) allocations of capitalized costs to multiple items, if applicable; c) any capitalized costs to be added after receipt of the equipment, such as installation costs (to be noted and collected once the equipment is in place); or d) the Acquisition Method, Capitalization, and other optional information.

• If the asset has been acquired with grant funds, the DFAC will complete appropriate grant information on the FA-1.

• The Extended Description on the back of the form will be completed as appropriate.

9. The DFAC will sign the completed FA-1 and forward the document to the FAMS data entry section to set up the asset record in the FAMS.

7 Procedure for Recording Related Accounting Transactions

1. The accounting transactions related to the acquisition of fixed assets and controlled items will be initially recorded as expenditures in the appropriate 4000 object codes in the FMS.

2. Transactions related to the acquisition of controlled items will be recorded as expenditures in the appropriate supply and services object codes.

3. At year-end, or on such other cycle as may be required by City financial reporting policies, current expenditures for fixed assets and controlled items will be recorded in asset accounts for balance sheet reporting. Data from the department FAMS will be used for this purpose.

4. Capitalization will consist of a debit to the appropriate balance sheet asset account and a credit to the current period expenditure account to which the item was initially charged. All capitalization entries will follow each department’s detailed accounting and financial reporting procedures.

5. Capitalized assets will be recorded as follows:

   • The DFAC will enter into the FAMS the appropriate FMS fund code and Acquisition Method and other data necessary for the system to establish proper source of funds for creation of a journal entry by the Controller’s Office at year-end to capitalize assets set up in the FAMS asset file.

   • At year-end, the FAMS will provide the Controller’s Office with a schedule of capital assets acquired during the current year as required.
This will enable the Controller’s Office to properly capitalize each department’s fixed asset acquisitions in the FMS.

6. Controlled items will be recorded as follows:

- Controlled items are noncapital. Therefore, their procurement will remain as a noncapital expenditure in the FMS and will be reflected as a noncapital asset in the FAMS asset item records.

- Controlled items will be controlled in the same manner as fixed assets in terms of records, tagging and periodic inventories, and will have a Capitalize Code of No in the FAMS that will trigger the same capitalization procedures as used for fixed assets—except for the accounting transactions and coding only applicable to fixed assets.

8 Verification Procedure for Assets Tagged and Recorded in the FAMS

1. The Fixed Asset Control Group, working with the DFAC, will review and monitor all asset purchases to verify that a complete asset record has been entered into the FAMS for all fixed assets and controlled items received.

2. The Fixed Asset Control Group will periodically produce and distribute a Posted Receiving Report to the DFAC as verification or notification that an item with a fixed asset commodity type has been entered as an FMS Receiver. The report will identify all items received in the FMS that have a commodity type flag set as a fixed asset item.

3. Audit database reports will compare entries from both systems to verify that the department has entered items in its FAMS based on FMS information. The DFAC will take appropriate action to clear any discrepancies.

4. If it is discovered that an asset for which there is no record of a capitalized or controlled asset acquisition has been placed in service, i.e., the asset was delivered directly to the custodial section rather than through the departmental receiving function, the DFAC will be notified. The DFAC will then complete a FA-1 and notify the appropriate departmental tagging personnel to locate and tag the asset.

9 Capitalization of Rolling Stock Procedure

1. In accordance with the procedure in Section 5 (Numbering and Tagging Fixed Assets) Fleet Management will perform the number assignment and FA-1 functions assigned to the DFAC for vehicle and rolling stock purchases.

2. The DVC of the acquiring department will perform the specific tasks normally assigned to the departmental tagging personnel and will be responsible for providing supplemental
FA-1 information to the DFAC when the vehicle is placed in service. This might include a Closed Vehicle Work Order (with total cost, including make-ready) and/or a Unit Information Acceptance Form.

3. Monthly, the department will receive an electronic monthly vehicle file, which will include all new vehicle activity for the department and additional FA-1 information from the DVC, as appropriate, based on departmental and fleet procedures.

4. The DFAC will process and import the file into the FAMS by reviewing other FA-1 and funding source information to determine whether additional information needs to be added to the vehicle or rolling stock FAMS record. Such information might include the following:
   - Additional description information
   - The Ordinance Number or Council Motion Number, if available
   - Grant-related information, as appropriate

   If additional information needs to be added to the FAMS record, the DFAC will forward the information to data entry person for entry into the FAMS.

10 Capitalization Procedure for Machinery and Equipment Purchased by Contract

The procedures for capitalizing machinery and equipment purchased by contract will follow the same steps as outlined in the acquisition by PO procedure in subsection 6 in this section except as follows:

1. The departmental Contract Administrator for the related contract will notify the DFAC, via a written Contract Capitalization Request, that a contract item has been received and accepted.

2. If responsibility for assigning FAI numbers and tagging has been delegated to remote receiving locations in the department, the Contract Administrator will also advise the receiving site that a contract item requires tagging.

3. In lieu of a separate form, the Contract Administrator can use an FA-1 to provide the required information and send it to the appropriate location (as above) with a simple cover note indicating this is a contract item that has been received and requires tagging and entry into the FAMS.

4. If no specific Contract Administrator has been assigned to the contract under which the capital equipment has been purchased, the department DPU or the Purchasing Single Point of Contact will be responsible for initiating the FA-1.
5. The FA-1 submitted to the DFAC for capital equipment acquired by contract will contain the following information:
   - Date of receipt
   - Contract number (document reference number)
   - Item description
   - Quantity
   - Purchase cost
   - FMS expenditure object code
   - Funding source(s)
   - Organization
   - Location

6. The DFAC will then continue the capitalization process as outlined in the procedure in subsection 6 in this section. For contract purchases, the DFAC and/or the departmental tagging personnel will perform all the same tasks as they would for the acquisition of equipment by PO, as outlined in subsection 6, and as assigned to them in subsection 4.

**11 Procedure for Recording Multiple Fixed Assets Acquired by a Single Purchase**

1. The acquiring department DFAC (or the DVC, for rolling stock) will initiate an FA-1 for each asset included in the purchase.

2. The DFAC will enter separate asset costs in the FAMS for each asset acquired under a multiple unit purchase (including any allocated common costs).

3. An exception will occur for purchases of multiple items that qualify as asset systems or group assets, as defined in Section 3 (Multiple Unit Assets). These will be entered in a single asset record that includes the total cost and other data pertaining to the conglomeration of smaller items being combined into a single asset.

4. Each asset record will reflect the total calculated cost obtained by apportionment.
12 Capital Leases

12.1 Classifying Leases

A lease will be classified and capitalized as a capital lease if it meets one or more of the following criteria:

- The lease transfers ownership of the property to the lessee by the end of the lease term.
- The lease contains an option to purchase the leased property at a discounted price.
- The lease term is equal to or greater than 75% of the estimated economic life of the leased property.
- The present value of minimum lease payments equals or exceeds 100% of the fair value of the leased property less any investment tax credit retained by the lessor.

A lease that fails to meet any of the above criteria will be classified as an operating lease and recorded as an expense. Assets obtained through an operating lease will not be controlled utilizing the FAMS.

12.2 Accounting for Capital Leases

Equipment and real property acquired through capital leasing transactions, where the City is the lessee, will be considered to be owned by the City at the time the lease is signed. If a leased asset is capitalized, the asset will be

- recorded at an amount equal to the present value of the minimum lease payments, not to exceed the fair value of the asset,
- classified in the appropriate fixed asset fund category, as applicable, and
- depreciated based upon the City’s normal depreciation methods in accordance with Section 6 (Depreciation).

The useful life of the asset will conform to the City’s normal asset life policies as detailed in Section 4 (Fixed Asset Classification and Useful Lives), unless a) the lease term is equal to or greater than 75% of the estimated economic life of the leased property, or b) the present value of minimum lease payments equals or exceeds 100% of the fair value of the leased property, less any investment tax credit obtained by the lessor. In either of these cases, the useful life will be the term of the lease.

The following costs will be recorded for all capital leases:

- Leased asset cost
- Periodic interest expense on the related lease liability
12.3 Assignment of Historical Cost

In instances where the leasing agreement involves numerous pieces of equipment, the department will allocate the aggregate cost associated with the contract to the individual pieces of equipment on a reasonable basis (if the cost is not directly determinable from the lease agreement).

The recommended basis of allocation will be the individual rental costs of the equipment as a component of the aggregate rental associated with the contract.

The City’s Fixed Asset Management Program administrator and the Controller’s Office must approve any departures from the recommended allocation base described above.

12.4 Lease Agreement Data Requirements

Data requirements will be the same as defined for all fixed asset subsidiary ledgers, to the extent that they apply to a lease agreement.

In addition, Lessor Name, Contract Number, Council-Approval Reference, Starting Date, and Expiration Date should be kept in the data system when the system includes these fields. If the data system does not include these fields, the information should be kept in the leasing department’s appropriate file.

13 Grant Funded Assets

13.1 Federal and Grantor Agency Requirements

Fixed assets and controlled items acquired in whole or in part with grant funds will be controlled and accounted for in accordance with the applicable federal government Office of Management and Budget (OMB) circular, the requirements outlined in the Uniform Requirements for Grants and Cooperative Agreements with State and Local Governments (Common Regulations) as published in the Code of Federal Regulations (CFR), and the specific requirements of the individual grantor agencies.
13.2 Overview

As specified by the Common Regulations, property with a value **equal to or greater than $5,000** that is acquired in whole or in part with federal or grant funds must be recorded by the City at acquisition. The following information must be included:

- Fixed asset number
- Vendor
- Acquisition date
- Asset location
- Description
- Total cost
- Asset condition
- Asset use
- Percentage of federal participation and dollar amount
- Federal grant description, including grant number
- Manufacturer serial and model numbers, stock number, or other identification number
- Date of disposal, sale price, or method used to determine fair market value where the City compensates an agency for its share
- Title ownership (City or federal government)

The City will be responsible for maintaining all grant funded equipment in good condition. Upon disposition, the City will use selling procedures, when appropriate, that encourage competitive pricing and result in the highest possible return.

13.3 Acquisition of Grant Funded Assets

Only those assets authorized by the program statute and regulations and the grant agreement will be purchased under a grant. If additional equipment and supplies will be necessary to complete a grant funded project, these costs will be recorded as part of the asset cost. However, the City department acquiring the grant funds must ensure that any supplies and equipment purchased to complete the project will be needed (i.e., equipment on hand cannot be used). The City will use competitive procurement practices to procure any supplies and equipment.
13.4 Use of Grant Funded Assets

13.4.1 Real Property

Real property acquired with grant funds must be used for its original purpose for as long as it is needed. The property may be used for other purposes only with the prior approval of the granting agency.

Generally, approval will be given by the granting agency if the property is used for another federal project or a nonfederal project that has a purpose consistent with the authorizing grant legislation.

13.4.2 Equipment

Equipment acquired under a grant must also be used for its original purpose for as long as it is needed.

When no longer needed for the original purpose, grant funded equipment will be used for other projects (projects of the granting agency will be given first priority) currently or previously sponsored by the federal government.

13.5 Disposal of Grant Funded Assets

13.5.1 Real Property

If the City can no longer use grant funded real property, one of the following options will be exercised:

- The property will be sold and the federal agency paid its share of the proceeds according to matching or cost-sharing ratios.
- The property will be retained and the agency paid its share of the market value of the property.
- The title will be transferred to the federal agency, which will remit to the City its share of the market value of the property.
- The property will be disposed of as required by the particular terms of the grant.

13.5.2 Equipment

Grant program regulations regarding equipment dispositions will be followed. Generally, for federally funded grant equipment, the following guidelines apply:

- Items of equipment with a current per-unit fair market value of less than $5,000 may be retained, sold, or otherwise disposed of with no further obligation to the awarding agency.
• Items of equipment with a current per-unit fair market value in excess of $5,000 may be retained or sold, and the awarding agency shall have a right to an amount calculated by multiplying the current market value or proceeds from the sale by the awarding agency’s share of the equipment.
1 Purpose
The purpose of this section is to establish a procedure for valuing and recording fixed assets and controlled items acquired through donation, confiscation, condemnation, eminent domain, annexation, or tax foreclosure.

2 Scope
Assets acquired through donation, confiscation, condemnation, eminent domain, annexation, or tax foreclosure will be recorded in the fund in which they are to be of service, in accordance with the valuation guidelines in this section.

3 Guidelines

3.1 Donation
Donated or contributed assets will be recorded at the estimated fair market value at the time of donation.

3.2 Confiscation
Fixed assets acquired by the City through statutory confiscation powers will be treated as unconditional donations for the purpose of determining values and establishing records for such items in the FAMS.

Legally imposed restrictions on the use of, or revenues from, such assets must be recorded in the FAMS record in the Extended Description field.

3.3 Condemnation/Foreclosure
Assets acquired through condemnation or tax foreclosure will be treated in accordance with the City’s plan for the asset’s eventual disposition.

3.3.1 Retained Assets
If the City expects to retain an asset obtained by condemnation or foreclosure actions, the asset will be reported at the asset’s estimated fair market value on the date of condemnation or foreclosure, plus any legal, appraisal, or other associated costs.

3.3.2 Resold Asset
If the City expects to resell an asset acquired through condemnation or foreclosure within 12 months, the asset will be recorded at fair market value in the appropriate
fund to which the taxes are owed, with a liability to the property owner, if needed, to reflect any excess of the value of the asset over the City’s tax or assessment lien.

3.4 Eminent Domain

Assets acquired through eminent domain will be valued at the amount of compensation paid to the property owner plus any legal, appraisal, or other transaction costs associated with the acquisition.

3.5 Annexation

Assets acquired through annexation will be valued at the amounts recorded by the annexed entity (generally book value).

4 General Procedure

Assets received through donation, confiscation, condemnation, eminent domain, annexation, or tax foreclosure will be capitalized in accordance with this procedure if the asset is to be retained or used for an extended period (more than 1 year). These assets will not be capitalized if the asset is to be liquidated or disposed of within a short period (less than 1 year). In this situation, the receiving department should request that the Controller’s Office assign an appropriate current asset account to which the value of the asset, as determined herein, can be charged until disposition.

4.1 Asset Capitalization

1. For machinery and equipment assets (other than rolling stock), land, land improvements, and buildings, once the asset has been legally granted to or accepted by the City, the Department Fixed Asset Coordinator (DFAC) of the receiving department will determine the acquisition cost (value) of the asset in accordance with the specific procedures in subsections 5 through 9 in this section.

2. Where necessary, the DFAC will obtain an independent, verifiable, and realistic appraisal of the current fair market value of the asset. A certified appraisal should be obtained in cases where the asset is presumed to have substantial value, as established by either Finance & Administration (F&A) or the Controller’s Office. Otherwise, an authoritative source, such as actual price lists, professional valuations obtained by the donor, open market values of similar items, tax appraisals, and court awards and legal fees from eminent domain proceedings, will be used to establish acquisition cost.

If the acquisition involves land, improvements, or buildings, the appraisal will be completed in coordination with the Public Works & Engineering (PW&E) Real Estate Division.
3. The item will be tagged and a Capitalization Form–Data Entry Form Fixed Asset Acquisitions (FA-1) initiated and completed in accordance with Section 5 (Numbering and Tagging Fixed Assets).

4. The FA-1, including the assigned FAI tag number, will be forwarded to and completed by the DFAC as outlined in Section 7 (Asset Acquisitions). In addition, the following will also be considered:
   - The unit or total cost will be the value assigned to the asset.
   - The appropriate acquisition method will be noted in accordance with Table 8-1.

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<tr>
<th>Code</th>
<th>Description</th>
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<tr>
<td>G</td>
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<td>Foreclosure</td>
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<td>Other</td>
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The DFAC will indicate the fund source(s) to be credited for the asset, sign the completed FA-1, and forward the document to the data entry section to set up the asset record in the Fixed Asset Management System (FAMS).

5. Data entry will follow the general approach outlined in Section 7 (Asset Acquisitions), using the appropriate acquisition method code (Table 8-1).

6. If the item is a vehicle or rolling stock asset, the DFAC will request that Fleet Management establish the appropriate record for the item in the fleet system. The vehicle will be delivered to the Fleet Management facility servicing the acquiring department for inspection, appropriate City identification, and preparation of the unit for placement into service.

In accordance with Section 5 (Numbering and Tagging Fixed Assets), Fleet Management will assign the number and provide FA-1 information to the Department Vehicle Coordinator (DVC) or the DFAC for vehicle and rolling stock acquisitions.

The vehicle will be processed as outlined in subsection 9 in Section 7 (Asset Acquisitions).
4.2 **Related Accounting Transactions**

For general fund assets, the FAMS will provide the asset account to be debited (based upon the class code assigned) and the appropriate investment-by-source account to be credited (based upon the fund and acquisition method assigned). For enterprise fund assets, the asset file will indicate the balance sheet asset account to be debited.

4.3 **Depreciation**

Assets received by the City through donation, confiscation, eminent domain, or tax foreclosure will be depreciated in the same manner as other acquired assets in accordance with Section 6 (Depreciation).

The depreciable cost basis will be the established or appraised value, adjusted for any conditional factors as described in subsections 5 through 8 in this section.

If the asset received by the City through donation, confiscation, eminent domain, annexation, or tax foreclosure is “used” and is not expected to be fully useable and serviceable over the standard useful life of the asset class, the DFAC will consider adjusting down the estimated life for the asset in accordance with the procedure for depreciation.

5 **Donated Assets**

5.1 **Unconditional Donations**

The DFAC of the receiving department will obtain and record a current fair market value at the date of donation based on a certified appraisal or other appropriate valuation as described in subsection 4.1, step 2 in this section.

The asset will be processed in accordance with the general procedure outlined in subsection 4 in this section.

5.2 **Conditional Donations**

If the donor imposes restrictions on the donation, the DFAC will deduct any quantifiable negative values arising out of such conditions from the acquisition cost (the appraised value) of the asset to determine the valuation to be recorded and reported in the appropriate fund.

The asset will otherwise be processed in accordance with the general procedure in subsection 4 in this section.
5.3 **Donations Contingent upon a Specific Occurrence**

If a donation is contingent upon the fulfillment of some contractual obligation by the City as recipient, the DFAC will treat the asset as a contingent asset until the contingent condition has been met.

The DFAC will advise the City Controller in writing of the receipt of the asset, the description of the asset, its market value (if known), and the details of the contingent donation.

Contingent assets will be disclosed in the financial statements by note only. In the period in which the contingency requirement is fulfilled and the City is entitled to consider the donation finalized, the asset will be capitalized following the general procedure in subsection 4 in this section.

6 **Confiscated Assets**

Fixed assets acquired by the City through statutory confiscation powers will be treated as unconditional donations for the purpose of determining values and establishing records for such items in the FAMS.

Legally imposed restrictions on the use of, or revenues from, such assets must be recorded in the FAMS record in the *Extended Description* field.

7 **Eminent Domain**

When an asset is acquired through eminent domain, the acquisition is a legal proceeding which, when complete, must also be approved by City Council based on the recommendations of the PW&E Real Estate Division and the Legal Department.

Since these transactions involve the acquisition of property and property rights, the capitalization will be coordinated between the PW&E Real Estate Division, the PW&E Resource Management Division personnel, and the acquiring department.

7.1 **Notice of Transaction**

Upon receipt of the approved documentation evidencing an acquisition through eminent domain, the PW&E Real Estate Division will forward a notice of the transaction, including a new parcel data sheet, to the acquiring department. This notice, along with copies of other relevant acquisition documentation, will be forwarded to the DFAC of the acquiring department for processing.
7.2 Notice of Property Acquired by Eminent Domain

If a Capital Improvement Program (CIP) project is involved in the acquisition of the property, the PW&E Real Estate Division will forward a copy of the notice of property acquired by eminent domain to the PW&E Resource Management Division, to be included in the CIP project file.

7.3 Acquisition Cost

The acquisition cost (value) of the asset will be the amount of compensation paid to the property owner, plus any legal or other transaction costs associated with the acquisition. This provision applies to buildings and improvements that are not going to remain intact and in use by the City. Unwanted improvements, as well as the cost of demolishing and removing them, are added to the total acquisition cost of the land itself.

7.4 Processing the Acquisition

The DFAC of the acquiring department will initiate an FA-1, assign a fixed asset identification (FAI) number to the property acquired, and process the acquisition into the FAMS in accordance with the general procedure in subsection 4 in this section. The DFAC will complete the FA-1 in every detail as described in Section 7 (Asset Acquisitions), recording the CIP project number in the appropriate field, an acquisition method of eminent domain, and the fund to be credited.

7.5 Related Accounting Transactions

For general fund assets, the FAMS will provide the asset account to be debited (based upon class code assigned) and the appropriate investment-by-source account to be credited (based upon fund and acquisition method assigned).

For enterprise fund assets, the asset file will indicate the balance sheet asset account to be debited. The capitalization will be for a value equal to the amount of compensation paid to the property owner, plus any legal and/or other transaction costs associated with the acquisition.
8 Annexation

Fixed assets acquired by the City through statutory annexation powers will be treated as unconditional donations for purposes of determining values and establishing records for such items in the FAMS. The annexed asset will be processed as follows:

1. PW&E will contact the annexed municipal utility districts and obtain records of all annexed assets.
2. The Financial Services Division of F&A will, when necessary, distribute these records to the appropriate departments.
3. PW&E will inform the PW&E Real Estate Division of new real estate acquisitions. The PW&E Real Estate Division will assign an asset number to annexed land, notify the owning department, and obtain an account number from Harris County Appraisal District.
4. The new owning department will record the asset in the FAMS and conduct an inventory within 1 year of annexation.

9 Foreclosure

Foreclosure refers to land or land with buildings and other improvements foreclosed upon by the City and other taxing jurisdictions for unpaid taxes, where the property is in the custody of the City pending collection of taxes or liquidation.

The F&A Deputy Tax Assessor-Collector and the Controller’s Office are solely responsible for recording and tracking foreclosed properties, due to the specialized nature of these assets and because such property is not normally acquired for the use or benefit of a specific department.

9.1 Treatment as Contingent Assets

Foreclosed properties will be treated as contingent assets until the final disposition of the property is known. They normally are not treated as fixed asset acquisitions and are not entered in the FAMS when the property first comes under the City’s jurisdiction for the following reasons:

- There may be pending claims by other jurisdictions against the same property.
- The City generally does not plan to keep the property for an extended period.
- Certain statutory provisions can further impact the ultimate disposition of the property.
9.2 Processing the Acquisition

Property acquired through foreclosure will be processed in accordance with the following procedure:

1. Upon notification that the City has come into possession of property through foreclosure, the Deputy Tax Assessor-Collector will assign an identification number to each property so acquired.

2. The Deputy Tax Assessor-Collector will enter a property record into the Foreclosed Property database for each foreclosed parcel, showing the total amount of City taxes due on the property. Other relevant dollar figures, such as judgment amounts, taxes due to other jurisdictions, liens, maintenance costs incurred, etc., should be entered in descriptive fields.

3. The Deputy Tax Assessor-Collector will notify the City Controller in writing of foreclosed properties that have come into the possession of the City, along with a summary schedule of such properties.

4. At such time as foreclosed properties are sold or otherwise disposed of, the Deputy Tax Assessor-Collector will notify the City Controller in writing of such disposition and provide a schedule of the properties involved, along with a summary of the financial impact of the disposition. Included in this notification will be the proceeds from liquidation of the properties, a schedule of the taxes due to each jurisdiction having a claim against the properties, and a summary of the costs incurred by the City (or other jurisdiction) in taking possession, maintaining, securing, and disposing of the properties. The Controller’s Office will record the impact of such dispositions in the current fiscal year financial statements, in accordance with City Comprehensive Annual Financial Report (CAFR) reporting policies.

9.3 Disposition or Capitalization

Upon disposition of a foreclosed property, the Deputy Tax Assessor-Collector will delete the corresponding record from the Foreclosed Properties database, making a permanent record of the transaction and closing the foreclosed property file, which will be retained in accordance with the City’s records retention policies and procedures.
In the event that a foreclosed property is ultimately taken over and put into use by the City, it will be capitalized and entered in the FAMS following the same procedural steps as specified for donated assets in subsection 5 in this section and as follows:

1. The Deputy Tax Assessor-Collector will obtain and establish a fair market value for the property.

2. The PW&E Real Estate Division will be notified, so that any land parcels can be entered in their database.

3. The DFAC of the appropriate benefiting department will be notified, in writing, by the Deputy Tax Assessor-Collector, who will provide the required FA-1 information so that the property can be established in the department FAMS.

4. The DFAC will initiate an FA-1, assign an FAI number to the property acquired, and process the acquisition into the FAMS in accordance with the general procedure in subsection 4 in this section. The DFAC will complete the FA-1 in every detail, as described in Section 7 (Asset Acquisitions), recording the acquisition method of foreclosure and specifying the fund to be credited.

9.4 Related Accounting Transactions

For general fund assets, the FAMS will provide the asset account to be debited (based upon class code assigned) and the appropriate investment-by-source account to be credited (based upon fund and acquisition method assigned). For enterprise fund assets, the asset file will indicate the balance sheet asset account to be debited.

10 Assets in the Temporary Custody of the City

Assets loaned to the City for limited time periods for evaluation, testing, etc., and for which the City never has or acquires ownership equity, will not be recorded in the FAMS as either fixed assets or controlled items.
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1 Purpose

The purpose of this section is to establish procedures for accumulating capitalization costs for Capital Improvement Program (CIP) construction projects and reporting these to the Controller’s Office for recording in the Fixed Asset Management System (FAMS). This includes calculating the amount of construction-related interest to be capitalized on an annual basis.

2 Scope

All construction work-in-progress costs will be reported in a separate asset classification in the appropriate fund. The asset under construction will be transferred from Construction in Progress to the appropriate fixed asset classification(s) when the construction project is completed, accepted by Council, or the asset is ready for its intended use or occupancy.

3 Guidelines

3.1 Capitalized Costs

All labor and material costs directly associated with the construction project will be capitalized as a cost of the new asset.

In addition, overhead costs, such as licenses, permits, and project management costs directly associated with the construction, will be capitalized. Other elements of City overhead that are difficult to measure, such as insurance and utilities, will be allocated and expensed as operating charges rather than added to the capitalized cost of the constructed asset.

3.2 Capitalization of Interest

Interest costs incurred during the construction phase of projects undertaken on behalf of a proprietary fund may be capitalized as part of the cost of the fixed asset if the amount is considered material. Ordinarily, interest costs incurred during the construction of general government fixed assets are not subject to capitalization. Interest costs will not be capitalized on assets acquired through grants or gifts unless the grant or gift permits such capitalization and the funding is provided through the grant or gift.

Note: The calculation and accounting treatment of capitalized interest costs associated with the City’s construction programs will be coordinated by the Controller’s Office and the affected department.
3.3 Placement of Constructed Assets into Service

3.3.1 Initial Notice

The Director of Public Works & Engineering (PW&E) or the Director of Building Services will advise the City Controller, Asset Management, and the department benefiting from the use of the asset when a capital project is occupied or is about to be placed into service, whichever occurs first. This initial capitalization report will serve as notification of the status of the project and that project costs accumulated in Construction in Progress will be capitalized and transferred to the appropriate fixed asset accounts. The capitalization notice contains the following:

- Schedules of inception-to-date project expenditures, itemized by expenditure account as well as by category of cost, in accordance with the guidelines in Section 7 (Asset Acquisitions) and Section 8 (Asset Acquisition by Donation, Confiscation, Condemnation, Eminent Domain, Annexation, or Foreclosure)
- References to the fund and project numbers to which the project expenditures have been charged
- Clear identification and summarization of any noncapital expenditure accumulated in the project construction-in-progress totals

3.3.2 Final Notice

When a capital project is completed and closed, a final capitalization notice will be forwarded to the City Controller, Asset Management, and the benefiting department, detailing additional project costs accumulated after the initial capitalization. The final capitalization notice will also contain a final summary showing inception-to-completion costs.

3.3.3 Capitalization and Record Keeping

The department placing the asset(s) in service will create the appropriate asset records in the FAMS, following the capitalization procedures outlined in this section. The department will proceed as follows:

- Create a permanent file containing documentation supporting the completion of the project and the capitalized costs of the assets resulting from the project. This supporting documentation may be from the PW&E Resource Management Division or other project accounting ledgers, reports, invoices, inspection reports, etc.
- Explain any costs that are not capitalized in accordance with the criteria contained in these policies.
• Maintain this data in current files for audit review until the completion of the financial statements for the year of capitalization or until the asset is retired, in accordance with availability and archiving policies and procedures.

4 Responsibilities

The following responsibilities apply to all City departments. See Section 2 (Asset Valuation).

4.1 Public Works & Engineering (PW&E) Resource Management Division

• Provides the Department Fixed Asset Coordinator (DFAC) with the total capitalized costs associated with a construction project for the DFAC’s department.

• Accumulates and records costs associated with all phases of a construction project in the appropriate CIP project cost records, including salary recovery costs and Legal Department recovery costs.

• Identifies the appropriate asset classification and balance sheet account distribution of such costs in project cost summaries.

• Tracks and reports all construction in progress for all projects that have not yet reached 100% completion.

• Submits documentation to the Controller’s Office, Asset Management, and the benefiting department to place assets in service for all projects that have reached 100% completion or are occupied.

• Prepares and submits the Financial Management System (FMS) final close-out documents to the Controller’s Office, Asset Management, and the benefiting department(s) after final payment is made and the City Council–approved acceptance of work motion is received.

4.2 Department Fixed Asset Coordinator (DFAC)

• Records constructed assets that have been placed in service in the department FAMS, based upon the information provided by the PW&E Resource Management Division.

• Ensures that all reported costs associated with the constructed asset, as provided by the PW&E Resource Management Division, are reflected in the record, including costs at the time the asset was placed in service and any and all final close-out costs.

4.3 Controller’s Office

• Reviews and approves all cost documentation submitted, including review and approval of the FMS final close-out package prepared and submitted by the PW&E Resource Management Division.
5 Procedure for Accumulating and Tracking Construction Costs

1. At the inception of all CIP projects, the PW&E Resource Management Division will establish appropriate project codes and numbers in the Capital Projects module of the FMS to accumulate all costs associated with the project throughout the life of the project.

Note: Costs to be capitalized for constructed assets are outlined in Section 2 (Asset Valuation).

2. The PW&E Resource Management Division will establish and maintain additional tracking in other departmental capital project tracking systems within PW&E and the PW&E Resource Management Division to meet overall FAMS reporting requirements, including the separate costs for each constructed or purchased fixed asset detailed in the project contract.

3. During the course of work for a project (construction in progress) after the contract has been approved by City Council, awarded to a bidder, and the contractor begins work, the contractor will submit work estimates with costs itemized by type (e.g., materials, labor, project administration), including those directly associated with each fixed asset scheduled for construction or purchase.

4. The PW&E Construction Division will process and approve monthly contract work estimates for project work and forward these to the PW&E Resource Management Division for payment processing.

5. The PW&E Resource Management Division will proceed as follows:
   - Review and code each payment to the appropriate FMS project and/or subproject number established in step 1 above.
   - Specify retainage amounts, if applicable, and record the payment information through normal FMS processing.
   - Itemize the increments in construction-in-progress amounts included in the contract work estimates in its tracking ledgers in order to track the cumulative cost of each asset projected to result from the contract.
   - Record all real estate acquisition costs provided by the PW&E Real Estate Division in the appropriate project record.
• Direct and indirect charges from other City sources that are directly assignable to a specific project/asset will be recorded in the appropriate project record.

  **Examples**

  Legal Department – Legal services costs associated with acquiring property
  Salary Recovery Billings – Salary costs of City staff that provides capital project support

• Other overhead costs that cannot be directly associated with a single asset (e.g., project administration, delivery, insurance, utilities) will be recorded separately and allocated among the individual constructed or purchased assets upon project completion.

6. Interest for capital projects will be capitalized during the construction period in accordance with subsection 8 in this section.

### 6 Procedure for Placing Constructed Assets in Service

1. On an ongoing basis, but at least annually, regardless of project activity levels, the PW&E Resource Management Division will perform a review of all construction-in-progress ledgers to determine the percentage of completion for each project.

2. Projects that have reached completion or are occupied will be identified as ready to be placed in service. The PW&E Resource Management Division will perform the following tasks for these projects:

   • Analyze the project ledger data to determine the costs to be capitalized for each asset resulting from the project.
   
   • Determine if a single asset or multiple assets should be capitalized as the result of the project. This determination will include a decision on whether the project asset(s) will be treated and costs reported as asset systems or component assets, in accordance with Section 3 (Multiple Unit Assets).

   • Identify the costs associated with each asset or asset system constructed or purchased.

3. Projects that have not reached the completion or occupied level will continue to be tracked by the PW&E Resource Management Division as construction in progress.

4. Annually, the PW&E Resource Management Division will provide the Controller’s Office, Asset Management, and the benefiting departments with a Schedule of Construction in Progress detailing accumulated costs and percent completion information for each project that is open and has not yet been placed into service.
Project costs that are not directly associated with a specific asset will be allocated to all assets resulting from the completed project using the apportionment method discussed in Section 7 (Asset Acquisitions).

5. Once the actual cost of each asset resulting from the project has been determined, the PW&E Resource Management Division will initiate a Request to Place Asset in Service.

6. The PW&E General Accounting/Fiscal Section will approve the capitalization request and send a written notice to the Controller’s Office detailing the capitalization and the transfer of the project from Construction in Progress to the appropriate fixed asset accounts. (The appropriate balance sheet asset accounts will be debited and the Construction in Progress account will be credited for the total amount to be capitalized.)

7. The PW&E Resource Management Division will also forward a copy of the above notice, including cost and descriptive information, to the DFAC of the benefiting department so that the master FAMS record(s) can be created. The FMS Final Close-Out Summary will be the official notice to the DFAC providing capitalization information, including costs to be recorded.

8. Upon receipt of the “in service” information, the DFAC will assign a fixed asset identification (FAI)/tag number in accordance with Section 5 (Numbering and Tagging Fixed Assets).

9. The DFAC will initiate and complete a Capitalization Form–Data Entry Form Fixed Asset Acquisitions (FA-1), including the assigned FAI/tag number, in accordance with Section 7 (Asset Acquisitions) and the following requirements:
   - The acquisition date will be the date of the City Council motion or in-service date.
   - The unit or total cost will be the total inception-to-date expenditures associated with the project/asset at the time the asset is to be placed in service.

   **Note:** The unit or total cost will be amended through a financial adjustment in the FAMS at a future date when the final close-out costs are available.

   - The extended description of the asset will detail the basic construction of the asset (e.g., building specs, type of construction, square footage, components).
   - The acquisition method will be C (Constructed).
   - The CIP project number will be recorded as the FAMS project number.
   - The funding source(s) to be credited for the asset will be indicated.
• Required grant funding information, if applicable, will be included in Section 3 of the form.

• If the asset to be placed in service is being componentized (e.g., the individual building systems are being recorded separately), the appropriate parent/child relationships among the assets will be noted. (For a building, the parent asset is generally the building shell.) The parent asset will carry the overall extended description for the conglomerate.

10. The DFAC will sign the completed FA-1 and forward the document to the data entry section to set up the asset record in the FAMS following the same general approach as outlined in Section 7 (Asset Acquisitions).

7 Final Close-Out Processing Procedure

1. When the project is completed, the appropriate department will prepare a Request for Council Action (RCA) to accept final work for the project and notify the client or benefiting department of the project’s completion. Copies of the RCA will be sent to the City Secretary and the PW&E Resource Management Division.

2. Upon receipt of the RCA, the PW&E Resource Management Division will enter the RCA information in its project close-out tracking system and analyze the project ledger data to determine the final costs to be capitalized for each asset resulting from the project, including cost recovery and final intragovernmental billings.

3. Once City Council has accepted work and the Council motion is received, the PW&E Construction Division will compile and forward the Final Construction Pay Estimate to the PW&E Fiscal Section.

4. The PW&E Fiscal Section will proceed as follows:
   • Make final payment to the contractor(s).
   • Forward the estimate to the PW&E Resource Management Division.
   • Enter the final payment voucher package into the FMS.
   • Forward the documents for normal payment processing.

5. The PW&E Resource Management Division will proceed as follows:
   • Verify that final payment has been processed and that all other project-related costs have cleared the FMS Suspense File.
   • Prepare the FMS final close-out packet.
   • Forward the FMS final close-out documents to the PW&E Fiscal Section.
6. The PW&E Fiscal Section will then proceed as follows:

   • Make adjustments if funds are needed to cover unbilled cost recovery due to insufficient funds.
   • Calculate and set aside an allowance for warranty inspection costs.
   • Determine the final close-out figure.
   • Return the completed FMS final close-out packet to the PW&E Resource Management Division.

7. The PW&E Resource Management Division will then proceed as follows:

   • Accumulate all final project costs and request that the project be closed in FMS Capital Projects.
   • Enter the close-out information into the FMS Capital Projects module, thereby “closing” the project.
   • Update their project close-out tracking systems.
   • Forward the original close-out documents to the Controller’s Office for final review and closure. (Audit exceptions will be returned to the PW&E Resource Management Division for correction.)
   • Forward a copy of the complete FMS final close-out packet, including cost and descriptive information, to the DFAC of the benefiting department so that the master FAMS record(s) can be created. The FMS Final Close-Out Summary will be the official notice to the DFAC providing capitalization information, including costs to be recorded.

8. Upon receipt of the final close-out information, the DFAC will determine whether the asset record(s) have already been created in the FAMS as a result of the asset being occupied or placed in service at the completion point. If the record has not yet been established, the DFAC will follow the general capitalization procedure outlined in Section 7 (Asset Acquisitions) to place the project in service. If the record has been established, the DFAC will continue with step 9 below to record the asset in the FAMS.

9. If necessary, the DFAC will initiate a FAMS Capitalization Form–Financial Adjustments/Other Changes (FA-3) for each asset defined under the project to record the difference between the acquisition costs recorded at the time the asset was placed in service and the final close-out cost. The FA-3 will be completed as follows:

   • The adjustment transaction date will be the date of the City Council motion.
   • The reason for the adjustment will be Final Project Close-Out Cost Adj.
• The unit or total cost currently recorded (as of the time the asset was placed in service) will be replaced with the total inception-to-date expenditures associated with the final close-out of the project/asset.

• The Other Changes section will be completed by changing the City Council motion number in the Asset Master screen (a user-defined field) from the motion number when the asset was placed in service to the motion number associated with the final project acceptance.

10. The DFAC will sign the completed FA-3 and forward the document to the data entry section to update the asset record in the FAMS.

11. The data entry section will enter the item in the FAMS.

8 Capitalization of Interest

For construction projects (excluding projects funded by grants or gifts, unless the terms of the grant or gift permit such capitalization), interest charges on projects using proprietary funds during the construction period will be calculated and capitalized in accordance with guidelines coordinated by the Controller’s Office and the affected department. General government projects will not capitalize interest, in accordance with Governmental Accounting Standards Board (GASB) Statement No. 37 (amendments to GASB Statement No. 34).

Capitalized interest costs will be included, as appropriate, in the information accumulated by the PW&E Resource Management Division as outlined in subsection 5, steps 1 and 2 in this section.

In accordance with the Statement of Financial Accounting Standards (SFAS) No. 62 or SFAS No. 34 and Controller’s Office guidelines, the PW&E Resource Management Division will calculate the interest expense, net of interest revenue earned on the bond proceeds, to be capitalized from the time of the borrowing until the completion of the project. Treatment of capitalized interest will be dependent on the actual funding source to determine which authoritative guideline to use.
1 Purpose

The purpose of this section is to establish procedures for recording and accounting for costs of improvements, betterments, and maintenance expenditures as additions and alterations to existing capitalized assets.

2 Scope

Expenditures attributable to individual assets after the asset has been placed in service will be capitalized if the individual expenditure meets the City’s criteria for the capitalization of a fixed asset (including the minimum dollar limit) and the related original asset has a remaining economic life of at least 1 year after the additional expenditure.

The expenditure should extend the useful life of an existing fixed asset by more than 1 year, significantly increase a capitalized asset’s normal rate of output, significantly decrease a capitalized asset’s operating cost, extend or expand an existing asset by significantly increasing its physical size, or significantly increase the efficiency of an existing fixed asset.

3 Guidelines

3.1 Improvements

Improvements include additions of new components to previously capitalized assets that either increase the assets’ value, extend the useful life, increase the normal rate of output, lower the operating cost, or increase the efficiency of the existing assets. Replacements of components of existing capitalized assets with improved or superior units, such that the value or useful life of the assets is increased, are also classified as improvements.

Example

Construction of a new wing on a building

3.2 Betterments

Betterments enhance an existing capitalized individual or group asset to a condition beyond that achieved through normal maintenance repairs. A betterment increases the useful life of the asset by at least 1 year without the introduction of a new unit.

Example

Tuck-pointing of a building

Only alterations that significantly rebuild an asset will be capitalized as betterments. Alterations that change the physical structure of assets (e.g., cutting new entry and exit
openings or closing old ones; erecting new walls, windows, and partitions or removing old ones), but neither materially add value to the asset nor prolong its expected life, will be considered maintenance and expensed.

3.3 Accounting Treatment of Improvements and Betterments

An improvement or betterment that individually meets the capitalization threshold may be either added to the value of the existing capitalized asset or capitalized as a stand-alone fixed asset separate from the previously existing asset. If the value of the improvement or betterment is added to the value of the existing asset and the useful life has been increased, depreciation charges for future periods should be revised on the basis of the new book value and the new estimated remaining useful life.

Improvements or betterments of noncapitalized assets that do not involve replacements will be capitalized as part of the original asset only if the total cost of the original asset, including the improvement, is equal to or greater than $5,000. Otherwise, the improvement will be expensed as maintenance and repairs.

Improvements or betterments that involve replacement of an existing component will be capitalized only when the value or useful life of the asset is increased. In such cases, the value of the replaced component should be deleted to prevent an overstatement of the asset’s value.

3.4 Maintenance and Repair

Maintenance and repairs are not intended to alter or change the asset or to increase the useful life of the asset, but rather to sustain the asset in its present condition.

Maintenance and repair costs incurred to keep a fixed asset in normal operating condition will be expensed. Maintenance costs are not capitalized and are not recorded as part of the associated asset in the fixed asset record.

Departments are responsible for tracking assets sent for repair to vendors and for maintaining appropriate documentation.

Note: Improvements and betterments that do not either individually meet the capitalization threshold or add to the asset significantly will be treated as maintenance and expensed.
4 Background for Understanding

The distinction between improvement and betterment is sometimes subject to interpretation; however, the accounting treatment is substantially the same. The critical decision or distinction to be made is whether an expenditure that is related to an existing fixed asset or controlled item qualifies as a cost to be capitalized (improvement or betterment) or as a charge to maintenance expense.

Note: The accounting that will occur over the life of an item depends on how the asset was classified as a multiple unit asset. See Section 3 (Multiple Unit Assets).

As an asset ages and is used, maintenance and replacement to its systems will usually be required. Proper accounting practice calls for retirement and recapitalization if the replacement substantially increases the value of the asset or extends its life; otherwise, the replacement will be expensed. This must be done consistently. How the multiple unit asset is defined will dictate whether the replacement of a subunit or component is handled as a retirement of the subunit and recapitalized (improvement or betterment) or simply charged to maintenance expense.

4.1 Improvements

An improvement introduces a new component that may, in some cases, replace a previously existing component with a superior unit. A project or activity will qualify as an improvement if it involves any of the following:

- The addition of a new component to a previously capitalized asset that either increases the asset’s value, extends its useful life, increases its normal rate of output, lowers its operating cost, or increases its efficiency
- The addition of new and separate units or extensions or expansions to noncapitalized assets that increase the asset’s value or estimated useful life, such that the original asset, including the addition, now meets the capitalization threshold
- The replacement of a component of an existing capitalized asset with an improved or superior unit, such that the value or useful life of the asset is increased

Examples

- Installation of an air conditioning system where there previously was none
- Installation of a crane on a truck that did not previously have one
• Removal of a major part or component of equipment and the substitution of a new part or component that increases either the value or the useful life of the asset
• Addition of a new wing to a building

4.2 Betterment

A betterment materially renovates or enhances a previously capitalized asset without the introduction of a completely new unit. Alterations that change the physical structure of assets (e.g., cutting new entry and exit openings or closing old ones; erecting new walls, windows, and partitions or removing old ones) but neither materially add value to the asset nor prolong its expected life will be charged to maintenance expense.

Examples
• Enhancement of an old shingle roof through the addition of modern, fireproof tiles
• “Major catch-up” repair to or rehabilitation of an existing neglected asset that extends the useful life or increases the value of the asset

4.3 Maintenance and Repair

Maintenance and repairs may be distinguished from improvements and betterments in that maintenance and repairs are not intended to alter or change the asset or to increase the useful life of the asset, but rather to sustain the asset in its present condition.

A project or activity will qualify as maintenance if it
• recurs on an ongoing basis (scheduled maintenance) and keeps the asset in a useable condition;
• simply restores a fixed asset to its former condition, addressing normal wear and tear associated with the use of an asset;
• does not add substantially to the value of the asset;
• facilitates asset utilization for its original estimated useful life; and
• does not significantly extend the useful life of the existing asset.

Examples
• Engine overhaul in a vehicle
• Compressor replacement in an air conditioning unit that is not componentized
• Resurfacing roof gravel or reflashing a roof
• Painting and similar activities
• Remodeling and rearrangement costs

5 Determining Whether to Capitalize or to Charge an Expense to Maintenance

5.1 Monitoring and Evaluating Expenditures

All purchase orders and goods received related to the repair, maintenance, or enhancement (replacement or partial replacement) of existing fixed assets and controlled items will be monitored and evaluated by each department’s operating personnel, purchasing personnel, and/or Department Fixed Asset Coordinator (DFAC) to identify whether the service will be treated as a maintenance or repair expense or a cost to be capitalized in accordance with the criteria set forth in this procedure.

All purchase orders and contracts issued under Capital Improvement Program (CIP) projects, with the exception of those of the Department of Aviation, will be monitored and reviewed by the Public Works & Engineering (PW&E) Resource Management Division to identify whether the service will be treated as a maintenance or repair expense or a cost to be capitalized, in accordance with the criteria in this procedure.

5.2 Expenditures Requiring Capitalization

Expenditures attributable to individual assets involving replacement, partial replacement, or renovation or repair after the asset has been placed in service will be capitalized as either an improvement or a betterment if all of the following conditions exist:

• The individual expenditure meets the City’s criteria for the capitalization of a fixed asset (including the minimum dollar limit).
• The related original asset has a remaining economic life of at least 1 year after the additional expenditure.
• The expenditure either extends the useful life of an existing fixed asset by more than 1 year, significantly increases a capitalized asset’s normal rate of output, significantly lowers a capitalized asset’s operating cost, extends or expands an existing asset by significantly increasing its physical size or capacity, or significantly increases the efficiency of an existing fixed asset.
5.3 Expenditures Charged to Maintenance Expense

Expenditures attributable to individual assets involving replacement, partial replacement, or renovation or repair after the asset has been placed in service will not be capitalized and will instead be charged to maintenance expense under any of the following conditions:

- The service is provided in the normal course of maintenance (e.g., scheduled maintenance) of the asset.
- The service is not intended to alter or change the asset or to increase the useful life of the asset, but rather to sustain the asset in its present condition.
- The replacement or partial replacement does not individually meet the capitalization threshold.
- The service is provided for a component or subunit of an asset system that was defined as such with the intent to expense replacements or partial replacements of components or subunits over the life of the asset system.

6 Procedure for Recording Improvements and Betterments in the Fixed Asset Management System (FAMS)

The DFAC will establish improvements and betterments in the FAMS as outlined in the following steps. Improvements and betterments will be treated as separate assets with their own fixed asset identification (FAI)/tag numbers and as new costs to be depreciated independently of the base unit or asset system with which they are associated.

1. A parent/child relationship will be established between the improvement or betterment and the base unit with which it is associated. The parent asset will be the base unit to which the improvement or betterment is being made and the child asset will be the improvement or betterment itself.

2. The improvement or betterment will be assigned an asset classification and useful life that is representative of the improvement or betterment by itself, and not of the base unit or asset system of which it is a part.

3. For expenditures that will be capitalized, an FAI/tag number will be assigned to the improvement or betterment and a Capitalization Form–Data Entry Form Fixed Asset Acquisitions (FA-1) will be initiated in accordance with Section 5 (Numbering and Tagging Fixed Assets).

4. The FA-1, including the assigned FAI/tag number, will be forwarded to and completed by the DFAC to establish the improvement or betterment as a new and separate asset that will be related to its base asset in a parent/child relationship. The general approach will be as
outlined in Section 7 (Asset Acquisitions) and in accordance with the following requirements:

- The improvement or betterment will be designated a child asset.
- The FAI/tag number of the base unit to which the improvement or betterment is being made will be entered as the parent asset number.
- The acquisition date will be the date of receipt or the date of the motion by City Council accepting final work (for constructed assets), as appropriate.
- The unit or total cost will be the total cost of the improvement or betterment. If the improvement or betterment is a constructed asset, the cost will be determined in accordance with Section 9 (Constructed Assets).
- The extended description of the asset will be completed indicating that the asset is an improvement or betterment to an existing asset and describing the nature and specifications of the improvement or betterment.

5. The DFAC will determine, in accordance with subsection 7 in this section, whether the improvement or betterment requires that the book value of the replaced component be retired or disposed of to prevent an overstatement of the asset’s value. If a partial or full retirement is required in conjunction with the recapitalization, the DFAC will initiate additional forms as necessary.

6. The DFAC will sign the completed FA-1 and forward the document to the data entry section to set up the asset record in the FAMS following the general approach outlined in Section 7 (Asset Acquisitions).

7. The item will be entered in the FAMS as follows:

- The improvement or betterment will be entered as a new asset. The asset will be designated a child asset, and the asset number of the base unit to which the improvement or betterment is being added will be recorded as the parent number asset on the Add screen.
- If a retirement is required and the asset being replaced is a component asset, a disposal transaction will be completed in the FAMS.
- If a partial retirement is required involving an asset system, a financial adjustment transaction will be completed in the FAMS.
7 Retirements Related to Replacements and Renovations

7.1 Replacement

The improvement may involve a replacement of a component asset or subunit of an asset system. See Section 3 (Multiple Unit Assets). In such cases, the book value of the replaced component will normally be retired or disposed of as follows to prevent an overstatement of the asset’s value:

- If the subunit or component of the asset being replaced is defined as a component asset in the FAMS, the component asset being replaced will always be retired or disposed of as detailed in Section 13 (Retirement and Disposal).

- If the subunit or component of the asset being replaced is defined as an asset system in the FAMS, a determination will be made of the book value of the portion of the asset system being replaced. If the estimated book value of the subunit or component of the asset being replaced is monetarily significant, or the life of the conglomerate is extended, a partial retirement in the form of a financial adjustment will be made in the FAMS to retire the replaced component. If the estimated book value of the subunit or component of the asset being replaced is insignificant, or the life of the conglomerate is not extended, no adjustment for partial retirement will be made.

- If the improvement involves a replacement that does not increase the value of the existing asset, the DFAC will expense the cost of the improvement, so that neither the asset record nor the balance sheet asset account will be affected. An FA-1 will not be completed in this case.

7.2 Renovation

If the betterment involves a renovation of a component asset or subunit or portion of an asset system, and the cost or value of the betterment is 75% or more of the current replacement cost of the component asset or asset system being renovated, the original component asset will be retired in accordance with Section 13 (Retirement and Disposal).
1 Purpose

The purpose of this section is to establish procedures for transferring fixed assets between organizational units or physical locations within a City department or between different City departments. By providing timely reporting of fixed asset transfers, these procedures ensure custodial responsibility, accountability, and the maintenance of accurate fixed asset records.

2 Scope

Both the transferring and receiving entities will appropriately account for transfers of fixed assets, whether they are transfers between departments (interdepartmental transfers) or within departments (intradepartmental transfers).

Interdepartmental transfers will be coordinated between the transferring and receiving departments, as well as with the appropriate Fixed Asset Control Group, for all real property assets, buildings, and equipment with values equal to or greater than $5,000 or meeting Citywide controlled item classifications. The Fixed Asset Management System (FAMS) assists in providing proper accounting for transfers by distinguishing between inter/intradepartmental and inter/intrafund transfer transactions.

Fixed assets are sometimes transferred between general government funds and proprietary or trust funds. In such cases, the asset transfer is recorded by making offsetting entries to the appropriate asset accounts and to the investment in general fixed assets account by source accounts. The appropriate valuation of such a transferred asset in the receiving entity’s accounts must be performed consistently. To avoid distortion of the financial statements, only the depreciated (net book) value of the transferred asset, rather than its original cost, will be reported by the receiving entity.

Transfers between departments within the general fund have no proceeds or gain or loss recorded in conjunction with the transfer in the individual FAMS records of the respective departments.

3 Guidelines

Assets can be transferred from one City department to another. When an active asset in the possession of a City department or department organizational unit (e.g., division, section) changes custodial responsibility or is physically moved from one location to another, a transfer transaction will be recorded in the FAMS.
3.1 Transfer Due to a Change in Organizational Responsibility

A change in custodial responsibility (stewardship) will occur when there is a change in organizational responsibility for safeguarding the asset from one department (or organizational unit within a department, such as a division or section) to another that results in a department code field changing in the FAMS.

The level at which transfers will be recorded in the FAMS will be determined based upon the level at which the organization code is established by the department in the FAMS. At a minimum, departments will use the two-digit Financial Management System (FMS) department code followed by valid four-digit FMS organization code.

*Examples*

- If responsibility for an asset is changed from one department to another, such as from the Police Department to the Health Department, a transfer entry in the FAMS is required.
- If responsibility for an asset is changed from the Supply Division of the Fire Department to the Building Services Division of the Fire Department, and division-level department codes have been assigned in the FAMS, a transfer entry is required.
- If responsibility for an asset is changed from the Warehouse Section to the Ordering Section of the Supply Division of the Fire Department, and department and organization codes are only assigned at the division level, a transfer entry is not required.

3.2 Transfer Due to a Change in Physical Location

When a change in the physical location of an asset occurs, the determination of whether a transfer entry in the FAMS is required will depend upon whether the location code adopted by the department has changed. The level at which transfers need to be recorded in the FAMS will be determined based upon the level at which location codes are established by the department in the FAMS. The location code level in the FAMS has generally been defined as a discrete building or structure at a site. When sublocation codes (e.g., room numbers) are maintained in the FAMS, transfers between sublocations (rooms) within a location (building) will be required.
4 Types of Transfers

Note: For clarity, organizations involved in the transfer of an asset will be referred to as follows: The receiving or buying department is the department or organizational unit receiving the asset as a result of the transfer. The sending or selling department is the department or organizational unit sending the asset as a result of the transfer.

4.1 Departmental Transfer

A departmental transfer occurs when an active asset in the custody of a City department changes organizational responsibility or is physically moved from one location to another, but remains within the same department.

Example

A transfer of an asset between divisions in the Aviation Department

4.2 Mass Transfers/Updates

A mass update transaction is available in the FAMS that will allow departmental transfers to be performed on all assets in the department FAMS that meet the transfer criteria (change in organizational or physical location). A full audit trail is provided for each individual asset included in the mass update transaction.

Example

Changing all organization codes from one code to another in conjunction with reorganization

4.3 Interdepartmental/Interfund Transfer

An interdepartmental/interfund transfer occurs when an active asset in the custody of a City department changes organizational responsibility or is physically moved from one location to a different department in a different fund.
4.4 Interdepartmental/Intrafund Transfer

An interdepartmental/intrafund transfer occurs when an active asset in the custody of a City department changes organizational responsibility or is physically moved from one location to a different department in the same fund (e.g., one general fund department to another general fund department).

Example

A transfer of an asset between Asset Management and the Legal Department (both general fund departments)

4.5 Transfers of Grant Funded Assets

It may be necessary to obtain specific grantor approval prior to the transfer of federal or grant funded assets when it is determined that the fixed asset is no longer needed for the original grant purpose. Use of these fixed assets in other projects will be limited to other federal grant programs or programs that have purposes consistent with the original grant purpose. Guidelines for transfer of grant funded assets, as outlined in Office of Management and Budget (OMB) Circular A-102 (revised), will apply.

5 Departmental Transfers

5.1 Transfer Procedure

1. The individual or manager responsible for asset custody in the organizational unit sending the asset, or the Department Fixed Asset Coordinator (DFAC) if the DFAC is coordinating the transfer for the groups, will initiate a Capitalization Form—Disposals/Transfers/Mass Updates (FA-2) requesting the transfer of the fixed asset or controlled item. In Section 4 of the form, the appropriate information identifying the receiving organization (division), location, or sublocation will be entered as follows:

   • If the transfer involves a transfer in organizational responsibility, only the New Div is entered.
   
   • If the transfer involves a transfer in physical location, only the New Location or New Sub-Loc is entered.
   
   • If the transfer involves both a transfer in organizational responsibility and physical location, all of the New... fields are entered.

2. Upon receipt of a memo approving the transfer from the receiving organizational unit, the sending manager will forward the memo and the FA-2 to the sending DFAC.
3. The sending department DFAC will proceed as follows:
   - Review and confirm the approvals of both the sending and receiving organizations and complete the FA-2.
   - Retain a copy of the FA-2 in a pending transfer file.
   - Forward the approved FA-2 to the receiving organization to arrange for actual delivery and moving of the asset.
   - Monitor the pending transfer file to ensure that expected transfer documentation has been received.

4. The sending organizational unit will sign the Released By line on the FA-2 at the time the asset is picked up by the receiving organizational unit.

5. Upon delivery of the physical asset, the receiving organizational unit will sign the Received By line on the FA-2, and return the form, with all required signatures, to the sending department DFAC for entry into the FAMS.

6. Upon receipt of the FA-2 from the receiving organizational unit indicating the transfer has been completed, the sending department DFAC will verify the transaction date, as appropriate, and forward the FA-2 to the data entry clerk for entry into the FAMS.

7. The FAMS record will be updated following established data entry procedures.

5.2 Related Accounting Transactions

The FAMS will properly reflect the transfer in the financial reports of the department and funds as follows:

- The transfer will be reflected as a reduction in the valuation of assets for the sending organization and an increase in the valuation of assets for the receiving organization.
- The appropriate changes will be reflected in the department and Central Reporting System Net Changes reports.
- The net effect of the transfer transactions will be reviewed by the department and Asset Management for posting at year-end to ensure proper City Comprehensive Annual Financial Report (CAFR) representation of the transfer information.
- Any journal entries required to reflect the net effect of transfers between funds will be made as summary entries for the department at year-end. Departmental responsibility and specific procedures for such entries will be provided by and coordinated with Asset Management.
6 Interdepartmental/Interfund Transfers

When the transfer involves different departments and different funds, a transfer is treated as a disposal by the selling department and an acquisition by the buying department. Special method codes will be recorded to designate these transactions as transfer-type transactions. To ensure accurate City financial accounting, the proceeds and cost basis at which the transaction occurs require special consideration.

6.1 Transfer Procedure

1. The DFAC of the department selling the asset will initiate an FA-2 requesting the transfer of the fixed asset or controlled item. In Section 3 of the form, the appropriate information will be entered as follows:
   - Transaction Date – The estimated transaction date for the transfer is entered.
   - Disposal Method – Dept Transfer – Interfund is entered.
   - Reason – Interdepartmental transfer to XXX Department is entered, where XXX is the buying department that will receive the asset.
   - Proceeds – The estimated book value (original cost minus accumulated depreciation) of the asset on the transaction date is entered. This will result in a net gain or loss of $0. A preview book value is displayed when the information is entered in the FAMS.
   - Grant Transfer Records – Any information necessary to satisfy grant transfer recording requirements is entered, as appropriate.

2. The selling department DFAC will obtain and attach a memo approving the transfer from the appropriate department management of both departments.

3. The FAMS record will be updated following established data entry procedures.

4. The selling department DFAC will retain a copy of the Capitalization Form–Disposals/Transfers/Mass Updates (FA-2) and the FAMS Transfer Summary in a pending transfer file until the transaction has cleared on the receiving department side.

5. The selling department DFAC will forward the approved FA-2 to the DFAC of the buying department, indicating final selling department approvals, to arrange for actual delivery and moving of the asset.

6. The selling department organizational unit will sign the Released By line on the FA-2 at the time the asset is picked up by the buying organizational unit.

7. Upon delivery of the physical asset, the designated and authorized receiving group of the buying department will sign the Received By line on the FA-2 and record the
transaction in the buying department’s FAMS, using the selling department’s original FAI/tag number.

8. The buying department’s receiving group will forward the selling department’s FA-2 (with the FAMS Transfer Summary attached) to the DFAC of the buying department.

9. The DFAC of the buying department will monitor the pending transfer file to ensure that the expected transfer documentation has been received.

10. The FAMS record will be updated in the selling and buying departments following established data entry procedures.

6.2 Related Accounting Transactions

The FAMS will properly reflect the transfer in financial reports of the departments and funds as follows:

- The transfer will be reflected as a disposal and reduction in the valuation of assets for the selling organization.

- The transfer will be reflected as an acquisition and increase in the valuation of assets for the buying organization.

- The change will be reflected in the Net Changes Report of both departments and funds as a disposal (selling) or an addition (buying).

- The net effect of the transfer, as reflected on accounting reports for the funds involved, will be no gain or loss reported or associated with the transaction.

- No prior depreciation will be reported for the asset in the buying department.

- The net effect of the transfer transactions will be treated by the department and Asset Management as a normal disposal or acquisition for the funds involved. Such transactions, however, will be reviewed at year-end by Asset Management for appropriate and accurate treatment in the FAMS.

- Appropriate departmental billings and transactions will be processed by the departments involved to record the interdepartmental proceeds of the transaction at book value.
7 Interdepartmental/Intrafund Transfers

A transfer is treated as a disposal by the sending department and an acquisition by the receiving department when the transfer involves different departments in the same fund (e.g., within the general fund). Special methods will be recorded to designate the transactions as transfer-type transactions. The proceeds and cost basis at which the transaction occurs require special consideration to ensure that the net effect on the fund’s overall financial statements is $0.

7.1 Transfer Procedure

The same procedure will be followed as outlined in subsection 6 in this section with the following exceptions:

- In the Reason field for the transaction on the FA-2 requesting the transfer of the fixed asset or controlled item, the DFAC of the department sending the asset will enter Interdepartmental/intrafund transfer to XXX Department, where XXX is the department that will receive the asset.

- No cost entry is required by the sending department. When the transaction is entered, the FAMS will automatically remove the asset at original cost (and related accumulated depreciation) with no gain or loss reported.

Note: The intent of this transaction is to move the asset from one department to another with no net accounting effect on the fund.

7.2 Related Accounting Transactions

The FAMS will properly reflect the transfer in financial reports of the department and fund as follows:

- The transfer will be reflected as a disposal and reduction in the valuation of assets for the sending organization and as an acquisition and increase in the valuation of assets for the receiving organization.

- The net effect of the transfer, as reflected on accounting reports for the fund involved, will be $0.

- The net effect of the transfer transactions will be reviewed at year-end by Asset Management for appropriate and accurate treatment in the FAMS.
8 Transfers of Assets via the Property Disposal Management Office (PDMO)

When a department determines that personal property is surplus, it may, where a need exists, transfer the personal property between organizations within the department, in accordance with subsection 5 in this section.

The PDMO will be responsible for the ultimate disposal of City property that is either no longer needed (excess, obsolete) or found to be unserviceable (worn, scrap) by City departments in accordance with City policy and other legal mandates.

1. City departments will transfer surplus personal property to the PDMO of Finance & Administration (F&A) under the following categories and condition codes, in accordance with this procedure and Section 12 (Transfer and Removal of Surplus Property):
   - *Excess* – Personal property that is in excess of the department’s requirements. Excess personal property is assumed to be serviceable.
   - *Obsolete* – Personal property that no longer meets City specifications or requirements but is in useable condition. Obsolete personal property will be transferred as serviceable.
   - *Worn* – Personal property that performs its functions but does so with excessive or uneconomical repair costs. Worn personal property will be transferred as unserviceable.
   - *Scrap* – Personal property that no longer functions and has no market value except for its basic material content. Scrap is considered unserviceable and will be disposed of in accordance with existing scrap metal/refuse contracts or as otherwise directed by the Director of Finance & Administration.

2. Upon demonstrated need on a first-come, first-served basis, the PDMO will transfer personal property to City departments. After the DFAC of the receiving department initiates a request for transfer, the PDMO will process the transfer (as the sending department) in accordance with this procedure and Section 12 (Transfer and Removal of Surplus Property).

3. The asset will be added to the receiving department’s FAMS at a cost of $0 when it meets the criteria for controlled items.

9 Transfers of Federal or Grant Funded Assets

A department will not transfer federal or grant funded assets unless the transfer is allowable in accordance with the guidelines outlined in the Office of Management and Budget (OMB) *Circular A-102* (revised) and the *Uniform Requirements for Grants and Cooperative
Agreements with State and Local Governments, subject to the specific guidelines of the grantor agency.

Specific regulations can be found in the Code of Federal Regulations (CFR). For most grants operated by the City, regulations regarding grant funded equipment disposition can be found in the following areas:

- “Housing and Urban Development” (24 CFR 85.32)
- “Justice” (28 CFR 66.32)
- “Health & Human Services” (45 CFR 74.34)
- “Federal Emergency Management Agency” (13 CFR 13.32)

**Note:** The Code of Federal Regulations can be found on the Internet at http://www.access.gpo.gov/nara/cfr/index.html.

When a transfer of an asset from one grant to another grant is deemed to be allowable, the DFAC of the department will initiate and complete the Capitalization Form–Financial Adjustments/Other Changes (FA-3) documenting the transfer from one grant number to another. Section 4 of the form will be completed, indicating the new grant number or reporting category to which the asset is being transferred.

The FAMS record will be updated following established data entry procedures.
1 Purpose

The purpose of this section is to establish an effective surplus and salvage procedure that provides for cost-effective utilization of City-owned personal property through salvage, reclamation, or disposal of surplus supplies, materials, equipment, and confiscated property. This section also establishes a central receiving, storage, and disposition point within Finance & Administration (F&A) for all inquiries or requests concerning disposable materials.

2 Scope

Methods for the disposal of personal property items that are excess, obsolete, worn, or scrap and for maximizing the benefits or return to the City through reuse, sale, or other final dispositions are included in this procedure.

This procedure applies to all City departments and should be used to determine the most efficient and economical means of utilizing and/or disposing of personal property items. This procedure supersedes Administrative Procedure 7-3, dated March 5, 1993 and Materials Management Operating Procedure, dated March 1, 1995.

Other applicable City ordinances, policies, and procedures should be used in conjunction with this procedure. See also Section 11 (Transfer of Fixed Assets) and Section 13 (Retirement and Disposal).

3 Responsibilities

3.1 Finance & Administration (F&A)

- Establishes a cost-effective, Citywide property-disposition program for equipment and personal property items, as required by City ordinance.
- Ensures compliance with this program.
- Manages the final disposition of City surplus, including collection, transfer, redistribution and disposal and obtains City Council approval as required.
- Establishes an inventory of accountable personal property items that have been physically transferred for disposition. Minimally, this inventory will include descriptions, receipt dates, and methods of disposal or redistribution.
- Ensures that all personal property items that have been transferred for disposition are made available to City departments.
3.2 **Strategic Purchasing Division**

When approving purchases, considers the availability of useable surplus personal property items to avoid duplicate purchases of equipment, supplies, and materials.

3.3 **Departments**

- Ensure that all personal property items within the department’s custody are disposed of in accordance with this procedure, unless otherwise authorized by an ordinance or an exemption approved by the Director of Finance & Administration.
- Ensure that property custodians are assigned to adequately monitor the security, utilization, and disposition of personal property in the department’s custody.
- Establish procedures to ensure that sensitive data files and licensed software are protected and removed upon transfer of personal property items, such as personal computers and other electronic data processing equipment.

4 **Forms**

4.1 **Request for Transfer of City Surplus Property—Transfer or Disposal of Surplus Material (FA-97)**

This is an all-purpose form used to document the physical transfer of property between accounts or to departments or surplus warehousing facilities.

4.2 **FAMS Transfer Summary**

This is a system-generated form that provides complete record data for the transfer of fixed assets and controlled items.

5 **Procedure**

1. The division or section will send capitalization and disposal forms to the Department Fixed Asset Coordinator (DFAC) requesting disposal.

2. The DFAC will generate a detailed Asset Listing Report for each fixed asset and controlled item and return the complete package back to the disposing division. The DFAC is responsible for determining if property is worn or to be considered scrap and disposed of in accordance with existing scrap metal/refuse contracts or as otherwise directed by the Director of Finance & Administration. See also Section 13 (Retirement and Disposal).

3. The division may call the Property Disposal Management Office (PDMO) to schedule pickup or delivery.
4. During pickup or delivery, the PDMO will verify all authorized items on the FA-97 and send a signed copy to the DFAC.

5. Upon verification of the FA-97, the PDMO will add the assets to the FAMS using information from the Asset Listing Report provided and established data entry procedures.

6. Upon receipt of the signed FA-97 from the PDMO, the DFAC will enter the disposal of the assets in the FAMS, generate a Disposal Summary, and send a copy to the section or division responsible for the assets.

6 Property Redistribution

Surplus property items transferred to the PDMO will be redistributed on a first-come, first-served basis when documentation is approved by the requesting department director or designee.

Departments receiving property from the PDMO will assign a new FAI/tag number to the item, in accordance with Section 5 (Numbering and Tagging Fixed Assets). The department will add the item to the department FAMS with a value of $0 if the property meets the definition of a fixed asset or controlled item with the exception of value. The acquisition date recorded in the department FAMS will be the date the property was transferred.
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1 Purpose
The purpose of this section is to govern the removal of a fixed asset or controlled item from the custodial department’s records and to account for the resulting gain or loss. To achieve this purpose, procedures are provided for processing and recording retirements and dispositions of fixed assets and controlled items.

2 Scope
All fixed assets and controlled items that are sold, exchanged, traded in, abandoned, donated, stolen, damaged beyond repair, worn beyond utilization, or in any way removed from service and disposed of during the current fiscal reporting period will be recorded as retirements in the Fixed Asset Management System (FAMS). This procedure will be used in conjunction with Section 11 (Transfer of Fixed Assets) and Section 12 (Transfer and Removal of Surplus Property) and Fleet Management procedures for vehicle disposals to ensure proper recording of retirements and disposals in the FAMS.

Retirements of assets include the reduction of both fixed asset and accumulated depreciation accounts. In addition, depending upon the method of disposition and the amount of proceeds or other compensation received by the fund, a gain or loss on the disposition may be reflected in the fund’s financial statements.

3 Responsibilities by Major Asset Category

3.1 Land, Buildings, and Other Real Estate
The Public Works & Engineering (PW&E) Real Estate Division and the director of the custodial department will coordinate and process the retirement and disposal of all land, buildings, related improvements, and other real estate assets.

The department will record the disposal and any related proceeds in the department FAMS.

3.2 Vehicles and Rolling Stock
Fleet Management will coordinate and process the retirement and disposal (including sales) of all vehicles and rolling stock assets.

The department will record the asset with an idle/pending sale status in the department FAMS when the vehicle or rolling stock asset is turned over to Fleet Management for disposal. Fleet Management will provide the department with a disposal transaction and any related proceeds for processing in the department FAMS once the disposal process is complete.
3.3 Other Equipment

The director of the custodial department, either working with the Property Disposal Management Office (PDMO) or alone (with appropriate approvals or in accordance with this procedure), will coordinate and process the retirement and disposal of all other City assets.

3.3.1 Property Disposal Management Office (PDMO)

- Is responsible for the ultimate disposal of City property (except as specified above) that is either no longer needed (excess, obsolete) or found to be unserviceable (worn, scrap) by City departments, in accordance with City policies and other legal mandates.
- Takes possession of the property from the department through transfer and attempts to transfer the property to another City department in need, sell the asset through bid or auction, or otherwise dispose of the property, in accordance with City policies and procedure.
- If proceeds result from the disposal, ensures that revenue is properly assigned in accordance with this procedure.

3.3.2 Department Directors

- Identify and process appropriate assets for retirement or disposal through trade-in, transfer to the PDMO, scrap metal/refuse contracts or sale—only with the approval of the Director of Finance & Administration (F&A).
- Record lost or stolen property in the department FAMS.
- If proceeds result from the disposal, assign and record the proceeds to the specific asset retired (if identifiable) in the department FAMS, in accordance with established data entry procedures.
- Review trends and analyze asset disposals on a regular periodic basis to determine the proper use of resources to the full extent of their useful lives.
4 Disposal Criteria

Departments will minimize stocks of surplus property. Fixed assets and controlled items in the following categories will be retired or disposed of in the FAMS:

- *Excess* – Fixed assets or controlled items that are no longer needed (in excess of the department’s requirements) but are still serviceable or useable.

- *Obsolete* – Fixed assets or controlled items that no longer meet department specifications or requirements but are still serviceable or useable.

- *Worn* – Fixed assets or controlled items that may still be operable but require excessive maintenance or repair (cost, manpower) to remain in an operable condition.

- *Damaged or Destroyed* – Fixed assets or controlled items that are not operable due to damage or accident and would require excessive repair (cost, manpower) to return the asset to serviceable condition.

- *Scrap* – Fixed assets or controlled items that no longer function, are unserviceable and have no market value except for their basic material content.

- *Lost or Stolen* – Fixed assets or controlled items that are assigned to or acquired by a department but have been lost or stolen and deemed unrecoverable.

5 Disposal Methods

Fixed assets or controlled items will be retired or disposed of in the FAMS using one of the following methods:

5.1 *Departmental, Interdepartmental, or Intrafund Transfer*

Excess or obsolete fixed assets or controlled items that are no longer required by one City department (sending department) will be transferred either to another group within the same department or to another City department in need (receiving department), in accordance with Section 11 (Transfer of Fixed Assets), if a department in need can be immediately identified by the sending department.

5.2 *Transfer to the Property Disposal Management Office (PDMO)*

Excess or obsolete fixed assets or controlled items that are no longer required by one City department will be transferred to the PDMO if another City department in need is not immediately identifiable, in accordance with Section 11 (Transfer of Fixed Assets).
5.3 Sale

Fixed assets or controlled items will be sold whenever reasonable proceeds from such a process are anticipated. Sale and pricing methods will be subject to the approval of the Director of Finance & Administration and may include direct negotiation, sealed bid invitation, spot bidding, fixed-price sale, public auction, or out-of-cycle sale. Sales will be conducted by the PDMO, except where departments obtain specific approval from the Director of Finance & Administration.

5.4 Trade-In

Fixed assets or controlled items that are traded in or exchanged for a similar asset will be recorded as a sale (original asset) and acquisition through purchase (new asset) by the department in the FAMS.

5.5 Return to Supplier for Credit

Excess or obsolete fixed assets or controlled items may be returned, if possible, to the vendor from whom they were originally purchased.

5.6 Lost or Stolen

Fixed assets or controlled items that have been lost or stolen and that have been properly recorded and deemed unrecoverable, in accordance with subsection 11 (stolen) or subsection 12 (lost) in this section, will be retired.

5.7 Scrap

Fixed assets or controlled items that have been transferred to the PDMO and are found to be damaged, destroyed, or in any other way having no recoverable value will be accumulated and disposed of in accordance with existing scrap metal/refuse contracts or as otherwise directed by the Director of Finance & Administration.

Department Directors may authorize the disposal of fixed assets and controlled items in accordance with existing scrap metal/refuse contracts with appropriate justification and recommendation from the DFAC or as otherwise directed by the Director of Finance & Administration.

5.8 Donation

Surplus property items that have been transferred to PDMO, with an estimated market value of $25 or less as determined by the Director of Finance and Administration, may be donated to a nonprofit corporation or government entity in accordance with procedures established in this section, for use in providing services benefiting the residents of the city.
or may be destroyed as scrap. Items with a market value of $25 or less may be donated or destroyed only if the cost of maintaining the item in inventory or the probable cost of attempting to sell the item exceeds the market value of the item as determined by the Director of Finance and Administration.

PDMO will establish procedures, approved by the Director of F&A to donate surplus items to nonprofit corporations and government entities on a first-come-first-served as-is-where-is basis. Surplus items that may have low market values or high cost of warehousing and inventorying include, but are not limited to, used and soiled clothing and obsolete used cell phones. PDMO staff may identify other items at any time.

### 6 General Disposal Procedure

1. Upon determination that a fixed asset or controlled item is either no longer needed or found to be unserviceable, as applicable to the criteria in subsection 4 in this section, the Department Fixed Asset Coordinator (DFAC) will determine the appropriate method of retirement or disposal of the asset.

2. The DFAC will obtain the necessary approvals and authorizations (e.g., memos, director approvals) associated with the proposed disposal method.

3. The DFAC will initiate and process the appropriate forms required under Section 11 (Transfer of Fixed Assets) and Section 12 (Transfer and Removal of Surplus Property) and the appropriate FAMS capitalization form, and will follow the corresponding procedure for the transaction.

4. The PDMO will attempt to dispose of any and all excess or obsolete property in a manner that provides maximum benefit to the City, either through transfer of the property to other City departments in need or through transactions that provide the City with proceeds from the disposal.

5. The DFAC will record the retirement of all assets (except vehicles and rolling stock), including any proceeds, in the department FAMS in accordance with established data entry procedures.

6. The final disposal of assets will be entered in the PDMO FAMS following established data entry procedures.

### 7 Disposal by Transfer to the PDMO

Excess or obsolete fixed assets or controlled items that are no longer required by one City department will be transferred to the PDMO if another City department in need is not immediately identifiable. Refer to Section 12 (Transfer and Removal of Surplus Property).
7.1 Disposal Procedure

1. When a department division or section identifies assets qualifying as excess or obsolete, the division manager will issue a written disposition request to the DFAC.

2. The DFAC will first determine whether another organizational unit within the department has use for the asset or whether another City department is in need of the asset. If a need is identified within the department or in another City department, the DFAC will consider an asset transfer and obtain approval in accordance with Section 11 (Transfer of Fixed Assets).

3. The DFAC will submit a proposed schedule of assets to be disposed of to the department director for approval using a Request for Transfer of City Surplus Property–Transfer or Disposal of Surplus Material (FA-97) in accordance with Section 12 (Transfer and Removal of Surplus Property).

4. The DFAC will sign and forward the FA-97 to the FAMS data entry clerk, who will print the asset listing.

**Note:** Assets may not be disposed of until after inspection and acceptance by the PDMO.

5. The DFAC will notify the PDMO and coordinate the removal of the asset to the PDMO in accordance with Section 12 (Transfer and Removal of Surplus Property).

6. The asset listing will be forwarded along with other required documentation to the custodial division moving the asset. The FA-97, containing an inventory listing of the items being transferred, will accompany the delivery.

7. The PDMO will review and note discrepancies or changes on the asset listing, paying particular attention to the condition of the asset.

8. The custodial division will sign the Released By line on the FA-97 when the asset is received by the PDMO.

9. Upon delivery of the physical asset, the designated and authorized receiving group of the PDMO will sign the Received By line on the FA-97, acknowledging receipt of the asset, and will record the transaction in the PDMO surplus inventory system using the sending department’s original FAI/tag number.

10. The department copy of the signed FA-97 will be forwarded by the custodial division to the DFAC, along with the signed asset listing showing the actual delivery date.

11. The department data entry clerk will update the FAMS to reflect the changes on the asset listing, following established data entry procedures.
12. The DFAC will retain a copy of the asset listing in a pending transfer file until the transaction has cleared on the receiving department side.

13. The sending DFAC will close out the transfer in the department’s pending transfer file. (The sending department will require no further FAMS entries.)

14. The item will be entered in the PDMO FAMS following established data entry procedures.

### 7.2 Related Accounting Transactions/Net Effect

- The asset will be retired from the FAMS of the sending department at book value ($0 proceeds) and any loss will be recorded.
- The asset will be acquired in the FAMS of the PDMO at $0.
- No depreciation will be reported for the assets in the PDMO.
- The department recording the interdepartmental transfer to the PDMO will process no departmental billings or transactions.

### 8 Disposal by Sale

#### 8.1 Vehicles and Rolling Stock

All rolling stock approved for sale by the department director will be sold at auction by Fleet Management, based on the disposition request from the custodial department and in accordance with the procedure below.

**Note:** Refer to Fleet Management policies and procedures for specific information covering disposals of rolling stock.

#### 8.1.1 Disposal Procedure

1. Department directors will approve the retirement or disposal of all vehicles and rolling stock in their custody. In evaluating the retirement of a vehicle or rolling stock asset, consideration will be given to the criteria outlined in subsection 4 in this section, Fleet Management procedures, the recommendation of Fleet Management, and the recommendation of the DFAC or Department Vehicle Coordinator (DVC).

If the vehicle is deemed serviceable and need is identified within the department or in another City department, the DFAC will consider an asset transfer in accordance with Section 11 (Transfer of Fixed Assets).
2. The DFAC or DVC will complete an Equipment Assignment/Form A/Disposal Data Sheet (ES-1) to be approved by the department director or a designee and forwarded to the City’s contract auctioneer. The vehicle status indicated on the form will be sell.

3. The City’s contract auctioneer will forward the ES-1 to Fleet Management upon receipt and acceptance of the unit, in accordance with Fleet Management procedures.

4. The DFAC or DVC will arrange for the custodial division to transport the vehicle to the contract auctioneer’s facility. The ES-1 and other documentation will be provided to the custodial division for signatures of release and receipt.

5. The DFAC will maintain a copy of the ES-1 and asset listing in a pending sale file.

6. The custodial division will complete Section 3 of the ES-1 at the time the asset is released for transport. The status indicated on the form will be sell.

7. Upon delivery of the vehicle, the auctioneer’s representative will sign at the appropriate location in Section 3 on the ES-1.

8. A copy of the signed ES-1 will be forwarded to Fleet Management for verification and processing. The vehicle will remain the department’s responsibility while it is in the custody of the auctioneer for safekeeping, pending final sale.

9. Upon sale of the vehicle, Fleet Management will obtain all sales information within 5 working days, including sales price, shop number, commission, and any disposition costs incurred.

10. Fleet Management will collect and verify any proceeds received and provide this information (upon request) to the sending department in a Vehicle Disposal Proceeds memo.

11. Fleet Management will update the Fleet Management system asset record to reflect the actual sales information.

12. Monthly, the department will receive a monthly vehicle file (via diskette or over the WAN network) from Asset Management that includes all vehicle disposals for the department. The DFAC may obtain additional information for the Capitalization Form–Data Entry Form Fixed Asset Acquisitions (FA-1) from the DVC.

13. The DFAC will import and process the monthly vehicle file into the FAMS following established data entry procedures.
8.1.2 Related Accounting Transactions/Net Effect

- The asset will be retired from the FAMS of the sending department, the proceeds recorded, and any gain or loss computed.
- Proceeds will be assigned directly to the asset being sold in the department FAMS.
- Fleet Management will transfer the sales proceeds for the unit, less associated costs, to the department Sale of Obsolete City Vehicles Revenue account (#8515) within 10 working days from the date of the sale.

8.2 Land, Buildings, and Other Real Estate

8.2.1 Disposal Procedure

1. The department director will notify the Director of the PW&E Real Estate Division and request the disposal of the property in accordance with City Charter and ordinance requirements and PW&E Real Estate Division procedures.

2. Prior to initiating the sale process, the PW&E Real Estate Division will circulate a listing of surplus City property to the operating City departments to determine whether such property might be needed to support a current or planned City program. If there is a need for the property within the City, a transfer will be completed in accordance with Section 11 (Transfer of Fixed Assets).

3. If there is no anticipated City use for the surplus property, the PW&E Real Estate Division will arrange for an appraisal to establish a fair market value for the land and present the proposed sale to City Council for approval of an auction or bid sale.

4. The sale will be conducted in accordance with PW&E Real Estate Division policies and procedures.

5. Offers will initially be presented to the director of the custodial department for acceptance and approval. Once an approved offer to buy is received and accepted, a proposal and sales agreement will be presented by the PW&E Real Estate Division to City Council for approval. If the proposal and sales agreement are approved by City Council, the sale transaction will be completed in accordance with PW&E Real Estate Division procedures.

6. The PW&E Real Estate Division will forward to the custodial department a copy of the final sales agreement, including the final sales price and any selling costs.

7. The DFAC will initiate a Capitalization Form–Disposals/Transfers/Mass Updates (FA-2) to process the disposal.
8. The FAMS record will be updated following established data entry procedures.

8.2.2 Related Accounting Transactions/Net Effect

- The asset will be retired from the FAMS of the sending department, the proceeds recorded, and any gain or loss computed.
- Proceeds will be assigned directly to the asset being sold in the department FAMS.
- The PW&E Real Estate Division will deposit the funds when they are received from the buyer and will credit the department revenue account specified in the documentation submitted with the Request for Council Action (RCA) to authorize the sale.

8.3 Machinery and Equipment

The sale of surplus machinery and equipment is completed by the F&A PDMO. Circumstances with certain types of equipment may require the coordination between the selling department and PDMO to sell and dispose of the equipment on site.

8.3.1 Disposal Procedure

1. An FA-2 to process the disposal will be initiated and completed by the DFAC.
2. The department will determine if a need exists for the equipment within the department or within the City. If no need exists, the department will contact the PDMO to coordinate the sale of the asset and to determine if the asset should be transported to the warehouse facility or sold on site.
3. Procedures for the transfer of surplus assets to the warehouse to be sold are outlined in Section 12 (Transfer and Removal of Surplus Property). If the on-site sale option is chosen, the remaining steps below should be followed.
4. Asset information will be provided to the PDMO for advertising purposes. The department or the PDMO may identify potential buyers for appropriate contact prior to the sale.
5. Assets will be made available for viewing during regular business hours prior to the sale.
6. If the sale of the asset is to another government entity, appropriate documentation and revenue account information must be submitted with the Request for Council Action (RCA) to authorize the sale.
8.3.2 Related Accounting Transactions/Net Effect

- The asset will be retired from the FAMS of the selling department, the proceeds recorded, and any gain or loss computed.
- Proceeds will be assigned directly to the asset being sold in the department FAMS.

9 Disposal by Trade-In

All trade-ins, as dispositions of City property, must be detailed and presented to Procurement Services for approval as a part of the purchase of the new equipment.

9.1 Disposal Procedure

1. An FA-2 to process the disposal will be initiated and completed by the DFAC.

2. The trade-in will be processed as a disposition through sale, as outlined in subsection 8 in this section.

3. When the disposal involves an exchange (a trade-in of similar assets with no cash differential), the cost of the acquired asset will be recorded at the book value of the surrendered asset, and the FAMS record will be updated following established data entry procedures.

4. When the disposal involves a trade-in of assets with a cash differential, the acquired asset is recorded as the sum of the book value of the asset surrendered plus the cash paid. The FAMS record will be updated following established data entry procedures, and the new item will be added to the FAMS at its original cost before the trade-in allowance.

9.2 Related Accounting Transactions/Net Effect

- The asset being traded in or exchanged will be retired from the FAMS at book value net of any trade-in allowances (as proceeds), and any gain or loss will be recorded.
- The new acquired asset will be recorded at its original cost before trade-in allowances.

10 Disposal by Return to Supplier for Credit

10.1 Disposal Procedure

When a disposal involves obsolete property that has never been used (e.g., spare parts), the DFAC will attempt to return the merchandise to the vendor from whom it was originally purchased. Specific procedures for such returns, including required approvals, will be provided by the Purchasing Department.
Upon approval, the FA-2 to process the disposal will be initiated and completed by the DFAC in similar manner to a sale transaction. The FAMS record will be updated following established data entry procedures.

10.2 Related Accounting Transactions/Net Effect

The asset will be retired from the department or PDMO FAMS with proceeds in the amount of the credit provided by the vendor.

11 Disposal of Stolen Assets

11.1 Disposal Procedure

1. The custodial division will notify the DFAC immediately, documenting the status of the item, when there is evidence of theft or belief that the item has been stolen.

2. When an asset is identified as stolen, the DFAC will file a police report within 24 hours of the discovery. The report will contain the following information:
   - Tag number (if known)
   - Asset description
   - Date that the asset was reported missing
   - Any additional pertinent information regarding the loss or disappearance

3. An FA-2 to process the disposal will be initiated and completed by the DFAC.

4. The FAMS record will be updated following established data entry procedures and will include the following information:
   - Transaction Date – Today’s date
   - Disposal Method – Stolen
   - Proceeds – $0
   - Gain/Loss Book Value – (Calculated; no entry)
   - Reason – Police case number

11.2 Related Accounting Transactions/Net Effect

The asset will be retired from the department FAMS at book value ($0 proceeds).
12 Disposal of Missing Assets

12.1 Disposal Procedure

1. When an asset is identified as lost or unconfirmed during the physical inventory process, the custodial division will inform the DFAC of the following:
   - Tag number (if known)
   - Asset description
   - Date that the asset was reported missing
   - Any additional pertinent information regarding the loss or disappearance

2. The item will be transferred in the FAMS to the designated location for unconfirmed property. The FAMS record will be updated following established data entry procedures and physical inventory instructions. The Transaction Date will be the date the asset was found missing. The asset will remain at this location until the next inventory is completed.

3. Any assets found will be transferred to the department location.

4. The division will explain in detail why the missing items cannot be located, supply applicable supporting documentation, and recommend to the department director either that these items remain active in the system or that their status be changed to inactive (dispose).

5. The missing items should not remain active in the FAMS for more than two inventory cycles.

12.2 Related Accounting Transactions/Net Effect

The asset will be retired from the department FAMS at book value ($0 proceeds).
13 Disposal of Damaged, Destroyed, or Cannibalized Assets (Including Scrap)

13.1 Disposal Procedure

When an asset of significant value sustains major damage by natural causes, accident, vandalism, etc., and, in the judgment of the manager of the custodial division or section, the estimated costs of repairs are great enough to raise a question as to whether the asset should be repaired or disposed of, the following procedure will apply. (This procedure also applies to nonworking or damaged assets that are cannibalized for parts.)

1. An asset identified by the division as damaged will be brought to the attention of the DFAC by a memo.

2. The DFAC will provide the director with recommendations for handling the damaged asset (e.g., a repair or disposal decision based on cost-benefit analysis).

3. The director will decide upon the appropriate action for the damaged item.

4. If the asset cannot be returned to service, the DFAC, with the approval of the department director, may transfer the asset to the PDMO (see subsection 7 in this section for final disposal) or accumulate and dispose of in accordance with existing scrap metal/refuse contracts.

5. Fixed assets or controlled items that have been transferred to the PDMO as excess or obsolete and are found to have no recoverable valuable will be deemed to be scrap and will be accumulated and disposed of in accordance with existing scrap metal/refuse contracts or as otherwise directed by the Director of Finance & Administration.

13.2 Related Accounting Transactions/Net Effect

The asset will be retired from the department FAMS at book value ($0 proceeds).

14 Abandonment of Fixed Assets

14.1 Disposal Procedure

1. If a department identifies an asset (e.g., during the physical inventory process) that has been abandoned but not recorded as idle or surplus in the FAMS, the custodial division will issue a memo to the DFAC detailing the following:

- Asset description
- Tag number (if any)
- Location code
2. If research determines the department has not formally acquired the asset, it will be deemed abandoned property and will be reported to F&A.

3. If no other City department claims a physical inventory exception for the item, the DFAC will submit a recommendation of action to the department director to transfer the abandoned property to the PDMO.

4. Upon approval, the abandoned property will be transferred to the PDMO in accordance with the general procedure outlined in subsection 7 in this section.

14.2 Related Accounting Transactions/Net Effect

Since the property is not recorded in the FAMS, no disposal entry will be made in the sending department FAMS.

15 Disposition of Federal and Grant Funded Assets

No disposition of federal or grant funded assets will be initiated unless it is allowable in accordance with the guidelines outlined in the Office of Management and Budget (OMB) Circular A-102 (revised) and the Uniform Requirements for Grants and Cooperative Agreements with State and Local Governments, subject to the specific guidelines of the grantor agency.

Additionally, no disposition of federal or grant funded assets will be initiated unless the City’s grant program administrator and the department director of the grantee department have given prior approval to such disposition.

If proceeds result from the disposition through sale of grant funded property, the DFAC, working with the department grants administration, will ensure that proper notifications are provided to and instructions and approvals obtained from the grantor agency concerning how proceeds are to be handled. Depending upon the grantor agency or source involved and the dollar level of the proceeds, funds may or may not need to be returned or credited to the grantor agency or source.

Where possible and allowable upon the closing of a grant, the City will seek to transfer the property to another allowable grant in lieu of sale or other disposition method.

16 Disposition of low value items by Donation

Property Disposal Management Office may receive surplus items with an estimated market value of $25 or less. These items will be made available for donation to nonprofit corporations or government entities providing services benefiting the residents of the city. The following items must be completed prior to any transfer of surplus items by donation.
• A memo from PDMO to Director of F&A identifying items with low market value and Director must approve inventory of items to be made available.

• A written request from nonprofit corporation or government entity on letterhead signed by a representative duly authorized to make such a request and describe the program(s) that will benefit from the donation. Proof of nonprofit status must be attached to letter.

• A release form, identifying surplus property items being transferred and signed by receiving organization, will be designated by PDMO.

Surplus property items will be made available on a first-come-first-served and as-is-where-is basis. Organizations may be contacted directly by PDMO staff to advise them of availability of surplus items that may benefit their programs according to types of surplus items and known programs.
1 Purpose

The purpose of this section is to establish procedures for conducting and reporting the periodic physical inventory of departmental fixed assets and to ensure the accuracy of departmental fixed asset records.

2 Scope

City departments will maintain accountability for their equipment and establish current and accurate fixed asset physical inventory records by conducting physical inventories under the coordination of Finance & Administration (F&A).

Annually, or at other intervals established by F&A, a complete physical inventory of all City fixed assets and controlled items will be conducted and the results reconciled with the asset records. Additionally, the Office of Management and Budget (OMB) Circular A-102 (revised) requires that the City conduct a physical inventory of all grant or federally funded assets at least biennially. The inventory of grant funded assets will verify the existence, current use, and continued need for the property. These requirements will be achieved through adherence to the City’s physical inventory policies, as outlined in this section.

3 Responsibilities

3.1 Departments and Department Fixed Asset Coordinators (DFACs)

- Coordinate the physical inventory with F&A to ensure that it is completed within the scheduled time frame.
- Conduct a thorough inventory in accordance with the Fixed Asset Management System (FAMS) procedures presented in this section.
- Reconcile any exceptions to ensure that the inventory result provides a complete accounting of all assets recorded in the department FAMS.
- Document the inventory results and forward a written report, signed by the department director, to the Director of Finance & Administration, indicating completion of the inventory and any exceptions.

3.2 Finance & Administration (F&A)

- Establishes general FAMS procedures and an inventory schedule that includes all departments and causes the least amount of disruption to normal operations.
- Ensures that the FAMS has appropriate functions and reporting to assist departments in conducting and reconciling the inventory.
• Assists departments in investigating and resolving all significant differences between the current physical inventory and the existing asset files.

• Reviews and compiles final inventory results of all departments and submits these results to the Mayor and the City Controller.

4 Inventory Frequency
F&A will establish physical inventory intervals and schedules for the inventory of all fixed assets and controlled items. All departments will perform physical inventories in accordance with these established inventory schedules.

At a minimum, capital assets will be inventoried during even-numbered fiscal years, and all assets, capital and controlled items, will be inventoried during odd-numbered fiscal years.

5 Conducting the Physical Inventory

5.1 Inventory Schedule
F&A will require an inventory completion schedule from all departments. Each DFAC will coordinate the inventory process with the assistance of F&A.

5.2 General Procedure
1. Once a location has been selected for physical inventory, the DFAC prepares an Inventory Worksheet for the location. Printing the worksheet serves two purposes:

   • It identifies the batch within the FAMS that will be used for comparison with the batch of assets found in the bar code reader inventory.

   • It provides a “walking document” to help identify and locate the assets that need to be inventoried at the location.

2. Designated department personnel will conduct the actual inventory as follows and record observations in the bar code reader:

   • The inventory taker will initial the worksheet (as the inventory taker) for the location being inventoried.

   • The bar code tags of all of the assets found with City tag numbers at that location will be scanned, indicating the quantity observed. (This value is generally 1, but will be greater for group control assets.)

   • If a tag cannot be scanned because it is damaged or dirty, the tag number will be manually entered and subsequently replaced (see subsection 8 in this section).
• Any items found at the location that do not have a City tag number, are not listed on the worksheet, and are not personal property will be tagged and recorded as well.

• Nontagged assets (e.g., buildings, land, improvements) will also be inventoried, and the ownership, location, and status of these assets will be verified.

3. After collecting the inventory data, the inventory results in the bar code reader will be uploaded and compared to the FAMS for reconciliation and exception processing.

4. Any exceptions in the inventory findings will be identified by comparing the field inventory results with the asset information in the FAMS. When field results for an asset are the same as the information in the FAMS master file, the asset will be updated as reconciled and the date of the inventory recorded in the asset record. If there is a discrepancy between the field inventory information for an asset and the FAMS master file, the record will be marked as an exception that will need to be reconciled.

5. An Inventory Exceptions Report with the following exception categories will be prepared for processing by the DFAC:

- Exceptions involving location discrepancies within the department
- Exceptions where the asset was found during the inventory but is not in the FAMS database
- Exceptions where the asset is in the FAMS database but was not found during the inventory

Note: Additional steps and procedures for conducting the inventory are detailed in the FAMS User Manual.

6 Reconciliation Results and Actions

1. The DFAC will obtain and review the Inventory Exceptions Report to determine and recommend appropriate action.

2. Exceptions involving location discrepancies within the department will be cleared through departmental transfer transactions, in accordance with established procedures, based on the approval and authorization of the DFAC.
3. Exceptions where the asset was found during the inventory but is not in the FAMS database will be handled as follows:

- If research determines that the asset was formally acquired and is properly in the custody of the department, but has not been recorded in the FAMS as an acquisition, the exception will be cleared through an acquisition transaction, in accordance with established procedures, based on the approval and authorization of the DFAC.

- If research determines that the asset has not been formally acquired by the department, and a City FAI/tag number is affixed to the asset, the DFAC will contact F&A Asset Management to determine whether the “owner” department can be located based on an inquiry (by asset number) in the Central FAMS Reporting Database. If the department can be identified, the DFAC will arrange for the return of the property to the owner department. If the department cannot be identified, the asset will be deemed abandoned property and will be reported to F&A for inclusion in a Citywide Abandoned Assets Report.

- If research determines that the department has not formally acquired the asset, and a City FAI/tag number is not affixed to the asset, it should be tagged and added to the FAMS.

4. Exceptions where the asset is in the FAMS database but was not found during the inventory will be handled as follows:

- The asset will be transferred to a missing location in the FAMS with the fiscal year noted.

- The DFAC will make every attempt to locate the asset, including reviewing any available Citywide reports that may assist in determining its location. The department will continue attempts to locate the lost or unconfirmed asset during the following inventory cycle.

- If the asset cannot be located after the following inventory cycle, the DFAC will follow the procedures for a missing asset outlined in Section 13 (Retirement and Disposal).

5. For those exceptions that can be resolved, the appropriate reconciliation transactions will be entered into the FAMS (Transfer, Add, Disposal, etc.). Once reconciled, the asset will be updated as reconciled and the date of inventory and the reconciliation date will be recorded in the asset record.
7 Reporting Final Results

The Director of Finance & Administration will submit an inventory report covering all department inventories to the Mayor and the City Controller. The report will document the following:

- All confirmed and unconfirmed assets
- Department inventory results and related asset values
- Items changed to inactive status

8 Damaged or Defaced Tags

1. Items with damaged or defaced tags will be reported to the DFAC. The physical inventory information will be verified against the fixed asset inventory report to confirm the identification of the asset.

2. The DFAC will issue a new tag number in accordance with established procedures.

3. The custodial section will sign and return the retagging notice to the DFAC, confirming that the new tag has been affixed to the asset.

9 Grant Funded Assets

A physical inventory will include verification of the existence, location, current use, and continued need for grant funded property. Physical data for grant funded assets will be reconciled with the FAMS records following the same procedures used for other fixed assets.
1 Purpose

The purpose of this section is to establish period processing procedures and reporting requirements for the Fixed Asset Management System (FAMS) and to define the guidelines for maintenance, retention, and disposition of fixed asset records.

2 Scope

Concerning the reporting of fixed asset information, the City must comply with reporting and disclosure requirements in accordance with current Generally Accepted Accounting Principles (GAAP) for governmental entities, including pronouncements of the Governmental Accounting Standards Board (GASB), the *Codification of Governmental Accounting and Financial Reporting Standards*, pronouncements of the Financial Accounting Standards Board (FASB), and other authoritative literature codifying governmental accounting principles and methods, as well as recommendations contained in *Government Accounting, Auditing and Financial Reporting* published by the Government Finance Officers Association (GFOA). Refer to the *FAMS User Manual* for specific periodic and year-end processing procedures and the list of available reports.

3 Periodic Procedures

3.1 Monthly

Prior to month-end, departments will be responsible for timely entry and review of all transactions that have occurred during the period, as specified in these procedures. These transactions include, but are not limited to the following:

- Additions (acquisitions)
- Disposals
- Transfers
- Financial adjustments
- Status changes (*idle, active*)
- Inventory results and reconciling transactions
- Other adjustments (parent-child relations, asset number changes)

The Department Fixed Asset Coordinator (DFAC) will be responsible for ensuring that the FAMS is backed up regularly for security purposes, but in no circumstances will backups be less frequent than once a week.
3.2 **Annually**

Prior to year-end close, Asset Management will

- ensure and verify that depreciation has been processed for all assets in the FAMS database,
- perform any necessary year-end close procedures in the FAMS, and
- complete and archive a post-close backup of the database for the period.

3.3 **Other**

Departments will conduct a physical inventory of all fixed assets and controlled items as described in Section 14 (Physical Inventory). Each department will prepare a Missing Assets Report and an Inventory Report and forward these reports to Finance & Administration (F&A) and Asset Management.

4 **Financial Statements**

Annually, Asset Management will provide the Controller’s Office with capital asset data, schedules, and information to be included in the City Comprehensive Annual Financial Report (CAFR). Schedules and supplemental information will be obtained from the FAMS in accordance with the City Controller’s requirements and schedules. Schedules, data, and information will be provided in accordance with GASB *Statement No. 34* criteria for capital asset reporting, as determined by the Controller’s Office.

4.1 **Required Disclosures**

The Accounting Principles Board (APB) of the American Institute of Certified Public Accountants (AICPA) *Opinion No. 22*, “Disclosure of Accounting Policies,” requires financial statement preparers to include a description of all significant accounting policies as an integral part of financial statements. This description must include the following accounting principles and methods regarding fixed assets:

- Disclosure of accounting treatment for fixed assets purchased with governmental fund types, as well as those purchased with proprietary fund types (This disclosure note also may include the City’s accounting for betterments.)
- Accounting policy for infrastructure capitalization
- Accounting policy used to account for the capitalization of interest costs associated with self-constructed general fixed assets
- The valuation bases for purchased and donated fixed assets
• Disclosure of the City’s depreciation policy, as required by GAAP, including the estimated useful lives and depreciation method

• Disclosure of the City policy for exercising the option, under the National Council on Governmental Accounting (NCGA) Statement 2, that allows for depreciation on certain assets (e.g., assets acquired or constructed with resources externally restricted for capital acquisition) to be closed to the appropriate contributed capital account after being recognized in operations

APB Opinion No. 12, “Omnibus Opinion,” requires disclosure of the separate classes of fixed assets and the amount of accumulated depreciation. This information should be in the notes if it is not disclosed in the combined balance sheet.

4.2 Optional Disclosures

The 2001 edition of Governmental Accounting, Auditing and Financial Reporting (GAAFR), published by the GFOA, suggests that certain disclosures are necessary in supplementary data schedules. The inclusion of these optional disclosures within the financial statements of the City will be at the discretion of the Controller’s Office and in accordance with GASB Statement No. 34, Statement No. 37, and Statement No. 38.

5 Disclosure Requirements for Leases

5.1 Leases Receivable

The 1987 Codification, Section L20.124 states that the disclosure requirements of Statement of Financial Accounting Standards (SFAS) No. 13, “Accounting for Leases,” should be used for both capital and operating leases. In addition to a general description of the capital and operating arrangements, SFAS No. 13 requires the following disclosures of sales-type and direct financing leases:

• The components of the net investment in sales-type and direct financing leases as of the date of each balance sheet presented, including unguaranteed residual values accrued to the benefit of the lessor; unearned income; and future minimum lease payments to be received, with separate deductions for (i) amounts representing executory costs, and any profit thereon, included in the minimum lease payments and (ii) the accumulated allowance for uncollectable minimum lease payments receivable

• Future minimum lease payments to be received for each of the 5 succeeding fiscal years, as of the date of the latest balance sheet presented
• The amount of unearned income included in income to offset initial direct costs charged against income for each period for which an income statement is presented (for direct financing leases only)

• Total contingent rentals included in income for each period in which an income statement is presented

5.2 Capital Lease Obligations

The 1987 Codification, Section L20.124 also provides authoritative guidance on lessee disclosures. The City is required to provide disclosures for capital lease agreements in accordance with SFAS No. 13. The disclosure requirements of SFAS No. 13 for capital leases include the following:

• General leasing arrangements

• The gross amount of assets recorded under capital leases, presented by major asset classes

• Minimum future lease payments, in total and for each of the next 5 years, presenting a deduction for the amount of imputed interest to reduce the net minimum future lease payments to their present value

6 Records Retention

Fixed asset records will be maintained for the life of each asset and retained in accordance with City requirements for the retention of accounting records.

6.1 Fixed Asset Master Record

6.1.1 Asset Record Information

The fixed asset master record includes, at a minimum, the following asset record information for each fixed asset owned by the City:

• Department and division, as appropriate

• Asset tag number

• Asset category

• Asset description (including manufacturer and serial number)

• Ownership code

• Title holder

• In-service date
• Asset cost
• Funding sources and amounts (specific federal grant or agreement numbers and the amount from each)
• Location, use, and condition (and the date the condition was reported)
• Method of acquisition
• Ultimate disposition data: date, disposition code, and reason for disposal
• Source document reference (e.g., purchase order number, vendor invoice, voucher number)
• Salvage value
• Useful life
• Asset type (capitalized or controlled)
• Date of last inventory
• Project number (for construction, improvements, or betterments)
• Valuation method
• Book value
• Leasing information (for capital leases)
• Maintenance information

6.1.2 Record Maintenance

The data recorded in the FAMS will be maintained on a current basis by the individual City departments in accordance with the following requirements:

• Acquisitions, interdepartmental and intradepartmental transfers, and dispositions will be recorded promptly and accurately, in accordance with the policies and procedures established by the City.

• Key reports, especially those with a financial impact, will be reviewed carefully by department management on a periodic basis. Amounts will be checked and balancing procedures executed.

• Significant discrepancies or variances will be researched immediately, to ensure that errors may be corrected in a timely manner.

• Results from physical inventories will be reconciled and entered into the FAMS. Data fields will be updated to reflect current fixed asset information.
6.2  Retention Policy

The City will maintain both hard copy and electronic fixed asset records while an asset is in service.

6.2.1 Paper Documentation

The following information will be stored and maintained as paper documentation:

- Original acquisition documents, including purchase orders, invoices, receiving tickets, and vouchers payable
- Records of improvements and/or betterments affecting the original asset
- Input forms completed for submitting data to the FAMS (retained until the system output reports can be examined to confirm successful posting of the data submitted)
- Maintenance records pertaining to certain assets (e.g., vehicles and rolling stock), in accordance with City policy

6.2.2 Electronic File Backup Maintenance

Computer-stored data will be backed up and saved on an annual basis after the records have been updated with the annual physical inventory information, in accordance with existing Citywide Information Services data storage policies.

Data stored on magnetic tape will be updated whenever there will be mainframe computer hardware or software changes or updates.

6.2.3 Retention Period and Storage

All hard-copy records will be stored in clearly marked boxes or storage containers, either in the office or in an off-site storage facility, for 1 year after the asset has been disposed of. After 1 year of office storage, all hard-copy records will be transferred to off-site storage (following disposal) for an additional 6 years.

Computer system data that has been stored on magnetic tape will be stored in a tape room or vault with the contents clearly labeled. Tapes containing data backups from daily or month-end processing will be stored for 7 years. Two copies of tapes containing data backups from year-end processing will be stored for 7 years in separate locations. To minimize the loss of data due to the deterioration of the storage medium, data will be transferred to an appropriate long-term storage medium.

The City’s retention policy for hard-copy records and computer system data will apply to all fixed assets. Additionally, records for equipment acquired under a grant must be retained for 3 years after the disposition of the property.
6.2.4 Record Disposal

Once the retention period has expired, the documents and/or data will be disposed of in accordance with City Records Management policies and Ordinance 91-88.

Paper documents that are placed on microfiche or microfilm will also be immediately disposed of once final disposition approval is received.
<table>
<thead>
<tr>
<th>Term</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Acquisition</td>
<td>The process by which the City comes into possession and ownership of a fixed asset, e.g., purchase, donation, construction, eminent domain, foreclosure.</td>
</tr>
<tr>
<td>Acquisition Cost</td>
<td>The total cost of obtaining a fixed asset and putting it in place and in condition for use. This cost will be recorded in the FAMS, representing the value of the asset when it was acquired. The acquisition cost is generally the historical or original cost but may be based on a different valuation for certain types of transactions.</td>
</tr>
<tr>
<td>AICPA</td>
<td>American Institute of Certified Public Accountants.</td>
</tr>
<tr>
<td>APB</td>
<td>Accounting Principles Board of the AICPA.</td>
</tr>
<tr>
<td>Assets</td>
<td>Materials, property, claims against others, and other items of value belonging to the City. Fixed assets are a specific type of asset within this broad category. Inventories of supplies and materials are another separate category of assets.</td>
</tr>
<tr>
<td>Book Value</td>
<td>The portion of an asset’s historical or original cost not yet depreciated or used. Book value can be calculated by subtracting accumulated depreciation from the historical or original cost of the asset.</td>
</tr>
<tr>
<td>CAFR</td>
<td>Comprehensive Annual Financial Report. The City’s annual financial report issued by the City Controller.</td>
</tr>
<tr>
<td>Capital Asset</td>
<td>Any fixed asset with an original cost equal to or greater than $5,000. These items have significant value and will be capitalized.</td>
</tr>
<tr>
<td>Capital Leases</td>
<td>Leases of assets that are deemed to be, essentially, purchases financed over a period of time and that are capitalized as fixed assets rather than having their lease payments charged as current-period costs.</td>
</tr>
<tr>
<td>Capitalization</td>
<td>The process by which fixed assets are established in both the fixed asset records and the accounting system. The accounting aspect of capitalization usually entails reclassifying amounts previously recorded as expenses, expenditures, or construction in progress into a fixed asset category. Capitalized assets are equal to or greater than $5,000.</td>
</tr>
</tbody>
</table>
**Capitalized Interest**

Interest on long-term debt financing for CIP projects, incurred during the construction period, that is capitalized as a part of the total acquisition costs of the resulting fixed asset.

**CFR**

*Code of Federal Regulations.*

**CIP**

Capital Improvements Program. The City’s 5-year major capital projects program, which is rebudgeted each year based on City Council approval.

**City Property**

All property owned by the City, whether purchased, leased, confiscated, donated, received by eminent domain, constructed, or annexed. City properties may include supplies, real property to be sold for delinquent taxes, police property, lost and found items, scrap materials for recycling, capital assets, and controlled items.

**Codification**

*Codification of Governmental Accounting and Financial Reporting Standards.* A publication issued by the GASB.

**Construction in Progress**

A fixed asset category containing the accumulated dollar amounts of construction and other costs of CIP projects that are only partially completed. Once a project is completed, its costs are capitalized and reclassified from construction in progress to other fixed asset categories, e.g., land, improvements, buildings.

**Contract Administrator**

The individual responsible for managing a City procurement contract under which a fixed asset is acquired; typically, a buyer or administrator of the acquiring department.

**Controlled Item**

A property item that meets the criteria for a fixed asset but with a value less than $5,000 and equal to or greater than $1,000. These items will be subject to management control.

**Custodial Organization**

The City organization given possession, use, control, and responsibility for a fixed asset.

**Depreciation**

An amount charged against the historical cost of an asset representing the loss in value of the original asset as it is used and ages. Depreciation reduces the accounting value of an asset and is accumulated over the estimated life of the asset.
### Glossary

<table>
<thead>
<tr>
<th>Term</th>
<th>Description</th>
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<tbody>
<tr>
<td><strong>DFAC</strong></td>
<td>Department Fixed Asset Coordinator. The individual in each department assigned the responsibility for coordinating and monitoring all FAMS transactions and records.</td>
</tr>
<tr>
<td><strong>Disposition</strong></td>
<td>The process by which the City relinquishes possession and ownership of a fixed asset, e.g., sale, trade-in, salvage, scrap, donation.</td>
</tr>
<tr>
<td><strong>DPU</strong></td>
<td>Department Purchasing Unit.</td>
</tr>
<tr>
<td><strong>DVC</strong></td>
<td>Department Vehicle Coordinator.</td>
</tr>
<tr>
<td><strong>Estimated Cost</strong></td>
<td>Professional (certified) appraisals of the cost of an asset; used in those instances where historical cost records are not available. The estimated cost is determined by inventorying existing assets. When required, the estimated cost will be used as the acquisition cost.</td>
</tr>
<tr>
<td><strong>Fair Market Value</strong></td>
<td>The price at which a willing seller would sell something to a willing buyer, neither being under any compulsion to buy or sell. This is the price that would be paid for an item in a condemnation proceeding.</td>
</tr>
<tr>
<td><strong>FAMS</strong></td>
<td>Fixed Asset Management System (City of Houston).</td>
</tr>
<tr>
<td><strong>FASB</strong></td>
<td>Financial Accounting Standards Board. An independent professional accounting resource organization.</td>
</tr>
<tr>
<td><strong>Fiscal Year</strong></td>
<td>References to annual budgets, expenditures, reports, etc., generally refer to the City’s fiscal year of July 1 through June 30.</td>
</tr>
<tr>
<td><strong>Fixed Asset</strong></td>
<td>Items of property that are tangible in nature; have significant value; have an economic useful life longer than 1 year; maintain their identities, either as separate entities or as identifiable components; are not repair parts or supply items; and are used in the conduct of City activities.</td>
</tr>
<tr>
<td><strong>Fixed Asset Control Group</strong></td>
<td>The City personnel responsible for the establishment, maintenance, and reporting of the primary fixed asset records for a particular class of assets. For most classes of fixed assets, this responsibility is assigned to the DFACs.</td>
</tr>
<tr>
<td><strong>FMS</strong></td>
<td>Financial Management System. The City’s financial accounting and reporting system.</td>
</tr>
</tbody>
</table>
### Fully Depreciated
A fixed asset that has been depreciated down to its predetermined salvage value, which is normally $0 for City assets, but can also be a positive dollar amount. Assets may continue in use for some time after being fully depreciated before actual disposition takes place.

### Funding Source
As used in this manual, the revenue or equity source for financing the acquisition of fixed assets, e.g., operating budget funding, grant funds, bond funds, donations.

### GAAFR
*Governmental Accounting, Auditing and Financial Reporting.* A publication of the GFOA that recommends accounting and reporting practices for governments.

### GAAP
Generally Accepted Accounting Principles.

### GASB
Governmental Accounting Standards Board. An independent professional accounting resource organization.

### GFAAG
General Fixed Asset Account Group. An account group in which fixed assets of governmental funds, such as the general fund, are recorded. Asset values are matched by equal amounts in investment-by-source accounts showing the sources of funding for the asset acquisitions. The GFAAG is not considered a fund in government accounting.

### GFOA
Government Finance Officers Association.

### Governmental Funds
Funds financed by taxes, public improvement bonds, government fees, and other government revenues. Neither depreciation expenses nor gains or losses on disposal of assets are recorded in fixed asset accounting for governmental funds.

### Historical Cost
Also, *Original Cost.* The actual amount paid for an asset at the date of acquisition, including any normal costs associated with preparing the asset for use. In the case of most new assets, particularly machinery and equipment, this is the acquisition cost.
### Infrastructure
Long-lived capital assets that are stationary in nature and normally can be preserved for a significantly greater number of years than most capital assets. Examples include, but are not limited to, roads, bridges, tunnels, drainage systems, water and sewer systems, dams, and lighting systems.

### NCGA
National Council on Governmental Accounting. An independent professional accounting resource organization.

### Net Book Value
The acquisition cost of a fixed asset less accumulated depreciation to date.

### OMB
Office of Management and Budget.

### Original Cost
See *Historical Cost*.

### Parent-Child Relationship
The association of a smaller component or addition that qualifies as a fixed asset in itself with a larger fixed asset (e.g., associating an elevator system with the building in which it is located).

### Personal Property
All tangible property other than real estate, such as furniture, fixtures, movable equipment, materials, and supplies.

### Proprietary Funds
Enterprise funds and internal service funds that use accounting practices similar to those of private businesses. Fixed asset accounting for proprietary funds involves recording depreciation expenses and measuring gains or losses on disposals of assets.

### RCA
Request for Council Action.

### Real Estate
In legal terminology, land and everything attached to it; also, interests in land above and below ground. As used in the FAMS, real estate includes land, land improvements, and buildings.

### Real Property
All real estate assets, including land, buildings, and improvements to land or buildings. In legal terminology, land and items growing on, permanently erected on, or affixed to the land; also, rights to use land.
<p>| <strong>Replacement Cost</strong> | The estimated cost of acquiring a new equivalent asset. Replacement cost may be approximated through the use of a specific price index. For example, a building constructed in 1940 for $200,000 would cost considerably more to rebuild today. Therefore, replacement cost will usually be higher than the original cost (personal computers may be an exception). |
| <strong>Retirement</strong> | A type of disposition involving a fully depreciated asset, either by sale, trade-in, salvage, or scrap. |
| <strong>Rolling Stock</strong> | As used in the FAMS, rolling stock includes all types of wheeled or tracked vehicles, whether on-road or off-road, powered or nonpowered. |
| <strong>SFAS</strong> | Statement of Financial Accounting Standards. One of a series of pronouncements issued by the FASB. |
| <strong>Vehicles</strong> | As used in the FAMS, all types of equipment used in transporting people or materials, including rolling stock, vehicle attachments, aircraft, and boats. |
| <strong>VMIS</strong> | The Fleet Management Vehicle Management Information System. Used to maintain the central operating and maintenance records for the City’s rolling stock assets. |</p>
<table>
<thead>
<tr>
<th>Form Number</th>
<th>Form Name</th>
<th>Description/Purpose</th>
</tr>
</thead>
<tbody>
<tr>
<td>FA-1</td>
<td>Capitalization Form–Data Entry Form Fixed Asset Acquisitions</td>
<td>Provides data entry information for the Fixed Asset Management System for new acquisitions and authorizations for action taken.</td>
</tr>
<tr>
<td>FA-2</td>
<td>Capitalization Form–Disposals/Transfers/Mass Updates</td>
<td>Provides data entry information for the Fixed Asset Management System for disposed, transferred, or mass-updated assets and authorizations for action taken.</td>
</tr>
<tr>
<td>FA-3</td>
<td>Capitalization Form–Financial Adjustments/Other Changes</td>
<td>Provides data entry information for the Fixed Asset Management System for financial adjustments, grant transfers, or other changes to system data and authorizations for action taken.</td>
</tr>
<tr>
<td>FA-4</td>
<td>Designate Fixed Asset Coordinator</td>
<td>Authorizes employee to act as Department Fixed Asset Coordinator and identifies additional personnel to approve transfer of surplus materials and supplies to the Property Disposal Management Office warehouse for disposition.</td>
</tr>
<tr>
<td>FA-97</td>
<td>Request for Transfer of City Surplus Property–Transfer or Disposal of Surplus Material</td>
<td>Authorizes the removal, transportation, and disposal of City-owned surplus property and material and provides the itemized listing of surplus equipment to be removed.</td>
</tr>
<tr>
<td>ES-1</td>
<td>Equipment Assignment/Form A/Disposal Data Sheet</td>
<td>Provides data entry information for the Vehicle or Fleet Management System for new acquisitions, transfers, reassignments, updates, and disposal of vehicles and rolling stock.</td>
</tr>
</tbody>
</table>