



FIXED ASSET ACCOUNTING AND MANAGEMENT PROCEDURES MANUAL

SECTION 2

Asset Valuation

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, intangibles, 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.

Note: The significant value test is important because the City has many individual assets that are tangible and long-lived but are not of a value that would justify the time and expense of maintaining detailed accounting records; especially for low value assets.

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



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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 Low Value Asset

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 \$2,500** 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. Refer to the list in Section 2 – 15.1 for management and control purposes, such low value assets that will be tagged and tracked in a system of the department’s own choosing. They should also be recorded at their original acquisition cost.

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).



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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.*



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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 2000 for \$2,000,000 would cost considerably more to rebuild today. Therefore, replacement cost will usually be higher than the original cost .



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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, FIN 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 The Finance Department.

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*.



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- 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



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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,



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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 reuseable 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.)



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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



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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.



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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.



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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

Location	Equipment Value	Proportion	Apportioned Cost	Total Acquisition Cost
Building 1	\$ 30,000	3/10	\$ 6,000	\$ 36,000
Building 2	50,000	5/10	10,000	60,000
Building 3	20,000	2/10	4,000	24,000
	\$100,000		\$20,000	\$120,000

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.



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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).



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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.).



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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 Low Value Assets

15.1 Standard Low Value Items

The Director of Finance will define low value 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 a system or method selected by the Departments with the approval of its Director.

All items within the following classifications with a unit cost **less than \$5,000 but equal to or greater than \$2,500** and with a useful life of 1 year or more will have fixed asset



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identification numbers assigned and tags applied and will be recorded and tracked in the FAMS as Low Value Assets as listed below:

- Artwork
- Audio-visual equipment
- Automotive testing and repair equipment
- Communications equipment
- Hand-held gauges and testing devices
- Medical Laboratory, Wastewater and Scientific equipment
- Portable computer devices such as laptops and tablets*
- Maintenance equipment and power tools
- Weapons**

*Exceptions

Network CPU's and Servers below the low value amount of \$2,500 will be accounted by the City's IT departments with a method of their own choosing.

**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 non-capitalized 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 always implement procedures to safeguard the City's investment of all capital fixed assets, low value assets, or other expendable items.

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.
- Low value items will be recorded as expenditures and will be excluded from financial accounting balance sheet 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 low value items.