



# FIXED ASSET ACCOUNTING AND MANAGEMENT PROCEDURES MANUAL

## SECTION 9

### Constructed Assets

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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.*



# FIXED ASSET ACCOUNTING AND MANAGEMENT PROCEDURES MANUAL

## SECTION 9

### Constructed Assets

---

#### **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.



# FIXED ASSET ACCOUNTING AND MANAGEMENT PROCEDURES MANUAL

## SECTION 9

### Constructed Assets

---

- 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.



# FIXED ASSET ACCOUNTING AND MANAGEMENT PROCEDURES MANUAL

## SECTION 9

### Constructed Assets

---

- Monitors the consistency of information being provided to the Controller's Office for City Comprehensive Annual Financial Report (CAFR) purposes and to departments for FAMS reporting purposes.

## 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.



# FIXED ASSET ACCOUNTING AND MANAGEMENT PROCEDURES MANUAL

## SECTION 9

### Constructed Assets

---

- 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.



# FIXED ASSET ACCOUNTING AND MANAGEMENT PROCEDURES MANUAL

## SECTION 9

### Constructed Assets

---

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.



# FIXED ASSET ACCOUNTING AND MANAGEMENT PROCEDURES MANUAL

## SECTION 9

### Constructed Assets

---

- 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.



# FIXED ASSET ACCOUNTING AND MANAGEMENT PROCEDURES MANUAL

## SECTION 9

### Constructed Assets

---

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.*



# FIXED ASSET ACCOUNTING AND MANAGEMENT PROCEDURES MANUAL

## SECTION 9

### Constructed Assets

---

- 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.



# FIXED ASSET ACCOUNTING AND MANAGEMENT PROCEDURES MANUAL

## SECTION 9

### Constructed Assets

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