

Agency Name:	City of Angels
Name of Monitoring Department:	Finance
Policy/Procedure Title:	Asset Capitalization and Control
Policy Number:	300.015

POLICY –This policy ensures compliance with governmental accounting standards and effective management of the City’s capital assets. The City shall update this policy as needed to reflect changes in applicable accounting standards and financial reporting requirements.

PURPOSE – The term capital assets is used to describe assets that are used in operations and that have initial lives extending beyond a single reporting period. Capital assets may be either intangible (e.g., easements, water rights) or tangible (e.g., land, buildings, building improvements, vehicles, machinery, equipment, and infrastructure). It is incumbent upon public-sector managers to maintain adequate control over all of a government’s resources, including capital assets, to minimize the risk of loss or misuse.

As a practical application of the materiality principle, not all tangible capital-type items with useful lives extending beyond a single reporting period are required to be reported in a government’s statement of position. Items with extremely short useful lives (e.g., less than 2 years) or of small monetary value are properly reported as an "expense" or "expenditure" in the period in which they are acquired.

When outlays for capital-type items are reported on the statement of position, they are said to be capitalized. The monetary criterion used to determine whether a given capital asset should be reported on the balance sheet is known as the capitalization threshold.

Capitalization is primarily a financial reporting issue. A government’s principal concern in establishing specific capitalization thresholds ought to be the anticipated information needs of the users of the government’s external financial reports. While it is essential to maintain control over all potentially capitalizable items, more efficient means than capitalization exist for monitoring a government’s smaller tangible capital-type items.

Entities must ensure adequate controls are in place for items that are not capitalized and fall within the following categories:

- Items that require special attention to ensure legal compliance, such as those acquired through grant contracts.
- Items that require special attention to protect public safety and avoid potential liability, such as police weapons.
- Items that require special attention to compensate for a heightened risk of theft (e.g., sound equipment, portable computers).

Items not capitalized but requiring special attention due to these factors are considered controlled capital-type items.

DATE – April 15, 2025

APPROVING AUTHORITY – City Council

REVISION – N/A

SECTION I: CAPITALIZATION

CAPITALIZATION THRESHOLD

- Potentially capitalizable items should only be capitalized if they have an estimated useful life of at least two years following the date of acquisition.
- Capitalization thresholds are applied following GASB and GFOA standards, ensuring consistency with generally accepted accounting principles (GAAP).
- The capitalization threshold shall be \$20,000 for any individual item; however, groups of similar items acquired as part of an implementation effort (e.g., a large purchase of laptops for a new system rollout) may be capitalized as a single asset when necessary to reflect the total cost of placing the asset into service. Replacements of capitalized items shall be expensed going forward.
- As a recipient of federal awards, the City must review federal requirements that may prevent the use of capitalization thresholds in excess of the City's threshold for purposes of federal reimbursement.
- The City shall adhere to the asset control policy and procedure outlined in Section II for potentially capitalizable items that fall under the operative capitalization threshold.

LEASES AND SUBSCRIPTION-BASED IT ARRANGEMENTS

- Per GASB 87, leases that transfer control of the right to use an asset for a period of time in exchange for payment shall be recognized as a lease liability and a corresponding right-to-use asset, unless exempted under short-term lease provisions (12 months or less).
- Per GASB 96, subscription-based IT arrangements (SBITAs) must be accounted for similarly to leases, where the City recognizes a subscription liability and an intangible right-to-use asset if the arrangement exceeds 12 months.
- The City shall review all lease agreements and IT subscriptions to ensure compliance with GASB 87 and GASB 96 standards.

MAINTENANCE AND REPAIRS

Expenditures for normal maintenance and repairs that do not add value to the asset or materially extend its useful life shall not be capitalized. Examples include:

- Street overlays, replacement parts, pipeline repairs, and deferred maintenance.
- Repairs that restore an asset to its original service potential.
- Costs that do not involve significant alteration or structural change.

RETIREMENTS

- Retirements shall be evaluated annually. After the close of the fiscal year, the Administration and Finance Department shall distribute to each department a list of that department's capitalized assets.
- Each department shall review and indicate retirements on the schedule and return it to the Administration and Finance Department in a timely manner.

SECTION II: CONTROL

The City of Angels has adopted a systematic effort to identify and implement internal controls over all of its controlled capital-type items.

- Control shall occur at the departmental level. Departments are responsible for controlled capital-type items as an integral part of achieving their operational goals.
- Departments shall assign control responsibility for capital-type items to one or more specific individuals. Assignments must be documented and communicated to the Administration and Finance Department.
- Responsible individuals shall maintain a complete list of controlled capital-type items, updated annually.
- Each year, departments shall certify to the Administration and Finance Department that updated lists of controlled capital-type items are on file and available for inspection.
- The Administration and Finance Department shall periodically verify the data on the controlled capital-type item lists in each department. No less than once every five years, the Administration and Finance Department shall perform verification procedures to ensure the reliability and completeness of department-maintained lists.