

RESOLUTION NO. R2025-085

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF YUMA, ARIZONA, ADOPTING THE CITY'S CAPITALIZATION THRESHOLD AND CRITERIA TO IDENTIFY CAPITAL ASSETS FOR FINANCIAL REPORTING PURPOSES

WHEREAS, the City of Yuma (the City) intends to update and establish the City's capitalization threshold and criteria to identify capital assets for financial reporting in accordance with accounting principles generally accepted in the United States of America (GAAP); and,

WHEREAS, the City has fiduciary responsibilities including the exercise of due prudence to establish systems, policies, and procedures to accurately account for and maintain custody of all City assets, with evolving internal controls tailored to the nature of each asset type, sensitive inventories and risk environments; and,

WHEREAS, Capital Assets include tangible and intangible property owned or leased by the City including land, buildings, improvements to land, infrastructure assets (roads, bridges, water systems, sewer systems), major equipment, and subscription-based information technology arrangements (SBITA) that meet or exceed the capitalization threshold; and,

WHEREAS, the capitalization threshold is the minimum cost at which an asset is considered a capital asset, as defined in this resolution; and,

WHEREAS, amortization and depreciation are the systematic allocations of the cost of a Capital Asset over its estimated useful life; and,

WHEREAS, in June of 1999 the Governmental Accounting Standards Board (GASB) issued GASB 34, commonly known as "the new reporting model," bringing sweeping changes to the governmental financial reporting model, not intending to over burden governments with extensive processes to meet financial reporting requirements for capital assets; and,

WHEREAS, in fiscal year 2002, the City implemented GASB 34 and increased the capitalization threshold from \$1,000 to "\$5,000 or more and a useful life greater than 1 year"; and,

WHEREAS, twenty-two years later (2024), inflation and advances in technology and engineering have changed and resulted in significant increases in costs of equipment. This caused substantial increases in the amount of equipment that needs to be capitalized for financial reporting purposes; and,

WHEREAS, in FY 2024 Capital Assets under \$25,000 accounted for 35% of the City's total number of capital assets, but only 1% of the total value of capital assets, producing a substantial increase in the number of capitalized assets and a labor-intensive reporting effort for nominal value on the City's financial statements.

NOW, THEREFORE, BE IT RESOLVED by the City Council of the City of Yuma as follows:

SECTION 1: DEFINITION OF CAPITAL ASSETS: For financial reporting purposes, a capital asset is defined as:

- 1) A tangible item of property owned or leased by the City with a cost of \$25,000 or more and a useful life exceeding three years.
- 2) A subscription-based information technology arrangement (SBITA) with a minimum cost of \$460,000 in a non-revokable agreement greater than one year.

The chart below represents the City’s asset categories, capitalization thresholds and estimated lives for amortization and depreciation purposes.

Asset Category	Capitalization Threshold	Estimated Useful Life (Years)
Land and improvements	All capitalized	Not depreciated
Buildings and improvements	\$ 25,000	10-50
Infrastructure	25,000	10-40
Improvements other than buildings	25,000	10-40
Equipment (including vehicles)	25,000	3-20
Right to use SBITA, non-revokable > 1 year	460,000	Life of subscription
* Subscription-Based Information Technology Arrangement (SBITA)		

SECTION 2: ASSET VALUATION: All capitalized assets shall be recorded at their historical cost, including acquisition costs such as freight, installation, professional fees, and other related costs.

SECTION 3: LIFE OF AN ASSET: *Book life or estimated useful life* of an asset will be determined by the City’s Finance Director using industry standards within accounting principles generally accepted in the United States of America (GAAP) which satisfy independent financial audit requirements.

SECTION 4: AMORTIZATION AND DEPRECIATION: Amortization and depreciation of assets should use the straight-line method to amortize or depreciate the asset over its useful life unless the City’s Finance Director determines a more appropriate method will better represent the City’s financial statement presentation adhering to standards as prescribed by the Government Accounting Standards Board (GASB) and meets independent financial audit requirements.

SECTION 5: IMPROVEMENTS, REPAIRS AND MAINTENANCE:

- Significant improvements adding value or extending the useful life of a capital asset shall be capitalized by adjusting the capital assets valuation and depreciation schedules.
- The cost of minor repairs and maintenance not adding value to or extending the life of a capital asset shall be expensed as incurred with no adjustments to the capital assets valuation or depreciation schedules.

SECTION 6: GRANTS AND OTHER SPECIFIC FUNDING RESTRICTIONS: If a grant or specific funding source has a capitalization threshold, valuation, depreciation method or other asset

criteria that differs from the City’s capitalization criteria, then the City will use the most stringent criteria, to meet grant requirements.

SECTION 7: DISPOSAL OF CAPITAL ASSETS: Gains or losses are recognized when capital assets are retired from service or otherwise surplus or disposed of. Any surplus or disposal of a capital asset shall follow the City’s surplus disposal procedures and be recorded in accordance with GAAP.

SECTION 8: EFFECTIVE DATE: The capital asset threshold and criteria to identify capital assets shall be implemented prospectively, presented, and disclosed in the FY 2025 Audited Annual Comprehensive Financial Statements, as prescribed by GASB.

APPROVED:

Douglas J. Nicholls
Mayor

ATTESTED:

Lynda L. Bushong
City Clerk

APPROVED AS TO FORM:

Richard W. Files
City Attorney