



ADMINISTRATIVE ORDER 2025-02

Pursuant to my authority as City Manager, I hereby adopt the attached City of Bozeman Capital Asset Policy as Administrative Order 2025-02

Dated this 25th day of June, 2025

Chuck Winn
City Manager

BOZEMAN^{MT}

**CITY OF BOZEMAN
CAPITAL ASSET POLICY**

Per Administrative Order 2025-02 dated July 1, 2025.

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Capital Asset Policy

I. Authority

This policy is established by the City Manager by administrative order in accordance with the City Commission's authority to adopt financial policies that guide the operations of the City of Bozeman ("City"). The Finance Director, under the direction of the City Manager, is responsible for administering this policy and ensuring consistent implementation across all City departments. Department directors are responsible for complying with this policy and ensuring that capital asset activities within their department align with established standards and procedures.

II. Purpose

This policy establishes guiding principles for the financial management of the City's capital assets. Capital assets, such as buildings, infrastructure, equipment, and major systems, are essential to the delivery of public services and the long-term sustainability of City operations. This policy ensures that capital asset practices:

1. Comply with Generally Accepted Accounting Principles (GAAP), Governmental Accounting Standards Board (GASB) pronouncements, and applicable State and Federal regulations;
2. Align with industry best practices, including recommendations from the Government Finance Officers Association (GFOA);
3. Safeguard against loss, unauthorized use, or misappropriation of capital assets;
4. Promote transparency, accountability, and consistency across departments;
5. Support strategic, long-term planning and budgeting for capital maintenance and replacement;
6. Maintain public trust by preserving asset functionality and service levels critical to health, safety, and quality of life.

This policy establishes internal controls and documentation standards to ensure effective capital asset stewardship across the City's operations.

III. Applicability and Scope

This policy applies to all City departments and all funds and capital assets under the control of the City. Any City employee involved in the acquisition, use, maintenance, monitoring, or disposal of capital assets is expected to be familiar with and comply with this policy and related administrative orders.

Capital assets covered under this policy are defined as tangible or intangible assets used in operations that have a useful life extending beyond a single reporting period. This includes land, buildings, improvements, infrastructure, vehicles, machinery, and equipment that meet the City's capitalization threshold.

All purchases valued \$10,000 and above should be evaluated to determine if this policy applies. The Finance Department (FD) reserves the right to capitalize an asset that costs less than \$10,000 as needed to comply with GAAP or other regulatory agencies.

Department directors are responsible for ensuring adherence to this policy and related procedures, including appropriate documentation, record retention, condition assessments, and timely updates to the City's capital asset records. Capital asset information must be maintained in coordination with the Finance Department, including required updates to the City's capital asset inventory and accounting systems.

IV. General Information

The Governmental Accounting Standards Board (GASB) provides the following authoritative definition of capital assets for state and local governments:

The term capital assets include land, improvements to land, easements, buildings, building improvements, vehicles, machinery, equipment, works of art and historical treasures, infrastructure, and all other tangible or intangible assets that are used in operations and that have initial useful lives extending beyond a single reporting period.

Capital assets should be recorded at original/historical cost, or, if the cost is not readily determinable, at an estimated original cost. Costs typically include applicable ancillary costs necessary to place the asset in its intended location and condition for use. Departments are responsible for documenting all cost, including the methods and sources used to establish any estimates, if applicable. See part VI for additional information related to ancillary costs.

Capital assets may enter the City's ownership through several different methods. The valuation of each asset will depend on how it is acquired, as outlined below:

- Purchased Assets – Assets acquired through purchase will be recorded on the basis of actual costs supported by vendor invoice or other supporting documentation. Some ancillary costs may be excluded from the purchase amount. See Section VI for additional Asset Classification detail.
- Constructed Assets – Assets constructed by the City shall include all direct costs (including labor if applicable) associated with the construction project.
- Contributed or Donated Assets - Contributed or donated assets must be recorded at acquisition value, defined as the price that would be paid to acquire an asset with equivalent service potential in an orderly market transaction at the acquisition date, or the amount at which a liability could be liquidated with the counterparty at the acquisition date. For donated land, an appraisal must be dated within the past five (5) years. If no valid appraisal exists, a reasonable effort must be made to determine an estimated per acre value of the land in question.

V. Responsibility

A. City-wide Department Responsibilities

Each department plays a key role in managing and safeguarding the City's capital assets. Department responsibilities include:

1. Serving as custodians of capital assets that are assigned to their departments.
2. Ensuring full compliance with the established capital asset policy to maintain adequate records.

3. Assisting the Finance Department (FD) with an internal review of the Physical Inventory of Capital Assets.
4. Assisting in identifying capital assets during the budget and/or capital improvement program (CIP) process. Each capital asset should have a unique project code and should be budgeted in the proper capital asset classification (see Asset Classification in part VI). Capital projects that have multiple asset classifications, such as the construction of a new building and purchase of the furniture and fixtures for the building, should, when possible, have separate budgets established for each asset classification.

B. Finance Department (FD) Responsibilities

The Finance Department through the Capital Asset Team, including the Finance Director, Controller, and Senior Accountant, are responsible for centralized oversight and financial reporting of the City's capital assets. Responsibilities include:

1. Reviewing all transactions relating to capital assets, asset number assignment, preparation and distribution of appropriate asset forms, and monthly updates to the capital asset system.
2. Ensuring all capital assets belonging to the City are properly identified and recorded in the General Ledger and Capital Asset module, and that the capital asset module is reconciled, at least monthly, to general ledger balances.
3. Ensuring journal entries and depreciation expense are properly recorded in the general ledger and any financial changes are recorded in the capital asset system.
4. Providing departments with the necessary support in capital asset management to effectively fulfill their duties and responsibilities under this policy.

VI. Asset Classification and Capitalization Thresholds

The City classifies its capital assets into standardized categories for the purposes of accounting, inventory, depreciation, and financial reporting, as outlined below. This section covers the capitalization of new assets. For information about betterments, improvements, and repair & maintenance on existing assets please see section VIII.

A. Land – Account Code 80-70

Land includes all land parcels purchased or otherwise acquired by the City for building sites, streets, right of way, permanent easement, recreation, future use, etc. This does not include land held for resale, which is accounted for as an investment.

Land is frequently associated with some other asset (e.g., land under a building or road). Land should always be treated and accounted for separately. The cost of the land should include not only the acquisition price, but also the cost of initially preparing land for its intended purpose, provided these preparations have an indefinite useful life, like the land itself.

If the land is purchased for the purpose of constructing a building, all costs incurred up to the excavation for the new building should be considered land costs. Removal of an old building, clearing, grading and filling are considered land costs because they are necessary to get the

land in condition for its intended purpose. Any proceeds obtained in the process of getting the land ready for its intended use, such as salvage receipts on the demolition of the old building or the sale of cleared timber, are treated as reductions in the price of the land.

Capitalization of land costs may include, but may not be limited to, the following:

- Original contract price.
- Brokers' commission fees.
- Legal fees for examining and recording title.
- Cost of title guarantee insurance policies.
- Cost of excavation, grading or filling of land and razing of an old building.
- Payment of noncurrent taxes accrued on the land at date of purchase, if payable by purchaser.

Excluded costs may include payroll charges, advertising, process services (includes on-call Right-of-Way), appraisal fees, and surveys, as they typically are not able to be accurately and timely associated with the land purchase at closing.

Capital Threshold: Land must be capitalized regardless of the value or cost.

B. Buildings – Account Code 80-80

All permanent structures are included in the classification of buildings. Improvements or Betterments (see Section VII for additional information) are typically added to the cost of the related structure, rather than being recorded as a separate asset. This includes restoration costs following a capital asset impairment, provided they increase the service capacity or extend the useful life of the building.

Capitalization of costs related to buildings include, but may not be limited to, the following:

- Original purchase price or cost of design and construction.
- Expenses incurred in remodeling, reconditioning, or altering a purchased building to make it available for the purpose for which it was acquired.
- Expenses incurred for the preparation of plans, specifications, blueprints, and other required design documentation.
- Cost of building permits.
- Architects' and engineers' fees for design and supervision.
- Costs of temporary facilities used during the construction period.

Capital Threshold: Buildings must be capitalized regardless of the value or cost.

C. Facilities & Other Improvements – Account Code 80-50

Facilities are assets (other than general use buildings) that are built, installed or established to enhance the quality or facilitate the use of land for a particular purpose.

Other improvements are enhancements made to a facility or to the land that increase service capacity, efficiency, or extend useful life.

Examples of expenditures to be capitalized as facilities and other improvements include, but may not be limited to:

- Fencing and gates
- New or enhanced landscaping
- Parking lots/driveways/parking barriers
- Outside sprinkler systems
- Recreation areas and athletic fields (including bleachers)
- Paths and trails
- Swimming pools, playgrounds, tennis courts, pickleball courts, basketball courts, and bike tracks
- Fountains
- Retaining walls
- Solar Panel Arrays
- Cemetery columbarium

Capital Threshold: Facilities & Other Improvements must be capitalized when the useful life is 2 years or greater and the cost is \$25,000 or more.

D. Infrastructure – Account Code 80-90

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

Capital Threshold: Infrastructure must be capitalized when the useful life is 3 years or greater and the cost is \$50,000 or more.

E. Vehicles – Account Code 80-10

A motor vehicle is a self-propelled road vehicle that is used for the transportation of passengers, or passengers and property. The capitalization amount includes the total purchase price less any discounts and any ancillary costs required to place the asset in its intended state of operation, dependent upon capitalization thresholds or as deemed appropriate by the Capital Assets Team.

Examples include, but may not be limited to, cars, motorcycles, mini-vans, sedans, SUVs, and light-duty and full-size pickup trucks.

Capital Threshold: Vehicles must be capitalized when the useful life is 2 years or greater and the cost is \$10,000 or greater.

F. Machinery & Equipment – Account Codes 80-20 (Equipment), 80-30 (Information Technology Hardware), 80-40 (Furniture & Fixtures)

This classification includes mobile equipment like construction and maintenance equipment, and immobile equipment, including information technology hardware.

Capitalization of equipment costs may include, but may not be limited to, the following:

- Original contract or invoice cost.
- Freight, acquisition fees, import duties, handling and storage costs.
- Specific in-transit insurance charges.
- Installation charges.

Examples include:

- Mobile: ATVs; buses; mowers; trailers; utility and delivery vans; backhoes, graders, loaders, plows, rollers, stand-on blowers, sweepers, tool-cats, and tractors; chipper, fire, flusher, garbage and roll-off trucks.
- Immobile: bulk furniture, IT servers, copiers, fuel tanks, HVAC systems, industrial freezers, washers and dryers, K9s, message boards, mobile equipment attachments (brooms, buckets, cutters, stripers), playground equipment, vending machines, and welders.

Capital Threshold: Machinery & Equipment as a capital asset is defined as a single item with an acquisition cost of \$10,000 or more and has a useful life of 2 years or greater.

Similar items purchased that do not exceed the capital threshold individually will be evaluated by the Finance Department. Similar purchases that are determined to be significant in total must be capitalized. Evaluation of significance includes total cost, fund and fund type, and capital asset tracking requirements.

G. Intangible Assets – Account Codes 80-35 (Subscription Based IT Arrangements), 80-60 (Right-of-Use Lease Assets)

Intangible assets are those that lack physical substance, are non-financial in nature and have an initial useful life extending beyond a single reporting period. Intangible assets must be identifiable, meaning they are either capable of being separated by means of sale, transfer, license or rent, or that they arise from contractual or other legal rights.

Intangible assets acquired or developed by the City could include right to use lease assets, right to use information technology software subscriptions, customized software, internally generated software, works of art and historical treasures. Other examples of intangible assets the City may own include water rights, timber rights, patents and trademarks.

The capitalization of intangible assets shall include, but may not be limited to, the following:

- Original purchase or development costs of the intangible asset
- Licensing, legal fees, and other directly attributable acquisition costs
- Costs related to the creation or development of internally generated intangible assets, such as software or patents
- Capital assets as defined by GASB pronouncements 87 & 96

Capital Threshold: Intangible assets must be capitalized when the useful life is 3 years or greater and the cost is \$25,000 or more.

H. Construction in Progress (CIP)

Construction in progress represents capitalized costs related to a capital asset that is not yet substantially complete, or ready to be placed in service. For construction work in progress assets, no depreciation is recorded until the asset is placed in service. When the asset is placed in service, the asset is reclassified to the correct category for reporting purposes and depreciation begins. The FD will be responsible for evaluating and tracking assets that are classified in CIP prior to being placed in service.

VII. **Additional Capitalization Rules**

The FD reserves the right to capitalize an asset that costs less than \$10,000 as needed to comply with GAAP or other regulatory agencies.

VIII. **Betterments, Improvements, and Repair and Maintenance**

Costs related to an existing asset should be evaluated using the Betterment or Improvement criteria below. Cost that do not qualify as a betterment or improvement should be considered operating costs and expensed in the period incurred.

A. Betterments

A betterment materially renovates or enhances a previously capitalized asset without 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 useful life should be charged to maintenance expense.

Capital Threshold: Betterments must be capitalized when the useful life is 3 years or greater and the cost is \$25,000 or more.

Examples of betterments include, but may not be limited to:

- 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 substantially increases the value of the asset.

B. 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 asset. Replacements of components of existing capitalized assets with improved or superior units, such that the value of the assets is materially increased, are also classified as improvements. An improvement that meets the capitalization threshold in Section VIII should be capitalized.

Capital Threshold: Improvements must be capitalized when the useful life is 3 years or greater and the cost is \$25,000 or more.

Examples of improvements include, but may not be limited to:

- Installation of an air condition 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 useful life.
- Addition of a new wing on a building.

C. Repair and Maintenance

Maintenance and repairs can be distinguished from betterments and improvements 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. Expenditures attributable to repair and maintenance after the asset has been placed in service will not be capitalized and will instead be charged to maintenance expense.

A cost will qualify as maintenance if any of the following are true:

- Recurs on an ongoing basis (scheduled maintenance) and keeps the asset in a useable condition.
- Does not add substantially to the value of the asset (i.e., it does not meet the requirements in Section VIII to be capitalized).
- Simply restores a capital asset to its former condition, addressing normal wear and tear associated with the use of an asset.
- Facilitates asset utilization for its original useful life.

Examples include:

- Painting and similar activities.
- Engine overhaul in a vehicle.
- Resurfacing a roof with similar materials.
- Remodeling and rearrangement costs.
- Annual permits, testing fees or license/registration fees.

IX. **Depreciation**

Depreciation is the systematic allocation of the cost of a capital asset over its useful life. It is meant to account for the reduction in the value of an asset with the passage of time, due in particular to wear and tear. Depreciation will be calculated and recorded annually for the City's depreciable assets in accordance with GAAP. The City uses the straight-line method of depreciation with the half-year convention for the first and last year of the assets useful life.

Assets are depreciated according to the useful life guidelines below:

- Buildings: 20 – 50 years
- Infrastructure: 20 – 60 years
- Facilities & Other Improvements: 5 – 20 years
- Vehicles: 5 –10 years
- Machinery and Equipment: 2 – 20 years

- Intangible Assets: 2 – 50 years

Assets that are not depreciated include:

- Land
- Intangible assets with indefinite useful lives
- Artwork
- Construction in Progress

X. Retirement (Disposals)

All capital assets that are sold, exchanged, traded in, donated, stolen, damaged beyond repair or in any way removed from service and disposed of during the current fiscal period should be recorded as retirements in the capital asset module.

When retiring an asset, the Department that had custody of the asset must request a disposal form from the Finance Department prior to the disposal. This electronic form will be routed for proper approval and signatures.

XI. Transfers

When an asset is exchanged between departments, the Capital Asset Team will transfer the asset in the capital asset module. The Capital Asset Transfer Form shall be used to identify an asset transfer between City departments. The transfer must be approved by both the transferor and transferee departments before an asset is transferred.

XII. Impairment

A capital asset generally should be considered impaired if both (a) the decline in service utility of the capital asset is large in magnitude and (b) the event or change in circumstance is outside the normal life cycle of the capital asset.

In order to determine impairment, one or more of the following conditions must apply:

- Evidence of physical damage (building damaged by fire or flood, restoration efforts are needed to restore service utility).
- Enactment or approval of laws or regulations or other changes in environmental factors.
- Technological development resulting in a change of the expected duration of use of a Capital Asset.
- A change in the manner or expected duration of use of a Capital Asset.
- Construction stoppage (stoppage of construction of a building due to lack of funding).

All impairment should be analyzed and estimated by the Finance Department.

XIII. Acquisition of Capital Assets

Capital assets shall be acquired by the City, following all required federal, state, and local purchasing requirements.

Procurement Requirements & Signatory Authority

General bidding requirements and thresholds are defined in the City of Bozeman Policies and Procedures for: General Procurement, Training & Travel, and Accounts Payable & Credit Card Use. All administrative orders and internal policies are available on [Laserfische](#) in the [City Commission>Administrative Orders/Internal Policies](#) page.

XIV. Additional Information

For additional information or questions concerning this policy, please contact the FD Capital Asset Team at (406) 582-2335.

APPENDIX A. General Guidelines and Examples in Capital Determinations and Classifications

Construction of a new building or major remodel:

- Design and construction costs should be capitalized. Budget and actual costs coded to 80-80.
- Initial purchase of furniture and fixtures should be capitalized. Budget and actual costs coded to 80-40.
- Landscaping or other external improvements should be capitalized. Budget and actual costs coded to 80-50.
- Because the initial purchase of furniture and fixtures and landscaping are capitalized, replacements or improvements to these items should not be capitalized until the initial capital is fully depreciated. Identifying the costs and accumulated depreciation to record the loss on disposal of portions of the initial capital assets creates an unjustifiable burdening of maintaining capital assets. Expensing replacements or improvements, even if the total exceeds the capitalization threshold, rather than disposing of a portion of a previously capitalized asset is an industry best practice.

Annual curb, sidewalk repair/improvements:

- Repair, improvement, or replacement of existing curbs and sidewalks should NOT be capitalized. This process is restoring a capital asset to its original condition (regardless of the annual costs budgeted or expended) and does not change the utility of the asset or extend the useful life of the entire original curb or sidewalk. These costs should be budgeted and expensed in 30-95.

Minimal expenses incurred AFTER the project is substantially complete and placed in service should NOT be capitalized. Examples include:

- Material testing – include in operating budget and expense
- Legal or registration fees – include in operating budget and expense