

## **City Auditor's Office - Internal Labor Capitalization Policy**

### **General Overview**

Generally Accepted Accounting Principles (GAAP) require the capitalization of costs associated with the acquisition or construction of property, plant and equipment. The cost of a capital asset should include all charges necessary to place the asset into its intended location and conditional use, which includes internal labor. This memo provides the general framework for identifying and tracking labor costs that are eligible to be charged to a bond fund for capitalization.

Internal labor costs must result *directly* in a *specific* capital project and be appropriately tracked and documented to be eligible for capitalization. Time records supporting the capitalized labor must be maintained by the division as part of the City's official records subject to review and audit. Internal labor capitalized must be based on actual hours worked and not on budgeted hours.

### **Labor Eligible for Capitalization**

City of Columbus direct labor costs for employees who are working in the capacity of project manager or construction are eligible to be capitalized to an identified capital project. The work must be directly related to the development or construction of the approved capital project.

Examples of direct labor eligible for capitalization include:

- Project manager
- Architect & Engineer time for design and supervision
- Construction worker and related supervisors

Examples of direct labor **not** eligible for capitalization include:

- Administration such as accounting, budgeting, legislation drafting, invoice payment
- Community meetings seeking feedback on projects
- Internal meetings to discuss capital ideas
- Any maintenance or operating activities

### **Canceled Projects**

If eligible direct labor costs are charged to a bond fund and the project is not completed (i.e. canceled in favor of funding other priorities, etc.), then it is up to the division to notify the Auditor's Office so that the bond fund payroll charges can be reversed and posted back to the operating fund.

### **Tracking and Documentation**

Divisions should develop their own templates to track internal labor eligible for capitalization based on their business needs. However, the template at a minimum must include the date range for the billing, employee name, hourly rate, hours worked on the project and the project number. The calculated direct labor to be capitalized should be classified as "project cost allocation" when submitting the salary adjustment to the Auditor's Office for posting.

