

City of Mission, Texas

Capital Asset Policy

Effective 10/1/2024

1.0 Policy Goal

The goal of a capital asset inventory system and this policy is to provide control and accountability over capital assets.

These policies and procedures are the minimum requirements for capital assets that departments must meet. A department may maintain its capital asset inventory system in greater detail, or use additional supporting documentation, as long as they meet the required minimum standards.

1.1 Authority

The City of Mission requires all departments to use this policy to protect and report on assets held by the City.

1.2 Responsibility

The responsibility for the custody, use, control, and care of City property lies with each City department. The Department Head should ensure that the department maintains adequate internal control procedures. These internal control procedures must comply with City ordinances, policies, rules, and requirements. It is each City employee's responsibility to use the property only for City purposes and to exercise reasonable care for its safekeeping.

Additions, disposals, and transfers of capital assets will be recorded in accordance with GAAP (Generally Accepted Accounting Principles). The Finance Department will tag capital assets on a regular basis, with the assistance of the department in possession of the capital assets.

2.0 Capital Assets Defined

Capital assets are real or personal property that have a value equal to or greater than the capitalization threshold for the particular classification of the asset and have an estimated life of greater than one year, with exception of land which is capitalized regardless of amount.

Assets which are purchased, constructed, or donated that meet or exceed established capitalization thresholds and land will be recorded by the City.

Capital assets include: land, land improvements, buildings, building improvements, construction in-progress, machinery and equipment, computer equipment, vehicles and light equipment, heavy equipment, infrastructure, works of art and historical treasures, and software and other intangible assets (definite/indefinite).

Capital asset components having a unit cost under the City’s threshold amount should be capitalized if they are originally purchased as part of a system and the system has a value equal to or exceeding the capitalization threshold. To track on a group basis, items must have the same characteristics, purchase/in-line service date, and be visually identifiable as logically belonging to the group.

3.0 Capitalization Thresholds

With the exception of assets acquired with grant funds, which will be capitalized based on grant agreement and guidelines, the capitalization threshold is established for each capital asset category as follows:

<u>Asset Category</u>	<u>Minimum</u>
Land	\$1
Land Improvements	\$5,000
Buildings	\$5,000
Building Improvements	\$5,000
Construction In-Progress	\$5,000
Machinery and Equipment	\$5,000
Computer Equipment	\$5,000
Vehicles & Light Equipment	\$5,000
Heavy Equipment	\$5,000
Infrastructure	\$5,000
Works of Art and Historical Treasures	\$5,000
Software and Other Intangible Assets (Definite/Indefinite)	\$5,000

Donated capital assets will be recorded at their estimated fair market value at the time of acquisition plus ancillary charges.

4.0 Capital Asset Categories

4.1 Land

Land is to be capitalized but not depreciated. It is recorded at historical cost and remains at that cost until disposal. The following ancillary costs should be included as part of the cost of land: commissions; professional fees; grading; removal, relocation, or reconstruction of property of others; other costs incurred in acquiring the land. All land will be capitalized regardless of cost.

4.2 Land Improvements

Land improvements consist of re-conditioning, other than buildings that prepare land for its intended use. Examples include retaining walls, parking lots, sidewalks, outdoor lighting, fencing/gates, landscaping, sprinkler systems, fountains, sport fields, or bleachers.

4.3 Buildings

Buildings should be recorded at either their acquisition cost or construction cost.

Ancillary costs for buildings include professional fees, damage payments, costs of fixtures permanently attached to a building or structure, insurance premiums, interest, related costs incurred during construction, and any other cost necessary to place a building or structure into its intended location and condition for use.

4.4 Building Improvements

Building improvements that extend the useful life of the building by more than 25% should be capitalized. Examples of building improvements include major roofing projects that tear the original roof down to the joints or peak a flat roof, major energy conservation projects, or additions to buildings.

4.5 Construction In-Progress

Construction in-progress is the economic construction activity status of building and other structures, infrastructures, additions, reconstruction, which are substantially incomplete. Construction in-progress assets should be capitalized to their appropriate capital asset categories upon the completion or when the asset is placed into service.

4.6 Machinery and Equipment

Machinery and equipment are tangible assets to be used for operations, the benefits of which extend beyond one year from date of acquisition and rendered into service. Examples of this category are office equipment, audiovisual equipment, machinery, furniture and fixtures, and lawn equipment. Ancillary costs include freight and storage costs, installation costs, and professional fees.

4.7 Computer Equipment

Computers which meet or exceed the capitalization threshold will be capitalized. Ancillary costs for computer equipment will follow the same basic guidelines as the machinery and equipment category. Some computer equipment, specifically computers, projectors, laptops, mobile phones, and tablets, may not exceed the capitalization threshold (unless grouped) but will be considered a trackable asset. Therefore, the Information Technology department will maintain tracking for these assets although not capitalized.

4.8 Vehicles and Light Equipment

Motored vehicles and light equipment which meet or exceed the capitalization threshold will be capitalized. Any additional equipment required in placing the vehicle in operation and that adds value to the vehicle will be capitalized. Examples of these additions are lettering, sirens, light bars and tool boxes. Some vehicles and light equipment may not exceed the capitalization threshold (unless grouped) but will be considered a trackable asset. Therefore, the Fleet department will maintain tracking for these assets although not capitalized.

4.9 Heavy Equipment

Heavy equipment, tractors, and heavy machinery which meet or exceed the capitalization threshold will be capitalized. Any additional equipment required in placing the heavy equipment in operation and that adds value to the equipment will be capitalized. Examples of these additions are lettering, light bars and permanent attachments. Some heavy equipment may not exceed the

capitalization threshold (unless grouped) but will be considered a trackable asset. Therefore, the Fleet department will maintain tracking for these assets although not capitalized.

4.10 Infrastructure

Infrastructure assets are long-lived assets that normally are stationary in nature and can be preserved for a significantly greater number of years than most capital assets. Examples of infrastructure assets include streets, roads, bridges, sidewalks, street signs, street and traffic lighting, and storm, water, and sewer drainage systems.

4.11 Works of Art and Historical Treasures

Works of art, historical treasures, and similar items should be recorded at historical cost or fair value at date of donation. These items of significance are not held for financial gain, but rather for public exhibition, education, or research in furtherance of public service.

4.12 Software/Other Intangible Assets with Definite/Indefinite Useful Life

Definite Useful Life: Software and other Intangible Assets that have legal, contractual, regulatory, technological, or other factors that limit the useful life of the asset. Software and other Intangible Assets that meet the capitalization requirement will be capitalized. However, these assets are not depreciated but amortized on the same basis as those assets depreciated. Examples include computer software programs, and limited life/rental water rights and easements.

Indefinite Useful Life: Software and other Intangible Assets that have an indefinite life where no legal, contractual, regulatory, technological, or other factors that limit the useful life of the asset exist. Software and other Intangible Assets that meet the capitalization requirement will be capitalized. However, these assets are not amortized but impaired if the value of the asset declines. Examples include permanent water rights, permanent easements, intellectual property, goodwill, copyrights, patents and trademarks.

5.0 Repairs and Maintenance

The following will determine if maintenance or repair should be capitalized or expensed. With respect to asset improvements, costs over \$5,000 should be capitalized if:

1. The estimated life of the asset is extended by more than 25%, or
2. The cost results in an increase in the capacity of the asset, or
3. The efficiency of the asset is increased by more than 10%, or
4. Significantly changes the character of the asset.

Maintenance costs allow an asset to continue to be used during its originally established useful life. Maintenance costs are expenses in the period incurred. The following are examples of improvements that will not significantly increase the estimated life, capacity, or efficiency of the asset and therefore will be considered maintenance and will not be capitalized: tuckpointing, roof repair (unless it extends the life of the building by more than 25%), window replacement (unless replaced with energy efficient windows), repainting, re-carpeting, remodeling (converting) a building to a different use, where remodeling does not extend the useful life of the structure itself, etc. For

equipment, maintenance contracts will not be capitalized.

6.0 Depreciation & Amortization

Depreciation

Depreciation is the process of allocating the cost of tangible property over its estimated useful life. Depreciation will be calculated using the straight-line method. In straight-line depreciation, the cost of the asset is pro-rated over the estimated useful life of the asset. The salvage value of all depreciable assets will be zero. For proprietary type funds, the depreciation amounts calculated are reported in the general ledger. For governmental type funds, the depreciation amounts are not reported at the fund level in the account of the governmental funds, only in the Annual Comprehensive Financial Report (ACFR).

All assets will be reported until disposal. When capital assets are sold, or otherwise disposed of, the historical cost of such assets and any accumulated depreciation are removed from asset accounts.

Estimated useful lives for depreciable assets are as follows:

Land	Not Depreciated
Land Improvements	15 years
Buildings	45 years
Building Improvements	15 years
Machinery and Equipment	10 years
Computer Equipment	3 years
Vehicles and Light Equipment	6 years
Heavy Equipment	10 years
Infrastructure	25 years

Land is deemed to be inexhaustible; therefore, it will not be depreciated.

Construction in progress is not depreciated until the asset is placed in service.

Leases for any assets above will be based on the lesser of the lease term of the asset or its useful life above.

Amortization

Amortization is the process of allocating the cost of intangible property over its estimated useful life. Amortization will be calculated using the straight-line method. In straight-line depreciation, the cost of the asset is pro-rated over the estimated useful life of the asset. The salvage value of all amortizable assets will be zero. For proprietary type funds, the amortization amounts calculated are reported in the general ledger. For governmental type funds, the amortization amounts are not reported at the fund level in the account of the governmental funds, only in the Annual Comprehensive Financial Report (ACFR).

Estimated useful lives for amortizable assets are as follows:

Software and Other Intangible Assets (Definite)	Based on Contract
Software and Other Intangible Assets (Indefinite)	Not Amortized; Impaired

All assets will be reported until disposal. When capital assets are sold, or otherwise

disposed of, the historical cost of such assets and any accumulated amortization are removed from asset accounts.

7.0 Tagging of Capital Assets

The purpose of capital asset tagging is to facilitate accounting, for the asset, aid in its identification if the asset is stolen, and to discourage theft. All movable capital assets will be physically tagged by using a standardized adhesive tag with the following information:

City of Mission Property, optional bar code, and an assigned control number (capital asset number).

Occasionally, it will be impractical to physically tag items such as vehicles, land, buildings, infrastructure, improvements other than buildings, and intangible assets. Instead, a capital asset number will be assigned.

Control and accountability of vehicles will be based on the VIN number and unit number assigned by the Fleet Department (if applicable).

8.0 Capital Asset Recording

Once assets are assigned an identification number, the Finance Department's Fixed Assets Division will update the Capital Asset System by entering each capital asset in the system and including the following information:

Asset Identification Number (AIN)
Asset Description
Serial Number (if applicable)
Date of Acquisition
Acquisition Cost
Asset Class Type
Purchase Order Number (if applicable)
Physical Location
Asset Useful Life
Vendor Name (if applicable)
Responsible Department for Asset
Fund/Account Purchasing Asset
Method of Acquisition
Date and Method of Disposition
Asset Classification (Government/Proprietary)

9.0 Disposal of Capital Assets

Upon the disposal of an asset, the department responsible for the asset will substantiate this action with a Capital Asset Disposition Form (Exhibit B) approved by the Department Head. The form will include the asset tag and should be submitted to the Fixed Assets Division. Any assets submitted for disposition will be taken to the City Council for authorization to surplus or dispose of asset. The asset must be authorized for surplus prior to disposition.

10.0 Acquisition, Disposal and Transfer Forms

Special forms have been created for the acquisition (Exhibit A), disposal (Exhibit B), or transfer (Exhibit C) of capital assets. These disposal and transfer forms should be completed by the department responsible for the asset and approved and signed by the Department Head. The acquisition form must be submitted to the Finance Department's Purchasing Division upon the submission of a requisition which will be subsequently directed to the Fixed Assets Division for the completion of asset recording. In the case of an asset transfer, the form must be completed by the department transferring the asset and signed by all appropriate personnel. All forms may be adjusted by the Finance Department as required to manage and acquire necessary capital asset information.

11.0 Leased Equipment

A leased asset should be recognized at the commencement of the lease term, unless the lease is a short-term lease or it transfers ownership of the underlying asset. The lease asset should be measured at the amount of the initial measurement of the lease liability, plus any payments made to the lessor at or before the commencement of the lease term and certain direct costs. The lease asset should be amortized in a systematic and rational manner over the shorter of the lease term or the useful life of the underlying asset.

Exhibit A – Capital Asset Acquisition Form

Exhibit B – Capital Asset Disposition Form

Exhibit C – Capital Asset Transfer Form

CAPITAL ASSET ACQUISITION FORM

Ordering Department: _____

Vendor Name: _____ Serial/VIN #: _____

Asset Description: _____

Estimated Quantities: _____ Estimated Unit Cost: _____

Estimated Cost: _____

Department Head Signature Date

NOTE: *Completed form to be forwarded to the Fixed Assets Division

For Fixed Asset Division Use Only – Upon Receipt of Asset

Entered Asset Information: Date: _____ By: _____

Responsible Department: _____

Asset Identification # (AIN): _____ Serial/VIN #: _____

Unit # (if applicable): _____ License Plate # (if applicable): _____

Revised Asset Description: _____

Date of Acquisition (Delivery/Receipt): _____

Acquisition Cost: _____

Method of Acquisition: _____

Purchase Order # (if applicable): _____

Fund Purchasing Asset: _____

Account Purchasing Asset: _____

Asset Useful Life: _____

Asset Class Type: _____

Asset Classification (Government/Proprietary): _____

Physical Location: _____

CAPITAL ASSET DISPOSITION FORM

Responsible Department: _____

Asset Identification # (AIN): _____ Serial/VIN #: _____

Unit # (if applicable): _____ License Plate # (if applicable): _____

Asset Description: _____

Date of Disposal: _____

Method of Disposal (check one):

- Surplus
- Auction
- Thrown
- Lost/Stolen
- Interlocal
- Other: _____

Reason for Disposal (check one):

- Asset is obsolete or no longer useable and deemed to have no market value.
- Asset was lost, stolen, or otherwise disappeared (explain)

- Asset is broken or was destroyed (explain)

- Other (explain)

Department Head Signature Date

Finance Dept. Signature Date

City Manager Signature Date

CAPITAL ASSET TRANSFER FORM

Asset Identification #(AIN): _____

Asset Description: _____

Serial/VIN #: _____

Transferring Department: _____

Receiving Department: _____

Reason for Transfer: _____

Transferring Department Signature

Receiving Department Signature

Transferring Department Date

Receiving Department Date

For Fixed Asset Division Use Only:

Official Date of Transfer: _____