



## **CITY OF BAY CITY**

### **FIXED ASSETS CAPITALIZATION POLICY**

- 1) Purpose: The purpose of this policy is to provide definitions and procedures for recording and accounting for the various types of fixed assets of the City of Bay City, Texas (the City), in accordance with generally accepted accounting principals, as applied to governmental entities.
- 2) Definition: A fixed asset is defined as tangible or intangible assets of significant value having a useful life of more than three years and costs more than \$10,000, except as otherwise provided herein.
- 3) The items meeting the following criteria are considered fixed assets:
  - a) Land – includes all land parcels purchased donated, or otherwise acquired for building sites, parks, etc. All land should be capitalized without regard to its size or value.
  - b) Buildings – includes all City-owned buildings (or structures which serve as buildings, such as permanently established trailers) exceeding \$10,000 in original cost. Permanently attached fixtures installed during construction are considered a part of the building. Subsequent addition of equipment will be recorded as machinery and equipment. Major improvements are capitalized as a part of the original structure. All additions to existing structures exceeding \$10,000 in original cost shall also be capitalized as a part of the original structure.
  - c) Improvements Other than Buildings – includes improvements exceeding \$10,000 such as park facilities, parking lots and infrastructure assets. (Infrastructure assets include streets, roads, sidewalks, bridges, underground structures, and piping, etc.) Improvements Other Than Buildings are generally not individually identifiable as specific assets. As a result, the cost of these assets are generally grouped in general categories.
  - d) Machinery & Equipment – includes all motor vehicles, trailers, and construction and maintenance equipment where the unit cost exceeds \$10,000.
  - e) Office Machinery & Equipment – includes all office equipment and machinery, including computers, computer software, typewriters, telephones, etc., where the unit cost exceeds \$10,000.

- f) Furniture & Fixtures – includes all office furniture and fixtures such as desks, tables, file cabinets, chairs, where the cost exceeds \$10,000.
  - g) Construction Work-in-Progress – includes all partially completed projects, except roads and bridges. Upon completion, these assets are transferred to one of the above classifications.
- 4) The following costs associated in determining the total acquisition of a fixed asset are to be capitalized, i.e., added to the cost of the asset:
- a) Purchase cost before trade-in allowances and less discounts; or a qualified appraisal of the value at the time of acquisition if the asset is donated.
  - b) Professional fees of attorneys, architects, engineers, appraisers, surveyors, etc.
  - c) Site preparation costs such as clearing, leveling, filling, and demolition of unwanted structures.
  - d) Fixtures attached to a building or other structure.
  - e) Transportation, installation and training costs.
  - f) Any other expenditure required to put the asset into its intended state of use.
  - g) The acquisition cost of any asset shall be reduced by receipts for the sale or reimbursements of salvage materials or work initially charged to the cost of acquisition or construction.
  - h) For assets for which no records of acquisition exist, the Finance Director and Department Head shall ascertain the original cost of the asset using accepted accounting methods.
- 5) The following guidelines with respect to the treatment of costs that are incurred subsequent to the acquisition or construction of an asset are as follows:
- a) Maintenance – expenditures that neither materially add to the value of an asset nor appreciably prolong its life. Maintenance costs keep an asset in an ordinary, efficient operating condition. As a result, maintenance costs should not be capitalized.
  - b) Replacements – replacing an existing asset with an improved or superior unit or component part, usually resulting in a more productive, efficient, or longer useful life. Replacement of an existing unit or component part thereof, by another of like quality is not generally considered a replacement of the asset for accounting purposes. Only when the value of the original asset is increased, or the useful life is significantly prolonged, should the new value or replacement cost be capitalized.
  - c) Additions – new and separate assets, or extensions of existing assets. The cost of significant additions to assets should be capitalized and added to the value of the existing

asset(s).

- d) Alterations – changes in the physical structure of an asset which neither materially adds to the value of the asset nor prolongs its expected life. As such, alterations should not be capitalized.

6) Accounting for Assets; Annual physical inventory required.

- a) All fixed assets in excess of the established minimums shall be capitalized.
- b) Property inventory records will be maintained by the Finance Department.
- c) Each Department Head shall be accountable for all assets assigned to their department, and knowledgeable at all times of the physical location of all assets issued to the department.
- d) Upon receipt of an asset, the department receiving the asset shall notify the Finance Department. The Finance Department will be responsible for tagging the asset and assigning an asset number.
- e) Transfer of assets between departments shall be initiated by completion of a “Fixed Asset Transfer” form. The form shall be forwarded to the Finance Department for recording purposes.
- f) Disposal of assets shall be processed by completing a “Fixed Asset Disposal” form. The form shall also be forwarded to the Finance Department for recording purposes. Disposal of an asset shall be necessary when the asset is either sold or is no longer in service.
- g) Physical inventories of assets shall be conducted annually by each department and submitted to the Finance Department.

7) Depreciation.

- a) General Fixed Assets. General fixed assets are those assets purchased or in use by all funds other than proprietary and trust funds. Depreciation shall be recorded for general fixed assets. For purposes of depreciation, no salvage values shall be estimated, and the method of depreciation shall be designated as the straight-line method. Depreciation shall begin on the date the asset is placed in service.
- b) Proprietary and Trust Funds. Depreciation shall be recorded in all proprietary and trust funds (if applicable). For purposes of depreciation, no salvage values shall be estimated, and the method of depreciation shall be designated as the straight-line method. Depreciation shall begin on the date the asset is placed in service. The following is a representative list of estimated lives for depreciation purposes:
  - i) Infrastructure (mains, services, improvements) – 40 years
  - ii) Buildings – 40 years

- iii) Furniture and fixtures – 5 to 15 years
- iv) Motor vehicles – 4 to 10 years
- v) Heavy machinery and equipment – 10 to 20 years
- vi) Light and medium mobile equipment – 7 to 15 years
- vii) Office and other equipment – 5 to 10 years
- viii) Computer hardware and software – 5 to 10 years

All of the above useful lives are dependent upon the actual use of the asset. Some assets may be used more frequently than others, and would require a shorter useful life for depreciation purposes.

#### Lease, Sale or Disposal of City Property:

- 1) Purpose: This policy shall be established with regard to lease, sale or disposal of personal property owned by the City.
- 2) Non-applicability: This policy shall not apply to the following:
  - a) The lease, sale or disposal of property obtained from grants or other sources, whereby the procedures for lease, sale or disposal of such property are determined by other policies, or are prescribed by separate contract or agreement;
  - b) Temporary lease or rental of City facilities or real property, such as the Civic Center;
  - c) Property to be leased, sold or disposed under laws of the State of Texas or the United States of America. In such instances, the policies, rules or laws of the appropriate agency or organization governing the lease, sale or disposal of property shall apply; or
  - d) Property valued at \$1,000 or more not sold at a public auction, or any lease or sale of City-owned real property for any amount. Sale or lease of such property shall be authorized only by the City Council.
- 3) Definitions:
  - a. Property – shall refer to assets, supplies, or any other tangible item or property, other than real property, owned by the City, or in its legal possession.
- 4) Lease of Property:
  - a) Property may be leased by the City, provided the City executes a lease agreement which has been approved by the Mayor and the City Attorney.
  - b) Proceeds or revenue from the lease of City property may be used to offset any expenses for maintenance and other related costs of the property being leased, and shall be credited to the appropriate fund or account, as determined by the Finance Director, or his designee.

5) Sale or Disposal of Personal Property:

- a) Annual Sale (Public Auction). Annually, each department of the City shall submit to the Mayor and Finance Director a detailed listing of the property for sale or disposal. The Mayor and Finance Director shall review the lists, and make a recommendation to City Council of the items to be sold or disposed. A public auction shall be the primary means of disposal or sale of property.
  - i) The Mayor or Finance Director shall submit the list of items or property for sale or disposal to the City Council for approval. Upon approval by the City Council, the items or property may, be advertised for sale at a public auction or may be declared as surplus property and donated in accordance with all federal, state and local laws.
  - ii) Subsequent to the authorization by the City Council, the City Secretary shall provide public notice of the sale. The notice shall be published in a local newspaper of general circulation at least one (1) time, and at least seven (7) days prior to the date set for such public sale. Sale or disposal of property obtained from grants or other sources shall follow established notice requirements in accordance with the State of Texas or Federal statutes.
  - iii) The annual auction shall be conducted by a legal agent of the City (an auction firm), or by acceptance of sealed bids by the Mayor. In order for an agent to be used by the City, the City Council must select a firm based upon competitive proposals. For sealed public auctions, the type and method of receipt of sealed bids shall be determined by the Mayor.
  
- b) As-Needed Sale. At other times during the year, a department may request sale or disposal of an item or items without the use of a public auction. An as-needed sale may be necessary in the event that (1) damage or significant deterioration of the item(s) or property would result from a delay in disposal; (2) where no proper storage area for the item(s) or property is available; or (3) where the value of the property would be significantly reduced as a result of a delay in disposal. The Mayor shall review all requests for as-needed sales, and make a final determination authorizing the sale or disposition.
  - i) The Mayor, or authorized agent of the City, shall be authorized to sell such property to the highest and most responsible bidder. Only sealed bids will be accepted, except where other types of bids may be recognized during a public auction.
  - ii) Prior to an as-needed sale, the City Secretary shall publish a notice of the City's interest to sell property in accordance with Section (4)(a)(ii) above.
  - iii) The City shall reserve the right to reject any and all sealed bids. In the event no bid is received or bid(s) are not responsible bids, the Mayor is authorized to dispose of the property in the most economical means possible, up to and including the sale or disposal for scrap material. In the event of a tie bid, where two or more sealed bids are identical, the first bid submitted shall be awarded.
  - iv) City employees or officials may bid on items to be sold, or disposed, provided that the method for submitting a bid is the same as the bidding method used for receipt of all other bids. No preferential treatment of bidding procedures shall be permitted for an employee or official of the City.

c) The sale and lease of land and certain personal property shall be done in accordance with Local Government Code Chapter 272.

b. Expenses and Proceeds of Sale or Disposal:

a) Expenses related to the sale or disposal of property, such as advertising and bidding supplies, shall be charged against proceeds of the sale. If proceeds of the sale are not sufficient to cover the expenses of the sale, the Finance Director shall allocate any remaining expenses of the sale according to departmental budgetary allocations.

b) Proceeds of sale or disposal of property not otherwise designated or reserved by contract or other agreement shall be deposited into the appropriate account or fund from which the item was originally purchased, or used for other purposes as may be designated by the City Council.