

**City of Laredo, Texas**  
**Capital Asset Policy and Procedures**  
**Effective October 1, 2006**

**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 Laredo 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 director 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 property only for City purposes and to exercise reasonable care for its safekeeping.

Additions, disposals, and transfer of capital assets will be recorded in accordance with GAAP (Generally Accepted Accounting Principles). The Financial Services Department/Accounting Division 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.

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

Capital assets include: land, land improvements, buildings, building improvements, machinery and equipment, computer equipment, vehicles and heavy equipment, infrastructure, works of art and historical treasures, water rights, and construction in progress.

Fixed 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, class code, 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 grant agreement and guidelines, and the acquisition of vehicles, 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
Building	\$5,000
Building Improvements	\$5,000
Machinery and Equipment	\$5,000
Works of Art and Historical Treasures	\$5,000
Infrastructure	\$25,000

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, and 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 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.

**4.6 Computer Equipment**

Computers and software 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.

**4.7 Vehicles and Heavy Equipment**

Motored vehicles and heavy equipment will be capitalized regardless of cost or value. 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.

**4.8 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.

**4.9 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.

**4.10 Water Rights**

Water rights are costs the City incurs in acquiring water rights from private owners.

**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.

**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 improvements 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 or replacement (unless it extends the life of the building by more than 25%, such as replacing a flat roof with a pitched roof), 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**

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 Comprehensive Annual Financial Report (C.A.F.R.). 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 are as follows:

Buildings	45 years
Machinery and Equipment	10 years
Computer Equipment	3 years
Vehicles	6 years
Transit Buses	12 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.

**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 Laredo 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, and improvements other than building. 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 City's Fleet Management.

## **8.0 Capital Asset Recording**

Once assets are assigned an identification number, the Accounting Division will update the Fixed Asset System by entering each capital asset in the system and including the following information:

- Asset Identification Number
- Asset Description
- Serial Number (if applicable)
- Date of Acquisition
- Acquisition cost
- Asset Class Type
- Purchase Order Number (if applicable)
- Physical Location
- Asset Life
- Vendor Name (if applicable)
- Department Responsible 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 Fixed Asset Transfer/Disposition Form (Exhibit B) approved by the department director. The form will include the asset tag and should be submitted to the Financial Services Department within a reasonable amount of time after the asset disposal.

## **10.0 Acquisition, Disposal and Transfer Forms**

Special forms have been created for the acquisition, disposal, or transfer 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 director. In the case of an asset transfer, the form must be completed by the department transferring the asset and signed by all appropriate personnel.

## **11.0 Leased Equipment**

Equipment should be capitalized if the lease agreement is non-cancelable and meets any one of the following criteria:

1. The lease transfers ownership of the property by the end of the lease term.
2. The lease contains a bargain purchase option.

3. The lease term is equal to 75% or more of the estimated economic life of the leased property.
4. The present value of the minimum lease payments at the inception of the lease, excluding executory costs, equals at least 90% of the fair value of the leased property.

**Exhibit A – Capital Asset Tag Request Form**

**Exhibit B – Capital Asset Transfer/Disposition Form**

**Approved by:**

---

**Rosario C. Cabello**  
**Director of Financial Services**