



FIXED ASSET ACCOUNTING AND MANAGEMENT PROCEDURES MANUAL

SECTION 8

Asset Acquisition by Donation, Confiscation, Condemnation, Eminent Domain, Annexation, or Foreclosure

1 Purpose

The purpose of this section is to establish a procedure for valuing and recording fixed assets and controlled items acquired through donation, confiscation, condemnation, eminent domain, annexation, or tax foreclosure.

2 Scope

Assets acquired through donation, confiscation, condemnation, eminent domain, annexation, or tax foreclosure will be recorded in the fund in which they are to be of service, in accordance with the valuation guidelines in this section.

3 Guidelines

3.1 Donation

Donated or contributed assets will be recorded at the estimated fair market value at the time of donation.

3.2 Confiscation

Fixed assets acquired by the City through statutory confiscation powers will be treated as unconditional donations for the purpose of determining values and establishing records for such items in the FAMS.

Legally imposed restrictions on the use of, or revenues from, such assets must be recorded in the FAMS record in the *Extended Description* field.

3.3 Condemnation/Foreclosure

Assets acquired through condemnation or tax foreclosure will be treated in accordance with the City's plan for the asset's eventual disposition.

3.3.1 Retained Assets

If the City expects to retain an asset obtained by condemnation or foreclosure actions, the asset will be reported at the asset's estimated fair market value on the date of condemnation or foreclosure, plus any legal, appraisal, or other associated costs.

3.3.2 Resold Asset

If the City expects to resell an asset acquired through condemnation or foreclosure within 12 months, the asset will be recorded at fair market value in the appropriate



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fund to which the taxes are owed, with a liability to the property owner, if needed, to reflect any excess of the value of the asset over the City's tax or assessment lien.

3.4 Eminent Domain

Assets acquired through eminent domain will be valued at the amount of compensation paid to the property owner plus any legal, appraisal, or other transaction costs associated with the acquisition.

3.5 Annexation

Assets acquired through annexation will be valued at the amounts recorded by the annexed entity (generally book value).

4 General Procedure

Assets received through donation, confiscation, condemnation, eminent domain, annexation, or tax foreclosure will be capitalized in accordance with this procedure if the asset is to be retained or used for an extended period (more than 1 year). These assets will not be capitalized if the asset is to be liquidated or disposed of within a short period (less than 1 year). In this situation, the receiving department should request that the Controller's Office assign an appropriate current asset account to which the value of the asset, as determined herein, can be charged until disposition.

4.1 Asset Capitalization

1. For machinery and equipment assets (other than rolling stock), land, land improvements, and buildings, once the asset has been legally granted to or accepted by the City, the Department Fixed Asset Coordinator (DFAC) of the receiving department will determine the acquisition cost (value) of the asset in accordance with the specific procedures in subsections 5 through 9 in this section.
2. Where necessary, the DFAC will obtain an independent, verifiable, and realistic appraisal of the current fair market value of the asset. A certified appraisal should be obtained in cases where the asset is presumed to have substantial value, as established by either Finance & Administration (F&A) or the Controller's Office. Otherwise, an authoritative source, such as actual price lists, professional valuations obtained by the donor, open market values of similar items, tax appraisals, and court awards and legal fees from eminent domain proceedings, will be used to establish acquisition cost.

If the acquisition involves land, improvements, or buildings, the appraisal will be completed in coordination with the Public Works & Engineering (PW&E) Real Estate Division.



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3. The item will be tagged and a Capitalization Form–Data Entry Form Fixed Asset Acquisitions (FA-1) initiated and completed in accordance with Section 5 (Numbering and Tagging Fixed Assets).
4. The FA-1, including the assigned FAI tag number, will be forwarded to and completed by the DFAC as outlined in Section 7 (Asset Acquisitions). In addition, the following will also be considered:
 - The unit or total cost will be the value assigned to the asset.
 - The appropriate acquisition method will be noted in accordance with Table 8-1.

Table 8-1 Acquisition Method Codes

Code	Description
G	Donation/Gift/Bequest
N	Confiscation
M	Condemnation
E	Eminent Domain
A	Annexation
F	Foreclosure
O	Other

The DFAC will indicate the fund source(s) to be credited for the asset, sign the completed FA-1, and forward the document to the data entry section to set up the asset record in the Fixed Asset Management System (FAMS).

5. Data entry will follow the general approach outlined in Section 7 (Asset Acquisitions), using the appropriate acquisition method code (Table 8-1).
6. If the item is a vehicle or rolling stock asset, the DFAC will request that Fleet Management establish the appropriate record for the item in the fleet system. The vehicle will be delivered to the Fleet Management facility servicing the acquiring department for inspection, appropriate City identification, and preparation of the unit for placement into service.

In accordance with Section 5 (Numbering and Tagging Fixed Assets), Fleet Management will assign the number and provide FA-1 information to the Department Vehicle Coordinator (DVC) or the DFAC for vehicle and rolling stock acquisitions.

The vehicle will be processed as outlined in subsection 9 in Section 7 (Asset Acquisitions).



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4.2 Related Accounting Transactions

For general fund assets, the FAMS will provide the asset account to be debited (based upon the class code assigned) and the appropriate investment-by-source account to be credited (based upon the fund and acquisition method assigned). For enterprise fund assets, the asset file will indicate the balance sheet asset account to be debited.

4.3 Depreciation

Assets received by the City through donation, confiscation, eminent domain, or tax foreclosure will be depreciated in the same manner as other acquired assets in accordance with Section 6 (Depreciation).

The depreciable cost basis will be the established or appraised value, adjusted for any conditional factors as described in subsections 5 through 8 in this section.

If the asset received by the City through donation, confiscation, eminent domain, annexation, or tax foreclosure is “used” and is not expected to be fully useable and serviceable over the standard useful life of the asset class, the DFAC will consider adjusting down the estimated life for the asset in accordance with the procedure for depreciation.

5 Donated Assets

5.1 Unconditional Donations

The DFAC of the receiving department will obtain and record a current fair market value at the date of donation based on a certified appraisal or other appropriate valuation as described in subsection 4.1, step 2 in this section.

The asset will be processed in accordance with the general procedure outlined in subsection 4 in this section.

5.2 Conditional Donations

If the donor imposes restrictions on the donation, the DFAC will deduct any quantifiable negative values arising out of such conditions from the acquisition cost (the appraised value) of the asset to determine the valuation to be recorded and reported in the appropriate fund.

The asset will otherwise be processed in accordance with the general procedure in subsection 4 in this section.



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5.3 Donations Contingent upon a Specific Occurrence

If a donation is contingent upon the fulfillment of some contractual obligation by the City as recipient, the DFAC will treat the asset as a contingent asset until the contingent condition has been met.

The DFAC will advise the City Controller in writing of the receipt of the asset, the description of the asset, its market value (if known), and the details of the contingent donation.

Contingent assets will be disclosed in the financial statements by note only. In the period in which the contingency requirement is fulfilled and the City is entitled to consider the donation finalized, the asset will be capitalized following the general procedure in subsection 4 in this section.

6 Confiscated Assets

Fixed assets acquired by the City through statutory confiscation powers will be treated as unconditional donations for the purpose of determining values and establishing records for such items in the FAMS.

Legally imposed restrictions on the use of, or revenues from, such assets must be recorded in the FAMS record in the *Extended Description* field.

7 Eminent Domain

When an asset is acquired through eminent domain, the acquisition is a legal proceeding which, when complete, must also be approved by City Council based on the recommendations of the PW&E Real Estate Division and the Legal Department.

Since these transactions involve the acquisition of property and property rights, the capitalization will be coordinated between the PW&E Real Estate Division, the PW&E Resource Management Division personnel, and the acquiring department.

7.1 Notice of Transaction

Upon receipt of the approved documentation evidencing an acquisition through eminent domain, the PW&E Real Estate Division will forward a notice of the transaction, including a new parcel data sheet, to the acquiring department. This notice, along with copies of other relevant acquisition documentation, will be forwarded to the DFAC of the acquiring department for processing.



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7.2 Notice of Property Acquired by Eminent Domain

If a Capital Improvement Program (CIP) project is involved in the acquisition of the property, the PW&E Real Estate Division will forward a copy of the notice of property acquired by eminent domain to the PW&E Resource Management Division, to be included in the CIP project file.

7.3 Acquisition Cost

The acquisition cost (value) of the asset will be the amount of compensation paid to the property owner, plus any legal or other transaction costs associated with the acquisition. This provision applies to buildings and improvements that are not going to remain intact and in use by the City. Unwanted improvements, as well as the cost of demolishing and removing them, are added to the total acquisition cost of the land itself.

7.4 Processing the Acquisition

The DFAC of the acquiring department will initiate an FA-1, assign a fixed asset identification (FAI) number to the property acquired, and process the acquisition into the FAMS in accordance with the general procedure in subsection 4 in this section. The DFAC will complete the FA-1 in every detail as described in Section 7 (Asset Acquisitions), recording the CIP project number in the appropriate field, an acquisition method of eminent domain, and the fund to be credited.

7.5 Related Accounting Transactions

For general fund assets, the FAMS will provide the asset account to be debited (based upon class code assigned) and the appropriate investment-by-source account to be credited (based upon fund and acquisition method assigned).

For enterprise fund assets, the asset file will indicate the balance sheet asset account to be debited. The capitalization will be for a value equal to the amount of compensation paid to the property owner, plus any legal and/or other transaction costs associated with the acquisition.



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8 Annexation

Fixed assets acquired by the City through statutory annexation powers will be treated as unconditional donations for purposes of determining values and establishing records for such items in the FAMS. The annexed asset will be processed as follows:

1. PW&E will contact the annexed municipal utility districts and obtain records of all annexed assets.
2. The Financial Services Division of F&A will, when necessary, distribute these records to the appropriate departments.
3. PW&E will inform the PW&E Real Estate Division of new real estate acquisitions. The PW&E Real Estate Division will assign an asset number to annexed land, notify the owning department, and obtain an account number from Harris County Appraisal District.
4. The new owning department will record the asset in the FAMS and conduct an inventory within 1 year of annexation.

9 Foreclosure

Foreclosure refers to land or land with buildings and other improvements foreclosed upon by the City and other taxing jurisdictions for unpaid taxes, where the property is in the custody of the City pending collection of taxes or liquidation.

The F&A Deputy Tax Assessor-Collector and the Controller's Office are solely responsible for recording and tracking foreclosed properties, due to the specialized nature of these assets and because such property is not normally acquired for the use or benefit of a specific department.

9.1 *Treatment as Contingent Assets*

Foreclosed properties will be treated as contingent assets until the final disposition of the property is known. They normally are not treated as fixed asset acquisitions and are not entered in the FAMS when the property first comes under the City's jurisdiction for the following reasons:

- There may be pending claims by other jurisdictions against the same property.
- The City generally does not plan to keep the property for an extended period.
- Certain statutory provisions can further impact the ultimate disposition of the property.



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9.2 Processing the Acquisition

Property acquired through foreclosure will be processed in accordance with the following procedure:

1. Upon notification that the City has come into possession of property through foreclosure, the Deputy Tax Assessor-Collector will assign an identification number to each property so acquired.
2. The Deputy Tax Assessor-Collector will enter a property record into the Foreclosed Property database for each foreclosed parcel, showing the total amount of City taxes due on the property. Other relevant dollar figures, such as judgment amounts, taxes due to other jurisdictions, liens, maintenance costs incurred, etc., should be entered in descriptive fields.
3. The Deputy Tax Assessor-Collector will notify the City Controller in writing of foreclosed properties that have come into the possession of the City, along with a summary schedule of such properties.
4. At such time as foreclosed properties are sold or otherwise disposed of, the Deputy Tax Assessor-Collector will notify the City Controller in writing of such disposition and provide a schedule of the properties involved, along with a summary of the financial impact of the disposition. Included in this notification will be the proceeds from liquidation of the properties, a schedule of the taxes due to each jurisdiction having a claim against the properties, and a summary of the costs incurred by the City (or other jurisdiction) in taking possession, maintaining, securing, and disposing of the properties. The Controller's Office will record the impact of such dispositions in the current fiscal year financial statements, in accordance with City Comprehensive Annual Financial Report (CAFR) reporting policies.

9.3 Disposition or Capitalization

Upon disposition of a foreclosed property, the Deputy Tax Assessor-Collector will delete the corresponding record from the Foreclosed Properties database, making a permanent record of the transaction and closing the foreclosed property file, which will be retained in accordance with the City's records retention policies and procedures.



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In the event that a foreclosed property is ultimately taken over and put into use by the City, it will be capitalized and entered in the FAMS following the same procedural steps as specified for donated assets in subsection 5 in this section and as follows:

1. The Deputy Tax Assessor-Collector will obtain and establish a fair market value for the property.
2. The PW&E Real Estate Division will be notified, so that any land parcels can be entered in their database.
3. The DFAC of the appropriate benefiting department will be notified, in writing, by the Deputy Tax Assessor-Collector, who will provide the required FA-1 information so that the property can be established in the department FAMS.
4. The DFAC will initiate an FA-1, assign an FAI number to the property acquired, and process the acquisition into the FAMS in accordance with the general procedure in subsection 4 in this section. The DFAC will complete the FA-1 in every detail, as described in Section 7 (Asset Acquisitions), recording the acquisition method of *foreclosure* and specifying the fund to be credited.

9.4 Related Accounting Transactions

For general fund assets, the FAMS will provide the asset account to be debited (based upon class code assigned) and the appropriate investment-by-source account to be credited (based upon fund and acquisition method assigned). For enterprise fund assets, the asset file will indicate the balance sheet asset account to be debited.

10 Assets in the Temporary Custody of the City

Assets loaned to the City for limited time periods for evaluation, testing, etc., and for which the City never has or acquires ownership equity, will not be recorded in the FAMS as either fixed assets or controlled items.



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