

# RANCHO MURIETA COMMUNITY SERVICES DISTRICT

Category:	Finance	Policy # 2008-03
Title:	Capital Assets Policy	

## PURPOSE

The purpose of this policy is to establish and maintain a capital asset management system that will meet external financial reporting requirements and the needs of the District in line with these policies.

## BASIC POLICY AND OBJECTIVES

Capital assets are recorded as expenditures in governmental funds at the time the assets are received and the liability is incurred. These assets will be capitalized at cost on the government wide financial statements.

Note: Governmental Accounting Standards Board Statement No. 34 (GASB 34) changed Generally Accepted Accounting Principles (GAAP) for capital assets reporting for governmental funds. Beginning in fiscal year ending June 30, 2004, pursuant to GASB 34, the General Fixed Asset Account Group will be eliminated and the District will report these assets by function and activity on the government-wide financial statements. Source: GASB 34:

**Capital Assets** are defined as land, improvements to land, easements, buildings, building improvements, vehicles, machinery, equipment, works of art and historical treasures, infrastructure, and all other tangible or intangible assets that are used in operations and that have initial useful lives extending beyond a single reporting period.

**Infrastructure Assets** are defined as long-lived capital assets that normally are stationary in nature and normally can be preserved for a significantly greater number of years than most capital assets. Examples include roads, bridges, tunnels, drainage systems, water and sewer systems, dams and lighting systems. Buildings that are an ancillary part of a network of infrastructure assets are included.

The District's Capital Assets Policy follows the recommended practices of the GFOA (Government Finance Officers Association) and the accounting standards of GASB 34.

### Capitalization

Generally, the capitalization threshold for capital assets will be an original cost of \$5,000 or more (recorded as an asset on the balance sheet versus expensing the item). Specific capitalization requirements are described as follows:

- a. All land will be capitalized regardless of cost.
- b. Buildings, land improvements and infrastructure will be recorded if cost exceeds \$25,000.

- c. Infrastructure will be recorded on a prospective basis only, beginning with fiscal year 2003-04.
- d. All other assets must cost \$5,000 or more and have a useful life of two (2) or more years.
- e. The capitalization threshold is applied to individual units of capital assets rather than groups. For example, ten desks purchased for \$1,000 each will not be capitalized even though the total (\$10,000) exceeds the threshold of \$5,000.
- f. For purposes of capitalization, the threshold will generally not be applied to components of capital assets. For example, a keyboard, monitor and central processing unit purchased as components of a computer system will not be evaluated individually against the capitalization threshold. The entire computer system will be treated as a single asset. The capitalization threshold will be applied to a network if all component parts are required to make the asset functional.
- g. Repairs to existing capital assets will generally not be subject to capitalization unless the repair extends the useful life of the asset. In this case, the repair represents an improvement and is subject to the requirements described in item "i" below.
- h. Improvements to existing capital assets will be presumed by definition to extend the useful life of the related capital asset and therefore will be subject to capitalization if the cost exceeds \$5,000.

As a result of the above capitalization policies, the following *infrastructure* items will not be capitalized: street trees, street signs. Additionally, the following capital *equipment* will also not be capitalized: personal computers, handheld radios, telephones.

### **Leased Assets**

Operating leased assets are usually short term and cancelable at anytime. The recording of an operating lease as a fixed asset is not required because the item is not purchased.

However, operating leases will be capitalized if one or more of the following criteria are met and the chance of cancellation is low:

- a. Ownership is transferred by the end of the lease term
- b. The lease contains a bargain purchase option
- c. The lease term is greater than or equal to 75 percent of the asset's service life
- d. The present value of the minimum lease payment is greater than or equal to ninety percent (90%) of the fair market value of the asset at the inception of the lease.

Capital lease items are capitalized at the beginning of the lease period, regardless of when the title transfers. Capital leases are recorded at net present value of lease payments.

### **Capital Asset Recording**

The District will keep appropriate records in order to monitor and accurately inventory all fixed assets.

### **Acquisition of Capital Assets**

Fixed assets may be acquired through direct purchase, lease-purchase or capital lease, construction, eminent domain, tax foreclosures, donations, and gifts. When a capital

asset is acquired, the funding source will be identified as either a governmental fund, proprietary fund or component unit. Additionally the fund type will be identified as well as the specific fund.

### **Measuring the Cost and/or Value**

Capital assets are recorded at their “historical cost,” which is the original cost of the assets. Donations accepted by the District will be valued at the fair market value at the time of donation. Costs include purchase price (less discounts) and any other reasonable and necessary costs incurred to place the asset in its intended location and prepare it for service. Costs could include the following:

Sales Tax	Land-preparation costs
Freight charges	Demolition costs
Legal and title fees	Relocation costs
Closing costs	Architect and accounting fees
Appraisal and negotiation fees	Insurance premiums and interest
Surveying fees	costs during construction

According to GASB 34, an estimate of the original cost is allowable in the absence of historical records. Standard costing is one method of estimating historical cost using a known average installed cost for a like unit at the estimated date of acquisition. Another recognized method is normal costing wherein an estimate of historical cost is based on current cost of reproduction new, indexed by a reciprocal factor of the price increase of a specific item or classification from the appraisal date to the estimated date acquired. When necessary the District will use whichever method gives the most reasonable amount based on available information.

### **Recording Costs Incurred After Acquisition**

Expenditures/expenses for replacing a component part of an asset are not capitalized. However, expenditures/expenses that either enhance a capital asset's functionality (effectiveness or efficiency), or that extend a capital asset's expected useful life are capitalized. For example, periodically slurry sealing a street would be treated as a repair (the cost would not be capitalized), while an overlay or reconstruction would be capitalized. Adding a new lane constitutes an addition and would therefore also be capitalized.

### **Disposition or Retirement of Capital Assets**

It is the District's policy that disposition of surplus, damaged or inoperative equipment will be at the discretion of the District Administrator, who will make all efforts to sell, donate or recycle such items.

### **Depreciation**

The District will record depreciation expense on all capital assets, except for land. The District will use straight-line depreciation using the half-year convention. Depreciation will be calculated for half a year on the year of acquisition and the year of disposition. Depreciation will be calculated over the estimated useful life of the asset.

### **Recommended Lives**

The District follows GFOA Recommended Practices when establishing recommended lives for capitalizable assets. If the life of a particular asset is estimated to be different than these guidelines, it may be changed. Following is a summary of the estimated useful lives:

<u>Asset Class</u>	<u>Useful Life</u>
Buildings	50 years
Building Improvements	20 years
Improvements other than Buildings	35 years
Infrastructure	50 years
Equipment and Machinery	5 to 20 years

### **Control of Assets**

The District will exercise control over the non-capitalized tangible capital-type items by establishing and maintaining adequate control procedures. The District's capitalization threshold of \$5,000 meets financial reporting needs.

### **Works of Art and Historical Treasures**

GASB 34 encourages but does not require the capitalization of art that meet all of the following conditions:

- Held for public exhibition, education, or research in furtherance of public service, rather than financial gain
- Protected, kept unencumbered, cared for, and preserved
- Subject to an organizational policy that requires the proceeds from sales of collection items to be used to acquire other items for collections

It is the District's policy that proceeds from the sale of art be used to acquire other works of art. That being the case, the District's works of art and historical treasures will not be capitalized.

### **Inventorying**

The District will perform a physical inventory of its capitalized assets, either simultaneously or on a rotating basis, so that all capital assets are physically accounted for at least once every five years.

### **Tagging**

The District will tag only moveable equipment with a value of \$5,000 or higher. Rolling stock items will not be tagged and will be identified by the VIN number.

Approved by CSD Board of Directors	April 16, 2008
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