

BEAR MOUNTAIN RECREATION AND PARKS DISTRICT

Capital Assets Policies & Procedures

- PURPOSE

*Approved
8/16/2018*

The purpose of this policy is to set forth the guidelines for the physical and reporting control of the District's assets.

○ **POLICY**

The Bear Mountain Recreation and Parks District recognizes the need to implement accounting and financial reporting standards to properly record and classify capital assets and to depreciate them over their recognized useful lives.

Capital assets include land, improvement to land, easements, buildings, building improvements, vehicles, machinery, equipment, historical treasures, infrastructure, and works of art. Capital assets are both tangible and intangible assets used in operations, which have initial useful lives extending beyond a single reporting period. Any such capital asset will not change its original shape, appearance or character with use and can be expected to last more than one year with reasonable care and maintenance.

Definitions of different types of capital assets are provided, as well as information on the recording of new assets, transfer and disposal of assets.

○ **DEFINITIONS**

The following definitions apply to these terms as they are used in this policy.

Accumulated Depreciation: It is the total depreciation expense for an asset since the asset's acquisition.

Acquisition Cost/Value: Value of an asset at the time it is acquired. It is the invoice price or, if donated, the fair market value, plus any additional cost required to ensure the asset is functioning (i.e. shipping, installation).

Additions: Additions are acquisitions of new assets, or modifications to existing assets that increase the useful life or the service potential of these existing assets. Examples include addition of a wing to a building or improvements to the buildings.

Appraised Value: The estimated value of an asset based on the expertise of a qualified independent appraiser.

Net Book Value: Net Book Value is the difference between the acquisition cost and accumulated depreciation. At the time of acquisition, book value equals acquisition cost; or, for a gift, market value at the time it was donated. It is also referred to as recoverable cost.

Building: Roofed facility intended for the permanent or temporary shelter of persons, animals, plants, or equipment.

Capital Asset: The term capital assets includes land, improvements to land, buildings, building improvements, vehicles, machinery, equipment, works of art and historical treasures and all other tangible and intangible assets that are used in operations and that have initial useful lives extending beyond a single reporting period. There are five types of capital assets: Tangible personal property (moveable and fixed), buildings, building improvements, improvement other than buildings and land. All computers are considered non-financial capital assets regardless of whether or not they meet the \$1,000 threshold requirement and are tracked for inventory purposes.

Capitalize: Capitalize is to record the cost as an asset subject to depreciation over its estimated useful

life, rather than as an expense over one period.

Depreciation: Depreciation is a method for allocating the cost of buildings and equipment over time. Generally accepted accounting principles and federal regulations dictate that the value of capital assets must be written off as an expense over the life of the asset.

Disposition: Disposition is a final status of an asset when it is removed from the inventory of assets.

- *Transferred* – Equipment that is transferred to another local agency.
- *Obsolete* – Equipment that is obsolete and no longer supported by the District for repairs and maintenance.
- *Accounting adjustment* – Adjustment necessitated due to error corrections, reclassification between asset profiles or system errors.
- *Cannibalized for other assets* – Equipment that has been dismantled. Parts will be used to form another asset with a new asset tag number.
- *Casualty/Loss* – Equipment that has been damaged due to an accident, fire, or other unforeseen circumstance.
- *Disposal due to theft* – Stolen. A police report is required.
- *Retirement by sale* – Sold via auction or on the internet.
- *Scrapped assets* – Assets that were discarded due to obsolescence, disrepair, or are otherwise not usable.
- *Traded for another asset* – Equipment that is given to a vendor in return for different assets.
- *Missing asset* – Asset cannot be found after 3 successive inventories.

Expense: A charge incurred for the current fiscal period.

Gift-in-Kind: Gift-in-Kind is a donation to the District of a tangible or intangible asset other than cash or securities. The gift can be something consumable such as office equipment or supplies; or something with a longer duration, such as computer equipment, books, artwork, or copyright interests.

Intangible Asset: Intangible Asset is an asset not having physical substance (e.g., a patent, software or goodwill).

Inventory Item Number: A sequential number generated by the Software implemented by the District for inventory purposes that is unique to each item of equipment.

Land: The solid part of the earth's surface whether improved or unimproved.

Lease, Capital: Capital Lease is an installment payment agreement to acquire capital assets. Leases are considered capital leases if any one of the following criteria is met:

- Ownership transfers to lessee at end of lease.
- Lease contains bargain purchase option.
- Lease period is at least 75% of its useful life.
- Present value of lease payment is at least 90% of fair market value.

Lease, Operating: Operating Lease is an installment payment agreement that does not meet the criteria of a capital lease. The lease is expensed.

Maintenance: Activities related to routine repairs (recurring or preventive) to buildings and other structures.

Market Value: Market Value is the cost to acquire an item in its current condition through an arm's-

length transaction (also referred to as fair market value). Value used to add some donated assets.

Moveable Equipment: Moveable Equipment is an item that is not permanently affixed to or part of a building. Examples include copiers, computers, fax machines, and printers.

Obsolescence: Obsolescence is a factor to consider when determining the disposition of assets. Assets are obsolete when they are no longer useful to the District.

Modernization: Modernization is Construction activity that changes and/or improves the function of all or part of a facility. Modernizations will be capitalized if they add useful space or extend the facility's useful life and are higher than \$25,000.

Software: The entire set of programs, procedures, and related documentation associated with a computer system.

Useful Life: Useful Life is the period of time over which an asset is useful to the District in performing the function for which it was purchased.

- **PROCEDURES**

- A. Types of Capital Assets**

Capital assets are items that have a useful life of at least one reporting period and a value of \$1,000 or more. All computers are considered capital assets regardless of whether or not they meet the \$1,000 threshold requirement, as such, all computers are tagged for inventory purposes and tracked by the Asset Management Module.

They are permanent in nature, tangible, and held for purposes other than investment or resale.

There are five types of capital assets: Furniture, Fixtures and Equipment, buildings, building improvements, improvement other than buildings and land.

- 1. Furniture, Fixture and Equipment***

Furniture, Fixtures and Equipment are not permanently affixed to or part of a building. Some moveable equipment consists of more than one component (e.g., a computer, keyboard, mouse, and monitor). The assembled components may be considered one item and be recorded as a single capital asset

Fixed Equipment is permanently affixed to a building but is separate from the building itself. Examples of fixed equipment are light fixtures, audio visual equipment, monitoring systems, water fountains, fire control apparatus, fume hoods, auditorium and fixed classroom seats, and built-in display cabinets.

- 2. Buildings***

Roofed structures used for the permanent or temporary shelter of persons, animals, plants, or equipment. The costs incurred to construct a permanent new building or a modernization of an existing building. This includes contractor payments, sub-contractor payments, attorney fees, and FF&E when capital funds are used.

- ***Portables***

Part of the building category. Portables or Modulares could be wood, metal or concretables. They are additional facilities added to the building after construction has been completed.

- 3. Building Improvements***

Improvements made to existing buildings. Any renovation or alteration to an existing building that adds

useful space to the structure and is expected to last beyond the depreciation rate schedule of the original building. Conversely, improvements that do not add useful space to the structure, or extend the facility's useful life will be considered maintenance and repair.

4. Improvement Other Than Building

Relate to cost of permanent improvements, other than buildings, which add value to the land. Examples include fences, retaining walls, sidewalks, sewage treatment systems, original or expanded paving projects, fixed playground apparatus, flagpoles, covered walkways, gateways, underground storage tanks, etc. which are not part of the building service systems and similar improvements.

5. Land

The solid part of the earth's surface whether improved or unimproved.

o Easement

The right to use the real property of another without possessing it. Easements are helpful for providing pathways across two or more pieces of properties. An easement is considered as a property right and it is treated as a type of property.

B. Capital Asset Valuation

For purposes of valuing capital assets, The District separates them into four categories, based upon how they were acquired.

- *Purchased Assets*
 - o The purchase price, transportation costs, installation costs, and any other direct expenses incurred by the District in obtaining the asset are to be included when determining the value of the asset.
 - o If additional or replacement computer components valued at less than \$1,000 are subsequently purchased, they must be treated as expenses.
 - o Special Rules for Grants and Contracts – Assets purchased with grants funds must be recorded if they meet the threshold, and tracked based on the grant fund number as they must be disposed according to grant rules and regulations. Assets that are accounted for under a grant or contract must comply with all contractual obligations set forth in the agreement.
- *Donated Assets*
 - o Donations to the District in excess of \$1,000 shall be acknowledged in writing by the District Manager and donations having a value in excess of \$10,000 shall be presented to the Board of Directors for Board Recognition.
 - o The value recorded by The District for a donated asset is the market value of the asset when it is given.
 - Caution: Transportation and installation costs should also be included when valuing the donated asset.
 - o Procedures for asset disposal must be followed when disposing of a donated asset.
- *Leased Assets*
 - o These are assets purchased under a capital lease (see the "Definitions" Section of this document). The District currently does not have any capital leases.
 - o Assets purchased under a capital lease should be recorded when the asset is placed in use.
 - o All capital leases should be valued at the current market value and should not include any interest.
 - o If the current market value is unknown, use a present value calculation based on the monthly payments to determine the cost minus imputed interest. Contact General

Accounting for assistance with the calculation.

- Caution: Items acquired with an operating lease (see the "Definitions" Section of this document) are not considered capital assets. These items are expensed.
- *Constructed Buildings and Improvements/Renovations*
 - The value of the asset includes the total amount paid for acquiring or improving the asset, such as labor, materials, architectural and design fees, charges by brokers, agents, and notaries, building permits, inspections, and filing costs. Also included are the costs of utilities during construction and landscaping related to the building.
 - All District owned facilities that are permanent structures must be recorded as capital assets.
 - Any addition or renovation of an existing facility that: adds usable square footage of facility space as a capital asset and meets the capitalization threshold for buildings and building improvements and is considered non-routine maintenance or repair must be recorded as an asset.

C. Recording a Capital Asset

Expenditures for tangible personal property with a unit cost \$1,000 or more are capitalized and depreciated as a financial asset. Certain property, such as computers, with a unit cost of less than \$1,000 are recorded as non-financial assets and tracked for reporting and inventory purposes, but are not depreciated.

Real property (Land, Buildings, Building Improvements, and Improvements other than buildings): Projects that are for repairs and maintenance are expensed even if the expense is greater than the threshold. Examples of these types of projects are re-roofing, replacing or repairing HVAC equipment, replacement of security systems, repairs due to code violations, re-fencing or re-paving a parking lot.

Once all the expenses for each project have been reviewed by the District's accountant, the amount is manually added to an existing asset as an addition to the cost

Land expenditures that result in a land purchase during the fiscal year are capitalized but do not depreciate, regardless of the amount. These expenditures are capitalized the year the land is purchased.

D. Tagging Assets

All new equipment and/or furniture valued at \$1,000 or over must be tagged with a code to identify ownership and to facilitate the annual physical inventory process. Computers must also be tagged with a code regardless of whether or not they meet the \$1,000 threshold.

The code tag is a unique number and code that will allow for tracking of capital assets and will be used to update the inventory records. All new moveable equipment and furniture will be assigned a code tag by the District.

Software purchased by the District with a cost greater than \$1,000 should be tagged.

Non-financial equipment valued at less than \$1,000 (i.e. laptops, computers,) require a tag. These are the same tags used for financial assets but the profile used on these assets will place them in a track only category and will not allow depreciation. The reason for placing a tag on such items is for inventory and tracking purposes only, they do not depreciate.

E. Transfer and Disposition of Capital Assets (Any Equipment or Furniture)

Transfers: All transfers must be reported in order to maintain an accurate record of (a) the location of each item of equipment/furniture, and (b) the total cost of movable equipment/furniture.

Trade-in: If it is determined that it is advantageous to the District to seek bids on replacement items with a trade-in allowance, the value of the trade in must be recorded with the asset's value.

Cannibalization: Disassembling an item to use its components for repair or maintenance of a similar item is authorized only if cannibalization has more potential value and benefit than disposal or trade in of the item. Cannibalization must be recorded for each Asset cannibalized.

Donation - Disposal of a capital asset by donation must be approved by the Board of Directors.

Electronic Waste - All electronic waste or scrap (TV's, computers, monitors, laptops, recorders and other electronic equipment) will be properly disposed of according to the laws of the State of California or any applicable local laws or ordinances. Electronic waste or scrap are those items that are broken, cannibalized, and/or no longer supported

Sale of Assets - Tracked assets that have been placed for auction or bid and were not sold may be declared as scrap. Tracked assets may also be declared as scrap if they no longer perform the function they were intended to perform. Items that fall into this category may be, but are not limited to, broken, unsafe, damaged property and inoperable electronic devices. Any scrap property valued at \$5,000 or more shall be made available to the public for purchase through live auction, internet auction, or put out for bid through other Board accepted means.

Unusable Assets - If an asset is broken or no longer usable, the District will so classify the Asset and thereafter retire the asset and ensure accurate accounting records.

Grant Funded Assets - Assets acquired with grant funds are subject to terms and conditions stated in the grant agreement.

F. Conducting Physical Inventories

The District requires that an inventory of all tangible property be conducted annually. The coded tags are accounted for and recorded on an annual basis. After the inventory is performed, the auditor gives the Board of Directors a copy of their inventory and marks the items that were not found. The purpose of a physical inventory is to verify the existence and condition of the equipment to ensure the accuracy of the District's accounting records.

If needed, a second inventory will be performed for the remaining not found items.

Any items missing from the inventory for three consecutive inventories will be removed from the District's

G. Reporting

The Board of Director's has the authority to declare tangible personal property as surplus. The number of assets retired on a yearly basis varies. Real Property and Vehicles are handled differently and declaring these items surplus is approved prior to sale by resolution of the Board whereas tangible personal property is approved once per year after the action has occurred.

The District Manager reports on an annual basis to the Board of Director summarizing the total number of disposed assets by category, the original cost on the books for the assets and the net book value of those

assets at the time they were disposed. The report also includes a detail of the assets donated to any external source assets by category and type of donation.

H. Responsibilities

The major responsibilities each party has in connection with the Capital Assets Policy & Procedures, are as follows:

- ***District Staff***
 - Read and understand the Capital Assets Policy.
 - Communicate any issues related to capital assets to District Manager.

- ***District Manager***
 - Maintain the Record of Assets, which includes the code information for each Asset.
 - Maintain and review the accounting records for accurate recording of capital asset transactions.
 - Reconcile General Ledger with Asset Record.
 - Conduct an annual physical inventory verifying the existence and condition of all capital assets to ensure the accuracy of the District's accounting records.
 - Ensure capital assets are properly tagged when acquired (i.e. Tag all items greater \$1,000 (non-computer).)