CARD **Policy and Procedure**

POLICY # 2225	Capital Asset and Project Policy	VERSION # 2
APPROVED BY BOARD	6/24/2025	

APPLIES TO	
Division	Districtwide
Sub-Division	Finance Division

VERSION	REVISION DATE	DESCRIPTION OF CHANGE/SUPERSEDE	AUTHOR
1	10/28/2021	Initial	Finance Manager
2	06/22/2023	Updated the definition of Capital Asset & increased capitalization threshold	Angie Carpenter, Finance Manager

RATIONALE

The Capital Asset and Project Policy establishes the minimum cost (capitalization amount) that shall be used to determine the capital assets (also known as fixed assets) that are to be recorded in the District's annual financial statements. Capital asset tracking is required for the following reasons:

- To safeguard a sizeable investment.
- To identify responsibility and oversight of equipment.
- To assist in the formulation of acquisition and retirement policies through the accumulation of data regarding prices, sources of supply, and useful life.
- To provide data for financial reporting.
- To provide information for insurance purposes.

PROCEDURE

A capital asset is any tangible asset purchased for use by the District that: (1) has an economically useful life that extends beyond 12 months, and (2) was acquired or produced for a cost of $25,000 or more. Capital assets include equipment, buildings, building components and improvements, land, land improvements, leasehold improvements, infrastructure, technology software and hardware, vehicles, and construction in progress. Capital assets must be capitalized and depreciated for financial statement purposes in accordance with Generally Accepted Accounting Principles (GAAP).

Bulk purchases of similar items that have an aggregate value of $25,000 or more are not capitalized. **Example:** The District purchases 20 computers at $2,000 each. The total purchase of $40,000 will not be considered a fixed asset purchase.

Items that are routinely purchased as a set and have a value of $25,000 or more will be capitalized and depreciated. **Example:** If a conference table and ten chairs were purchased from the same vendor as a set, and the cost of the table was $5,000 and the cost of each chair was $2,000 for a total cost of $25,000, then the purchase would be considered a capital expenditure. The total cost would be depreciated over the life of the asset.

Capital Asset Categories

There are several types of capital assets. Assets must equal or exceed $25,000 to be considered capital assets.

Equipment

These assets are not permanently affixed to a part of a building but are of a relatively permanent nature. **Examples:** Desks, refrigerators, mowers, floor machines, vacuums, and leaf sweepers.

Buildings

Buildings are roofed structures used for the permanent shelter of persons, furniture, and equipment. They are defined as physical property of a permanent nature.

Building Components

Permanent structural attachments that are not intended to be removed, that function is a part of the structure. They add value to the existing asset either by lengthening its estimated useful life or increasing its service capacity. **Examples**: Plumbing, electrical systems, water fountains, and HVAC systems.

Building Improvements and Renovations

Major improvement projects that will extend the useful life of the asset, increase efficiency, or add new capabilities will be capitalized. **Example:** Replacing a building roof. All costs including parts and labor will be part of the total cost of the project.

Routine maintenance that includes parts and/or labor utilized to perform minor repairs on an existing asset. These shall be expensed in the period incurred. Routine maintenance would not be capitalized if under $25,000. **Example:** Painting an office, replacing a sink faucet, fixing a broken window.

Land

The land is defined as the solid part of the earth's surface whether improved or unimproved. Land does not get depreciated over time. The acquired value is recorded for the cost of the land.

Land Improvements

Modifications to outside areas. These are improvements that add value to land but do not have an indefinite useful life. **Example:** Installation of sidewalks, parking lots, playgrounds, fences, and lighting.

Leasehold Improvements

These are improvements made to a leased property that will revert to the lessor (property owner) at the expiration of the lease. Leasehold improvements include the construction of new buildings or improvements made to existing structures by the lessee (tenant), who has the right to use these leasehold improvements over the term of the lease. Moveable equipment and/or office furniture that is not attached to the leased property is not considered a leasehold improvement. **Example:** Installation of playgrounds, restrooms, shop building, and basketball courts.

Infrastructure

An underlying base or foundation. These are long-lived assets that are stationary in nature and can be preserved for a significantly greater number of years than other assets. **Examples:** Sewer lines, roads, water systems, dams, drainage systems, culverts, and curbs.

Technology Software

Computer software includes all programs designed to cause a computer to perform a desired function. These would not be capitalized if under $25,000. **Example:** Registration Software, Microsoft Office, and Laserfiche.

Technology Hardware

Includes all parts designed for the computer to function as intended. These would not be capitalized if under $25,000. **Examples:** Hard drives, monitors, keyboards, printers, scanners, cameras, and cell phones.

Vehicles

Vehicles are a mode of transportation that can transport one or more individuals. If the purpose is not to transport at least one individual, then the equipment is not considered a vehicle. For example, a mower is a piece of equipment designed to mow the grass. Although it is guided by an individual, it is not designed to transport an individual, thus it is considered equipment rather than a vehicle.

Vehicles shall have a Vehicle Identification Number (VIN). Vehicles shall be registered with the California Department of Motor Vehicles and given an exempt license plate. **Example:** Truck, car, aircraft, ski mobile, and helicopter.

Construction in Progress

This category is used for costs incurred to repair, construct or develop an asset before it is substantially ready to be placed into service. Once it is placed into service, it is reclassified into the appropriate category.

Intangible Assets

These are defined as those assets that lack physical substance and are nonfinancial in nature. **Examples:** Easements, land use rights, patents, and trademarks.

Purchasing
Capital asset purchases shall be approved by the Board of Directors. If the capital asset has been approved through the budget process, the purchase of the capital asset will be done in accordance with the Purchasing Policy. If the capital asset has not been approved through the budget process, then it must be approved by the Board of Directors prior to purchase.

Technology purchases must be ordered and/or approved by the IT Administrator prior to purchase. All Technology purchases shall be tagged with a control number for tracking purposes without regard to price. Items with a value of less than $25,000 shall be recorded and tracked by the IT Administrator as "Small Items Inventory". This inventory shall be audited annually.

See the Purchasing Policy for further clarification.

Tracking
The Department Manager of the employee ordering the goods will be the responsible party to receive the items ordered and ensure that what was ordered was received in good condition and correctly. The responsible employee shall complete the District's Capital Asset Form and submit it to the Finance Department upon purchase of the item(s).

Technology purchases shall be the responsibility of the Business Services Manager to receive and ensure accuracy and condition.

All capital assets shall be recorded on the District's Capital Asset Inventory and shall be tagged with a control number for tracking purposes. The Finance Department will issue the control number to the responsible employee. The Capital Asset Inventory shall be audited annually by the Finance Department.

Depreciation
Depreciation is the process of allocating the cost of tangible property over a period, rather than deducting the cost of an expense in the year of acquisition. At the end of an asset's life, the sum of the amounts charged for depreciation in each accounting period will equal the original cost less salvage value. To calculate depreciation on a capital asset, the following five factors must be known:

- The date the asset was placed in service.
- The asset's acquisition value
- The asset's salvage value
- The asset's estimated useful life
- The depreciation method

<u>Service Date</u>
To avoid complications of depreciating each asset from the specific date on which it was placed in service, the District will be using the Full Month Convention. Under the Full Month Convention, property placed in service at any time during a given month is treated as if it had been placed in service on the first day of that month. This allows depreciation to be taken for the

entire month in which the asset is placed in service. If the property is disposed of before the end of the useful estimated life, no depreciation is allowed for the month of disposition.

Acquisition Cost

Capital assets should be recorded at historical cost. Historical cost is the value of the asset on the date acquired by the District. This is usually the net invoice price of the equipment, including the cost of modifications, attachments, and accessories to make the equipment operable. Other charges such as the cost of installation, transportation, and taxes should be included in determining the acquisition cost. Donated capital assets shall be recorded at their fair market value at the date of acceptance by the District.

Salvage Value

The value the capital asset is expected to have when it is no longer useful for its intended purpose. The salvage value is the amount for which the asset could be sold at the end of its useful life.

Estimated Useful Life

The estimated number of months or years that an asset will be able to be used for the purpose for which it was purchased.

Asset Type	Estimated Useful Life
Equipment	5 Years
Buildings	30 Years
Building Components	20 Years
Building Improvements/Renovations	20 Years
Land	NONE – Non-Depreciable
Land Improvements	5 – 30 Years
Leasehold Improvements	5 – 30 Years or end of lease term, whichever is shorter
Infrastructure	10 – 30 Years
Technology Software	3 Years
Technology Hardware	3 Years
Vehicles	5 Years
Construction in Progress	NONE
Intangible Assets	5 – 20 Years

Depreciation Method

Refers to the method of depreciating an asset. At the time a fixed asset is acquired, the cost is capitalized and subsequently depreciated. The District shall use the straight-line method over the asset's estimated useful life. Through this method, the depreciation amount is calculated by dividing an asset's depreciable cost by its estimated life. The depreciation amount is written off evenly over the useful life of the asset. The same amount is taken each year. Fixed assets with a value of less than $25,000 are expensed in the period acquired.

Disposal

See the Disposal Surplus Property Policy for details on the disposal of capital assets.

Authority: General Manager, Finance Manager

Author (print and sign) Date

Annabel Grimm
General Manager Date

Approved by the Board of Directors on: **8/24/2023**