# Policy #22-01

**of the**

## Mendocino County Russian River Flood Control & Water Conservation Improvement District

## Regarding Capital Assets

The District has an investment in capital assets such as equipment and a vehicle. In an effort to improve financial reporting, accountability, and operational efficiencies in managing these assets, the District has established policies for the accounting and reporting of capital assets.

Accurate records of capital assets and their associated accumulated depreciation can also help identify potentially needed replacement and renovation of existing assets. This type of management information is useful in making budgetary decisions for specific requests and long-term capital planning.

Statements of Principle
This policy provides a basis for maintaining and reporting auditable information on the District's capital assets in conformity with generally accepted accounting principles (GAAP)1 and with Governmental Accounting Standards Board Statement No. 34 (GASB 34)2, Basic Financial Statements – and Management's Discussion and Analysis for State and Local Governments, (effective fiscal year 2003 for the District,) which outlines the three basic statements of accounting principles:

A. Reporting Capital Assets
B. Valuation of Capital Assets
C. Depreciation of Capital Assets

Two Classes of Capital Assets
The District has two classes of capital assets listed below. These are reported in the District's annual financial report and, as may be applicable, their respective capitalization thresholds for external financial reporting are as follows:

1. Equipment, including renovations and improvements that cost more than $2,000 each is a tangible asset, which may include:

    a) Is not attached permanently to land, buildings, or land improvements
    b) Has unique serial numbers
    c) Is capable of being moved (although some disassembly may be required)
    d) Can be acquired under a capital lease.

    Costs of equipment include the total purchase price, net of purchase discounts, plus any trade-in allowances, transportation charges, installation costs, taxes, and any other costs required to prepare the asset for its intended use. Equipment should be reported as acquisitions when the District physically receives the asset, not at the time when it pays the vendor for the acquisition.

2. Vehicles, including renovations and improvements that cost more than $10,000 each and are capable of being licensed through the California Department of Motor Vehicles.

   Vehicle costs include the total purchase price after any purchase discounts, plus any trade-in allowances, transportation charges, taxes, and any other costs required to prepare the vehicle for its intended use.

### *Acquisition Methods and Valuation*

<u>Direct Purchase</u>
Acquisition costs and costs to place the asset in use should be capitalized.

<u>Exchanges or Trade-ins with Outside Parties</u>
This section covers direct exchanges of assets, whether similar (i.e., assets within the same major class, such as one parcel of land for another similar parcel) or non-similar, between the District and a party external to the District's primary government (i.e., vendors, non-profit organizations, general public, etc.).

When no consideration is involved in the exchange of similar assets, the asset received should be reported at the net book value (historical cost net of accumulated depreciation) of the asset traded or exchanged. When the exchange is for dissimilar assets, however, the fair value of the newly acquired asset should be used for reporting the cost of the asset.

When consideration is either given or received in exchange of similar assets, then the asset received should be recorded at its fair value. Fair value in this case is defined as the sum of the cash paid plus the lesser of either the trade-in value given for the relinquished assets or the net book value of the relinquished asset at the time of the trade. When the exchange is for dissimilar assets, however, fair value is defined as the sum of the cash paid plus the trade-in value of the relinquished asset at the time of the trade.

<u>Donations</u>
Capital assets may be acquired by gift from individuals or organizations that are external to the District. In such cases, donated assets should be valued at their estimated fair value at the time of acquisition plus ancillary charges.

<u>Capital Assets Acquired through Grants or Contributions</u>
Capital assets acquired through grants or contributions should be reported at historical cost or fair value and depreciated as appropriate. Policy updates will be required if assets do not fall within current asset classes.

<u>Depreciation</u>
In keeping with the third basis statement of principle of reporting capital assets, capital assets should be depreciated over their estimated useful lives unless they are inexhaustible. Inexhaustible assets, such as land, should not be depreciated.

Accordingly, the District should depreciate capital assets reporting in Equipment and Vehicles Classes.

Depreciation is the process of allocating the cost of tangible property over a period of time, rather than deducting the cost as an expense in the year of acquisition. Generally, at the end of an asset's life, the sum of the amounts charged for depreciation in each accounting period (accumulated depreciation) will equal original cost less salvage value.

Depreciation Methods

There are many different methods used to calculate depreciation. Some methods allow more depreciation in early years than in later years. Some apply the same percentage each year while the basis declines. Others apply different percentages each year while the basis remains the same.

The District uses the straight-line method (straight-line depreciation is the recommended depreciation method for all government entities.) Under this method, the basis of the asset is written off evenly over the useful life of the asset. The same amount of depreciation is taken each year. In general, the amount of annual depreciation is determined by dividing an asset's depreciable cost by its estimated life.

The total amount depreciated can never exceed the asset's historic cost less salvage value. At the end of the asset's estimated life, the salvage value will remain.

| Fixed Asset Class | Minimum Amount | Depreciation Period |
| --- | --- | --- |
| Equipment | $2,000 | 5-10 years |
| Vehicles | $10,000 | 10-15 years |

### *Retirements*

Reasons for Retirement

A capital asset should be reported as retired when it is:

A. Scrapped or razed
B. Sold or traded in
C. Donated
D. Lost, stolen, or destroyed

An asset should be retired or disposed of when it no longer serves its intended purpose. This can result from technological advances, normal wear-and-tear, destruction through natural causes, or theft.

In cases where a capital asset has been damaged, and management intends to restore the functionality of the asset, the net book value of the portion of the asset that is being replaced should be removed from the total net book value of the asset. This amount, net any insurance proceeds, should be reflected as a loss. The cost to restore the asset to functionality should then be capitalized and depreciated over the remaining life of the asset.

Declaring an Excess or Surplus

When the District no longer has use for a capital asset, it should be declared as excess or surplus. After such declaration, the District should either transfer the capital asset to another agency, sell the asset at auction, or retire it.

Retention of Documentation
A resolution of surplus declaration or some other form of documentation on the declaration of surplus should be placed in the capital asset's permanent file.

Expeditious Retirement
Capital assets that are no longer needed for District operations should be expeditiously identified and retired.

Authorization for Retirement
The appropriate releasing authorization, and if necessary, receiving authorization, should be obtained when the District retires a capital asset.

Disposition Records
Disposition records should include:

A. Disposition method and date
B. Date of sale (if sold)
C. Sale price (if sold)
D. Method of determining fair value (if sold)

Record Retention
Records on disposed or retired assets should be maintained to comply with record retention schedules established for accounting records. If litigation involving capital assets has been initiated, the related records should be retained until the litigation is resolved.

Accounting Treatment for Retirements
A capital asset retirement should be recorded by crediting the appropriate capital asset account for the estimated historical cost of the asset, and by debiting the related accumulated depreciation account. Any net book value (remaining at the time of disposal should be offset against any proceeds received from the disposition of the asset to determine a gain or loss on the disposition. A gain results when proceeds received exceed the asset's book value; a loss results when the asset's book value exceeds the proceeds received.

Replacement
For an asset replacement, the original asset replaced should be reported as a retirement, and the replacement should be reported as a capital asset addition.

### *References*

- General Accepted Accounting Principles (GAAP) – The conventions, rules, and procedures that serve as the norm for the fair presentation of financial statements.
- Governmental Accounting Standards Board (GASB) – The ultimate authoritative accounting and financial reporting standard-setting body for state and local governments.

**PASSED AND ADOPTED** by the Board of Trustees of the Mendocino County Russian River Flood Control & Water Conservation Improvement District of the State of California on August 8, 2022 by the following vote:

| | |
|---|---|
| Christopher Watt | Yes / No / Abstain / Absent |
| Alfred White | Yes / No / Abstain / Absent |
| Matthew Froneberger | Yes / No / Abstain / Absent |
| Tyler Rodrigue | Yes / No / Abstain / Absent |
| John Reardan | Yes / No / Abstain / Absent |

Signed: ______________________ 8/8/2022
Christopher Watt, Board of Trustees President — Date

Attest: Elizabeth Salomone 8/8/22
Elizabeth Salomone, General Manager — Date