

BIG BEAR CITY



Community Services District

**CAPITALIZATION
POLICY and PROCEDURES**

Adopted March 06, 2023; Effective Date July 01, 2022

CAPITALIZATION POLICY AND PROCEDURES

POLICY STATEMENT

The purpose of this policy is to ensure adequate control and appropriate use of District “capital assets.” The procedures are intended to define capital assets and to establish guidelines for their budgeting, purchase, use, accountancy, logging, inventory, transferring and disposal. It is the policy of the Big Bear City Community Services District that capital assets be properly accounted for and used for appropriate District uses. It is the responsibility of the individual departments to ensure capital assets will be tagged whenever feasible. The Finance Department is responsible for inventories on a regular basis, and accounting for by fund and asset category. It is the responsibility of District staff to ensure that proper budgeting and purchasing guidelines are followed, and to ensure that capital assets are adequately controlled and used for appropriate District purposes.

DEFINITION OF A CAPITAL ASSET

Generally, there are three types of capital assets. All types must have a useful life of more than one year and a value of \$25,000 or more. They are:

1. Infrastructure Capital Assets – These are “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.” As defined in this policy, they shall be infrastructure assets, such as source of supply, water metering, lines, and buildings.
2. General Capital Assets – These are personal property assets that can generally be moved around such as equipment, vehicles, and furniture.
3. Real Property – This includes land, structures, easements and any improvements to the land and the structures with a cost of fifty thousand dollars. Easements acquired with a lower cost value may be added to the total project cost in the Infrastructure Capital Asset.

The capitalization threshold of \$25,000 can be applied to individual units of capital assets. For example, ten thousand solid waste carts purchased through a single purchase order each costing \$60 will qualify for capitalization even though the individual cost of \$60 is below the capitalization threshold of \$25,000. In addition, the threshold will generally not be applied to components of capital assets. For example, a manhole, which is a component of a sewer system improvement, will not be evaluated individually against the capitalization threshold. The sewer system improvement will be treated as a single infrastructure asset. Assets capitalized in aggregate will utilize an inventory method based on annual salvage assessment.

Contributed assets will be recorded at the estimated fair market value at the time of purchase.

PURCHASING A CAPITAL ASSET

When purchasing a General Capital Asset, follow the procedures set forth in the Purchasing Policy. Include on the purchase order/requisition the location of the asset being purchased. The department/fund code to charge the capital asset to. The account/object code will be determined based on the asset's class or category.

The requested asset should have already been included in the current year's budget and should be verified prior to purchase. If the General Capital Asset is not in the budget, you must contact the Finance Department to determine appropriate action.

TRANSFERRING A CAPITAL ASSET

Assets can be transferred to another department or location as needed for efficient operations. A Capital Asset Disposition Form should be completed for each asset that is moved from one department to another. The completed form is started and completed with the Finance Department. The department/ fund codes will then be updated in the Capital Asset database. Assets are transferred at book value.

PHYSICAL INVENTORY

District wide physical inventory will be completed every five years.

An Inventory list of all assets shall be distributed to each department to verify the assets they have in possession for their department. The results of the inventory shall be compared to the Capital Asset System and any differences shall be reconciled by the appropriate departmental personnel and the Finance Department. Assets not identified, i.e., lost, missing, or stolen, will require a separate written explanation from the Department responsible for the asset. In addition, Finance will periodically audit, or verify, the inventory of assets.

SURPLUS CAPITAL ASSETS

Surplus Capital Assets can be sold, transferred, recycled, donated, or disposed of as junk. The term "Surplus Property" shall mean any capital asset that is no longer needed or useable by the holding department. Each department shall periodically review their equipment and inventory, and complete a Capital Asset Disposition Form for each capital asset deemed surplus. The completed form shall be submitted to the Finance Department. If another department is able to use an item that has been submitted as surplus, that asset will be transferred to that department, at book value, and the item will no longer be considered surplus (see section above "Transferring Assets to Another Department or Location").

Disposal Process: Prior to disposal of any surplus property, each department will complete a capital Asset Disposition Form. This form is to be approved by signature of District staff responsible for the department that is responsible for the asset being removed. The form is to be forwarded to the Finance Department. Once approved by the Finance Officer, the asset will be deemed to be surplus and eligible for disposal.

DISPOSAL OF CAPITAL ASSET

The Finance Officer is responsible for the disposition of District surplus capital Assets. Once the asset has been surplus, the Finance Officer shall determine which of the following methods of disposition to use; careful to avoid any conflict of interest. The priority for disposition shall be in the order listed below.

A. Trade In

Property declared as surplus may be offered as a trade-in for credit toward the acquisition of new property. All trade-in offers will be submitted for the review and approval of Finance. If surplus property is to be applied to a purchase order, the trade-in value shall be itemized on the Purchase Order. The amount charged against the expenditure account will be the value of the purchase before application of the trade-in credit.

B. Return to Manufacturer

Surplus property may, when possible, be returned to the manufacturer for buy-back or credit toward the purchase of new property. Forward all documentation to the Finance Department.

C. Sale

The District may offer surplus property for sale. All surplus property is for sale “as is” and “where is”, with no warranty, guarantee, or representation of any kind, expressed or implied, as to the condition, utility or usability of the property offered for sale. State law prohibits public employees from purchasing surplus personal property from their employer (Government Code Section 1090).

A receipt or other proof of disposal, from the outright sale, the contracted auctioneer, licensed scrap dealer, individual buyer, etc. is required and is to be forwarded to the Finance Department.

Appropriate methods of sale are as follows:

- i. **Public Auction** – Surplus property may be sold at public auction. The District may contract with a professional auctioneer.
- ii. **Sealed Bids** – Sealed bids may be solicited for the sale of surplus property. Surplus property disposed of in this manner shall be sold to the highest responsible bidder.
- iii. **Selling for Scrap** – Surplus property may be sold as scrap if it is deemed that the value of the raw material exceeds the value of the property as a whole.

- iv. **Negotiated Sale** – Surplus property may be sold outright if it is determined that only one known buyer is available or interested in acquiring the property.

D. Disposal

When the cost of locating a buyer exceeds the estimated sale price of surplus property, the property may be recycled, destroyed or disposed of as junk.

Proceeds

The buyer shall pay the District by certified check, money order, or in a manner agreeable to the Finance Officer, to the assets being handed over. The Finance Officer or General Manager shall be authorized to sign bills of sale and any other documents evidencing the transfer of title, by and on behalf of the District. Revenue from the sale or trade-in of surplus property shall be returned to the appropriate fund, as determined by the Finance Officer.

INFRASTRUCTURE CAPITAL ASSETS

Infrastructure Capital Asset accounting is much different than the purchase of a General Capital Asset in that the building of infrastructure requires many sources in the designing and building of the asset. All costs associated with the purchase or construction of the infrastructure asset is to be considered when determining whether it meets the capitalization threshold. Associated costs include, but are not limited to, freight and transportation charges, site preparation expenditures, installation charges, professional fees, and legal costs directly attributable to the asset acquisition.

When purchasing items for Infrastructure Capital Assets, follow the procedures set forth in the Purchasing Policy. Include on the purchase order/requisition as much detail as possible about the project including the project name. Project names will be assigned and included in the annual budget. The account code will be Construction in Process.

The requested asset should have already been included in the current year's budget and should be verified prior to purchase. While it is necessary to record certain costs prior to Board approval for the project, such as surveying, legal fees, etc., such costs shall be limited to only those costs necessary to prepare for presentation to the full Board for approval to proceed with the project. Those preliminary costs shall be in the budget for the year in which incurred.

If the Infrastructure Capital Asset is not in the budget, you must first obtain Board approval prior to incurring any costs. In addition, you must contact Finance to determine the appropriate action that may be necessary to ensure adequate funding for the project.

Replacement of Infrastructure Capital Assets

When Infrastructure Capital Assets are replaced, the original asset will be removed from the Capital Asset system. If only a portion of the Infrastructure Capital Asset is replaced, a prorated

amount will be removed from the Capital Asset system. In certain instances, it may be impossible to identify the prorated cost of the original asset. In these instances, the value to be removed from the Capital Asset system will be calculated as follows:

New infrastructure cost X NPV (Net Present Value) factor at 2% or;

$PV (\text{Present Value}) = \frac{1}{(1+.02)^n}$, where .02 is the discount rate and n equals the number of years since the original capital asset being replaced was first installed.

Example: A water pipeline was installed and capitalized in 1970 at a total cost of \$1 million, however the capital Asset System does not identify the number of lineal feet installed. In 2025, a portion of the pipeline is replaced at a total cost of \$300,000. To determine the amount to remove from the original asset, the calculation would be:

$\$300,000 \times \frac{1}{(1.02)^{35}} = \$150,008$

The formula in Excel is $\$300,000 * 1 / (1.02)^{35}$

A discount rate of 2% is used since it closely approximates the long-term inflation rate of the cost of infrastructure assets.

REAL PROPERTY

Recording Infrastructure Fixed Assets

Real property will be recorded at historical cost and tracked through the Capital Asset System in a manner consistent with the recording of Infrastructure Fixed Assets.

Disposal of a General Fixed Asset

This policy does not address the disposition of real property. The sale of any real property will be handled in accordance with Government Code Section 54220 *et seq.*

PAYMENT PROCESSING

Please refer to the District's Purchasing Policy for specifics. VISA Cal Card's should not be used for the purchase of capital assets unless specifically authorized by the Finance Officer.

CAPITAL EQUIPMENT/ASSET TRACKING

Capital Equipment is defined as property having a useful life of one year or more and a minimum acquisition cost of \$25,000. Capital Assets must be inventoried and controlled in accordance with District policy.

All merchandise purchased with District funds is the property of the District, and as such may be disposed of only in accordance with District policy. Items must be declared as "surplus" by the BOD (Board of Directors) prior to sale, trade or disposal.

Questions of disposal of capital assets should be directed to the Finance Officer and involve the Financial Analyst for accounting purposes.