

# ***CROCKETT COMMUNITY SERVICES DISTRICT***

## **Budget, Finance, & Audit Committee Agenda for Thursday August 20, 2020**

TIME: 11:00 AM  
PLACE: \*\* TELECONFERENCE - SEE BELOW \*\*

### **IMPORANT NOTICE REGARDING COVID -19 AND TELECONFERENCED MEETINGS:**

Based on the mandates by the Governor in *Executive Order 33-20* and the County Public Health Officer to shelter in place and the guidance from the CDC, to minimize the spread of the coronavirus, please note the following changes to the District's ordinary meeting procedures:

- The District offices are not open to the public at this time. (See *Resolution No. 19/20-18*)
- The meeting will be conducted via tele conference using Zoom.
- All members of the public seeking to observe and/or to address the local legislative body may participate in the meeting telephonically or otherwise electronically in the manner described below. See end of agenda for information on How to Submit Public Comments.

### **HOW TO OBSERVE THE MEETING:**

**Telephone:** Listen to the meeting live by calling Zoom at +1 669 900 9128.

Enter the Meeting ID# 841 9800 7169 followed by the pound (#) key.

More phone numbers can be found on Zoom's website at <https://zoom.us/u/aeON0A5qL>.

**Computer:** Watch the live streaming of the meeting from a computer by navigating to <https://us02web.zoom.us/j/84198007169> using a computer with internet access that meets Zoom's system requirements (see <https://support.zoom.us/hc/en-us/articles/201362023-System-Requirements-for-PC-Mac-and-Linux>)

**Mobile:** Login through the Zoom mobile app on a smartphone and enter Meeting ID# 841 9800 7169.

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### **CALL TO ORDER:**

### **PUBLIC COMMENTS:**

### **ITEMS FOR CONSIDERATION:**

1. Consider additions to the Purchasing and Materials Policy of the District.
2. Consider increasing the capitalization threshold in the District's Capital Asset Capitalization Policy, recommend changes to the policy to the District Board.
3. Capital Inventory and Depreciation Schedule needs to be developed; consider authorization to hire consultant to create inventory list which at minimum includes year of purchase, cost, life of capital asset, and accumulated depreciation.

4. Discuss Policy for Delegating Authority to Commission as it relates to budget & finance, form recommendations to the District Board.
5. Report on other issues of concern related to budget and finance of the District.

#### ADJOURNMENT:

#### **HOW TO SUBMIT PUBLIC COMMENTS:**

**Written/ Read Aloud:** Please email your comments to [manager@town.crockett.ca.us](mailto:manager@town.crockett.ca.us), write "*Public Comment*" in the subject line. In the body of the email, include the agenda item number and title, as well as your comments. If you would like your comment to be read aloud at the meeting (*not to exceed three minutes at staff's cadence*), prominently write "*Read Aloud at Meeting*" at the top of the email. All comments received before 3:00 PM the day of the meeting will be included as an agenda supplement on the District's website under the relevant meeting date and provided to the Directors at the meeting. Comments received after this time will be treated as telephonic/electronic comments.

**Telephonic / Electronic Comments:** During the meeting, the Board President or designee will announce the opportunity to make public comments and identify the cut off time for submission. The public can speak up at that time or use the Zoom chat feature to indicate they want to make a public comment. If needed, a short recess (generally less than 10 minutes) will take place during the time public comment is open to allow the comments to be collected. Use Zoom chat or email your comments to [manager@town.crockett.ca.us](mailto:manager@town.crockett.ca.us), write "Public Comment" in the subject line. In the body of the email, include the agenda item number and title, as well as your comments. Once the public comment period is closed, all submitted comments timely received will be read aloud. Comments received after the close of the public comment period will be added to the record after the meeting.

You will find the Minutes of this meeting posted on our website at [www.town.crockett.ca.us](http://www.town.crockett.ca.us) Visit our website for more information on meetings and activities of the Crockett Community Services District and the towns of Crockett and Port Costa.

In compliance with the Americans with Disabilities Act of 1990, if you need special assistance to participate in a District meeting, or if you need a copy of the agenda, or the agenda packet, in an appropriate alternative format, please contact the General Manager at (510) 787-2992. Notification of at least 48 hours prior to the meeting or time when services are needed will assist District staff in assuring that reasonable arrangements can be made to provide accessibility to the meeting or service.

*In accordance with California Government Code Section 54957.5, any writing or document that is a public record, relates to an open session agenda item, and is distributed less than 72 hours prior to a regular meeting will be made available for public inspection. The Board has designated the District's website located at <https://www.town.crockett.ca.us/meetings> as the place for making those public records available for inspection. The documents may also be obtained by calling the District Manager. at the Crockett Community Services District Office in Crockett. If, however, the document or writing is not distributed until the regular meeting to which it relates, then the document or writing will be made available to the public at the location of the meeting, as listed on this agenda. The office address is 850 Pomona Street, Crockett, California 94525.*

# CROCKETT COMMUNITY SERVICES DISTRICT

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TO: Budget & Finance Committee

FROM: General Manager *M*

SUBJECT: Proposal to modify the Purchasing and Materials Policy of the District and rename it to Purchasing Procurement and Materials Policy.

DATE: August 18, 2020

The Crockett Community Services District Code, Section 2.36 governs the District's purchasing and materials policy. The current District policy provides wide leeway in purchasing decisions. Text of the full policy is below:

**Section 2.36.010 Policy.**

It is the Crockett Community Services District's policy to perform procurement activities in conformance with all applicable laws and the highest ethical standards of business conduct. Formal policies and procedures shall be adopted pursuant to Government Code Section 61063.

The District will contract for purchase, rent or lease of materials, supplies and equipment, and services for the District's use with the objective that such goods and services will be available at the proper time, in the proper place, in quantity, quality, and price so as to receive maximum value; and to maintain inventories of goods at minimum levels consistent with the user department's needs while allowing the maximum conservation of the District's funds.

**Section 2.36.020 Contracting for construction services.**

Contracting for construction services shall comply with CSD Law, Chapters 4-8, and the Public Contracts Code, including Sections 20682-83. Uniform Public Construction Cost Accounting Act ("Act") (Public Contracting Code Sections 22000-22045) allows the District to establish informal bidding procedures under the Act. The threshold above which a construction contract must be bid is controlled by the Act as defined and set by District Code Chapter 2.34.

**Section 2.36.030 Preference policies.**

The District has not adopted preference policies favoring woman-owned businesses, minority-owned businesses, small businesses or local businesses.

The District reserves the right to adopt any of the above policies when it serves the public interest within District boundaries.

**STAFF REQUESTS:**

That the Budget & Finance Committee review and discuss proposed additions to Section 2.36 (enclosed) that would expand the purchasing and materials policy and give direction to staff.

**\*\* DRAFT \*\***

CONSIDER ADDITIONS TO THE CROCKETT COMMUNITY SERVICES DISTRICT

PURCHASING AND PROCUREMENT POLICY

DISTRICT CODE SECTION 2.36

**1. CONTRACTING FOR PROFESSIONAL SERVICES**

**1.1. Award Authority for Professional Services.** The Board shall have sole authority to approve and enter into professional service contracts, except that the General Manager shall have authority to award contracts that meet all of the following criteria:

**1.1.1.** The contract does not obligate the District to any payment exceeding Fifteen Thousand Dollars per year (\$15,000 per year);

**1.1.2.** The District standard professional service agreement form, preapproved as to form by District legal counsel, is used.

**1.2. Selection Procedures for Professional Service Contracts.**

**1.2.1. Selection Procedure.** Contracts with professional service consultants shall be made by written agreement pursuant to the following selection procedure:

**1.2.1.1. Qualification.** The General Manager shall encourage firms generally qualified to undertake the types of work required by the District to periodically submit statements of qualifications and performance data. Such statements shall be kept on file and may be utilized to evaluate consultant qualifications. Other evaluation criteria shall include, but not be limited to, prior experience with, personal interview with, or references of prospective consultants.

**1.2.1.2. Selection of Consultant.**

**1.2.1.2.1.** Consultant selection shall, whenever possible, be based on at least three separate proposals for services. For professional services estimated by the General Manager to exceed Fifteen Thousand Dollars (\$15,000), the General Manager shall, if feasible, recommend to the Board consultants based upon consultant responses to the District's request for proposals.

**1.2.1.2.2.** Notwithstanding any other provision of law or this ordinance, selection for professional services of private architectural, landscape architectural, engineering, environmental, land surveying, or construction project management firms shall be on the basis of demonstrated competence and on the professional qualifications necessary for the satisfactory performance of the services required. In

order to implement this method of selection of such firms, District shall use procedures that assure that these services are engaged on the basis of demonstrated competence and qualifications for the types of services to be performed and at fair and reasonable prices to the District.

**1.2.1.2.3.** With respect to the selection of consultants not listed in Section 1.2.1.2.2 above, selection shall be based on Best Value. In accordance with applicable law, the General Manager shall determine the most qualified consultant to provide the services required. Price shall not be the only determining factor in the selection of a consultant. Other factors such as related experience, professional skills, approach, professional credentials, availability of personnel, understanding of scope of work, quality of response to request for proposal, references, etc., may be considered. The basis of all selection decisions shall be documented in writing.

### **1.3. Negotiated Procurement of Professional Services**

**1.3.1.** Under the following circumstances, the selection procedure set forth in subsections 1.2 shall not apply, and the General Manager shall be authorized to Negotiate Procurement of the required professional services without Board approval:

**1.3.1.1.** When an Emergency is determined to exist by the General Manager. Where such a procurement would otherwise require approval of the Board of Directors, it shall be submitted to the Board for ratification at the next regular Board meeting after the purchase is authorized, or

**1.3.1.2.** When the amount involved is Fifteen Thousand Dollars (\$15,000) or less, and compelling economic or administrative considerations warrant employment of alternate selection procedures. Such considerations may include circumstances where a particular provider, through previous contracts, has gained and exhibited unique and/or superior experience and/or expertise in relation to the District's operational requirements. Board approval is required for any selection made pursuant to this provision.

## **2. PURCHASE OF SUPPLIES, EQUIPMENT AND SERVICES**

### **2.1. Award Authority.**

**2.1.1. General Manager Award Authority.** The General Manager is hereby authorized to approve purchases or award contracts for equipment, supplies or Services where the price to be paid by District is less than Twelve Thousand Dollars (\$12,000), or where the price is established by a pre-existing arrangement with a utility or a supplier of bulk supplies or materials or a provider of routine services for which a budget appropriation has been approved.

**2.1.2. Board of Directors Award Authority.** The Board of Directors shall approve purchases and award contracts for equipment, supplies or Services of Twelve Thousand Dollars (\$12,000) or more.

**2.2. Bid Procedures for Purchases of Supplies, Equipment and Services**

**2.2.1. Open Market Purchase and Direct Bid Procedure.** Subject to subsections 2.3 and 2.4, purchases of equipment, supplies or Services may be bid in the Open Market pursuant to the Direct Bid Procedure described below.

**2.2.1.1. Minimum Number of Direct Bids.** Open Market purchases shall, whenever possible, be based on at least three Direct Bids.

**2.2.1.2. Notice Inviting Bids.** The General Manager shall solicit Direct Bids in the Open Market by written request, telephone, public notice on the District's public bulletin board or website, legal advertising, or other means deemed appropriate by the General Manager.

**5.2.1.2. Record of Direct Bids.** Direct Bids shall be submitted to the General Manager. The General Manager shall keep a record of all Open Market orders and Direct Bids for a period of one (1) year after the submission of bids or the placing of orders.

**2.2.2. Rejection of Bids.** The awarding party may reject any or all bids received, and may waive any minor irregularities in each bid received.

**2.2.3. No Bids Received.** The awarding party may award the contract to any vendor negotiated procurement if no bids are received.

**2.2.4. Award of Purchase.** The awarding party shall approve purchases on the basis of Best Value.

**2.3. Government Purchasing Programs.** In lieu of the competitive bidding procedures set forth in subsection 2.2.2, equipment and/or supplies may be purchased through any government agency's cooperative purchasing program. If it is determined by the awarding party that the purchase of equipment and/or supplies from a government cooperative purchasing program is at the Best Value. Examples of items commonly purchased through government cooperative purchasing programs include, without limitation, office supplies, vehicles, furniture, office machines, appliances, hardware, and electronic equipment.

## **2.4. Negotiated Procurement of Equipment, Supplies or Services**

**2.4.1.** Under the following circumstances, the bidding procedures set forth in subsections 2.2 shall not be applicable, where the awarding party determines that General Manager shall be authorized to Negotiate Procurement of required equipment and supplies:

**2.4.1.1.** When the commodity or Service can be obtained from only one vendor or the price is controlled by law.

**2.4.1.2.** When competitive bidding would be impossible, impractical or incongruous.

**2.4.1.3.** When an Emergency is deemed to exist.

**2.4.1.4.** When compelling economic or administrative considerations warrant employment of alternate purchasing procedures. Such considerations may include circumstances where a particular vendor, through previous contracts, has gained and exhibited unique and/or superior experience and/or expertise in relation to the District's operational requirements.

## **2.5. General Requirements for Purchasing Information Technology Equipment.**

In addition to the procedures set forth in Sections 2.1 through 2.4 above, purchases of information technology equipment shall be subject to the general requirements set forth below. Also, the replacement of the various components of the District's information technology equipment shall be made in accordance with District's Technology Information Replacement Policy.

**2.5.1.** The District shall purchase the least cost equipment necessary for the required performance of the use.

**2.5.2.** The District shall consider use of outside agencies for additional help when designing significant system modifications.

**2.5.3.** The District shall solicit a minimum of three bids for purchases based on identical build specifications and shall compare such bids with prices offered by relevant government cooperative purchasing programs.

## **3. DISPOSAL OF SURPLUS PROPERTY**

**3.1. Application.** The following policies and procedures apply to the disposition of the District's Surplus Property. These policies and procedures shall not apply to the disposition of the District's surplus real property, which is subject to the notification and disposition procedures set forth in Government Code Section 54220 et seq.

**3.2. Purpose.** The purposes of these policies and procedures governing disposition of the District's Surplus Property are as follows:

**3.2.1.** To ensure that only District-owned personal property that does not provide the minimum level of basic District service and usefulness is lawfully disposed of;

**3.2.2.** To ensure that District-owned assets are not disposed of when the disposal of the asset or the terms of the disposal of the asset could disadvantage the District; and

**3.2.3.** To ensure that, whenever feasible, all District Surplus Property is disposed of in a cost-effective manner that minimizes disposal costs and maximizes revenues by converting idle equipment and materials to revenue funds for other District uses.

**3.3. Declaration of Surplus Property.** In accordance with the procedure set forth below, the General Manager is authorized to formally declare District owned personal property to be Surplus Property.

**3.4. Disposition by General Manager.** Any Surplus Property which has a current book value of Five Thousand Dollars (\$5,000) or less, shall be disposed of by the General Manager in accordance with the procedures for disposal set forth below. Reasonable attempts shall be made to maximize the value received from such Surplus Property.

**3.5. Disposition by Board Approval.** Prior to disposing of an salvageable Surplus Property which has a current book value of more than Five Thousand Dollars (\$5,000), the General Manager shall present to the Board of Directors a report regarding the item and the proposed schedule and procedures for disposing of that item.

**3.6. Procedures for Disposal.** The District may dispose of Surplus Property in any manner deemed appropriate by the General Manager, including, without limitation, the following:

**3.6.1. Public Auction.** In accordance with applicable law, the disposal of District owned Surplus Property may be accomplished through public auction. Public auctions may include the use of electronic commerce (online) or on-site auctions.

**3.6.2. Private Sale by Competitive Bid.** Disposal of District owned Surplus Property may be accomplished through private sale by competitive bid. The procedures by which private sales of Surplus Property are to be conducted shall be determined by the General Manager.

**3.6.3. Charitable Donation.** District owned Surplus Property deemed to have no market value after an attempt at sale through prescribed procedures may be donated to a charitable organization in lieu of lawfully discarding the property. For purposes of this policy, charitable organizations shall mean a nonprofit organization exempt from taxation under the provisions of the Internal Revenue Code, 26 U.S.C.



501 (C)(3), whose primary purpose is public service.

**3.6.4. Trade-In.** Disposal of District owned Surplus Property may be accomplished by trading-in the Surplus Property towards a new acquisition.

**3.6.5. Transfer to Federal, State or Local Governmental Entities.** District owned Surplus Property deemed to have no market value after an attempt at sale through the procedures described herein may be donated to any governmental agency in lieu of discarding such property.

**3.6.6. Sale for Scrap or Salvage Value.** Disposal of District owned Surplus Property may be accomplished by selling the property for its scrap or salvage value.

**3.7. Disposal of Information Technology Equipment.** In addition to all the other applicable requirements of this Ordinance, the General Manager or designee shall require all proprietary information to be removed from information technology equipment before disposal. Any disposal of such equipment as waste shall conform to current environmental regulations. The District shall retain records of all Information Technology Equipment disposed of under this Ordinance.

**3.8. Proceeds.** Proceeds from the auction or sale of District owned Surplus Property will be deposited to the District's general fund or other special fund owning the personal property.

**3.9. Prohibitions.** No director, officer, agent or employee of the District shall either directly or indirectly (including by action of any immediate family member of such individual) submit a bid for, purchase or in any other manner take possession of District owned Surplus Property.

**4. Change Orders.** Unless otherwise provided in any purchasing arrangement or contract made pursuant to this Ordinance, the General Manager shall be authorized to approve any change order to any purchasing agreement or contract made pursuant to this Ordinance, provided that the total dollar amount of the change order or the cumulative amount of such change orders shall not exceed either (1) ten percent (10%) of the General Manager's award authority for the type of contract or purchase specified in the ordinance or (2) ten percent (10%) of the original purchase price or the contracted dollar amount up to a maximum amount of Fifteen Thousand Dollars (\$15,000). All other change orders shall be subject to approval by the Board.

# CROCKETT COMMUNITY SERVICES DISTRICT

## CAPITAL ASSET CAPITALIZATION POLICY

(Drafted 5/9/2012 – Adopted 5/23/2012)

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- General:** The District holds certain capital assets which include land, buildings, building improvements, machinery, equipment, furniture, appliances, infrastructure, and all other tangible or intangible assets that are used in operations and that have initial useful lives extending beyond a single annual reporting period, and;
- These assets must be accounted for at historical cost or estimated historical cost and fairly represented in accordance with current standards as established by the Governmental Accounting Standards Board (“GASB”). The District engaged an independent appraiser who estimated the acquisition costs and the realized depreciation of buildings, pumping, and treatment facilities, and capital improvements.
- Procedures:**
- 1) Capital assets are to be capitalized only if they have estimated useful lives of at least two years following the date of acquisition.
  - 2) Capital asset value thresholds for capitalization are to be applied to individual capital assets rather than to groups of similar capital assets.
  - 3) Capital assets to be capitalized must have an initial value of \$1,000 or more. This will be known as the “capitalization threshold” for reporting purposes as is defined in GASB No. 34.
  - 4) Capital assets having values of \$100 to \$1,000 are to be controlled at the department level for insurance and inventory reporting purposes. However, these capital assets will not be capitalized and will not be reported as capital assets in the District’s Annual Audit Report.
  - 5) Value estimates of capital assets required to be reported, but for which no historical documentation is available due to past accounting practices, shall be reviewed by the an independent appraiser or auditor in accordance GASB requirements.
  - 6) An inventory of capitalized capital assets is to be kept in the District office.
  - 7) REPAIR and MAINTENANCE COSTS are expenditures that keep the property in ordinary efficient operating condition. The cost of the repair does not add to the value or prolong the life of the asset. All repair and maintenance costs to capital assets are to be treated as an annual operating expense and charged to the appropriate department or fund.
  - 8) IMPROVEMENTS are expenditures for additions, alterations, and renovations that appreciably prolong the life of the asset, materially increase its value or adapt it to a different use. Improvement costs of \$1,000 or more to individual capital assets are to be capitalized.
  - 9) Depreciation shall be computed using the straight-line method over the estimated useful life of the capital asset.

# GOVERNMENT FINANCE OFFICERS ASSOCIATION (GFOA)

## *BEST PRACTICES*

# Capitalization Thresholds for Capital Assets

**State and local governments should adhere to appropriate guidelines for capitalization thresholds.**

The term capital assets is used to describe assets that are used in operations and that have initial lives extending beyond a single reporting period. Capital assets may be either intangible (e.g., easements, water rights, licenses, leases) or tangible (e.g., land, buildings, building improvements, vehicles, machinery, equipment and infrastructure).

As a practical application of the materiality principle, not all tangible capital-type items with useful lives extending beyond a single reporting period are required to be reported in a government's statement of net position. Items with extremely short useful lives (e.g., less than 2 years) and/or of small monetary value are properly reported as an "expense" or "expenditure" in the period in which they are acquired.

When outlays for capital-type items are, in fact, reported on the statement of net position, they are said to be capitalized. The monetary criterion used to determine whether a given capital asset should be reported on the statement of net position is known as the capitalization threshold. A government may establish a single capitalization threshold for all of its capital assets, or it may establish different capitalization thresholds for different classes of capital assets. In selecting capitalization thresholds, governments should be able to report and depreciate substantially all capital asset value while eliminating the cost of tracking a large number of small-value items.

A government's threshold for capitalization does not need to be calculated in the same way that the government would measure the asset, if it is ultimately capitalized, for reporting in accordance with GAAP. For example, a government's capitalization policy may be to determine whether improvements to an office building (primarily plumbing and electrical upgrades) meet a dollar threshold (\$20,000) before including the cost of new window and floor treatments, which will be part of the improvements, because it does not consider those to be "core costs" of the asset improvement. For assets constructed by a government's own employees, the dollar threshold might distinguish between direct costs (time spent by construction workers, architects and engineers on that project) and indirect costs (allocated costs of the capital improvements department of public works).<sup>1</sup>

The capitalization threshold should not be the only factor used when determining if an item should be capitalized. A government should be cognizant of whether similar items are capitalized in order to be consistent in reporting. For example, assume a government, with a capitalization threshold of \$10,000, purchases two pieces of similar equipment. Item A was purchased three years ago for \$11,000, and item B was purchased in the current year for \$9,000. The government also incurred its own direct costs (time spent by construction workers, architects and engineers

on that project) and indirect costs (allocated costs of the capital improvements department of public works) for both items, which increased the values of the items to \$13,000 for item A, and \$11,000 for item B. Without the inclusion of the government's own costs, item B would not have been capitalized, while other similar items would be capitalized because they were purchased at a higher price. In this case, the government may choose to capitalize item B for the sake of consistent treatment.

Capitalization is, of its nature, primarily a financial reporting matter. That is, a government's principal concern in establishing specific capitalization thresholds ought to be the anticipated information needs of the users of the government's external financial reports. While it is essential to maintain control over all potentially capitalizable items, there are more efficient means than capitalization for accomplishing this objective in the case of a government's smaller tangible capital-type items. Furthermore, practice has demonstrated that capital asset management systems that attempt to incorporate data on numerous smaller items are often costly and difficult to maintain and operate.

***Recommendation:***

GFOA recommends that state and local governments adhere to the following guidelines for capitalization thresholds:

- Establish minimum cost and useful-life based thresholds to avoid the cost of capitalizing immaterial items;
- Establish a minimum capitalization threshold of \$5,000 for any individual item;
- Establish a minimum capitalization threshold of at least a two-year useful life for any individual item;
- Consider establishing different dollar capitalization thresholds for different classes of capital assets (i.e. land, infrastructure, buildings and improvements, and equipment);
- Capitalization thresholds are best applied to individual items rather than to groups of similar items (e.g., desks and tables), unless the effect of doing so would be to eliminate a significant portion of total capital assets (e.g., books of a library district);
- Governments should perform a periodic review of their capitalization thresholds;
- In establishing capitalization thresholds, governments that are recipients of federal awards should be aware of federal capitalization thresholds requirements; and
- Governments should exercise control over potentially capitalizable items that fall under the operative capitalization threshold but require special attention.

# Government Accounting for Fixed Assets

## GASB guidelines for your organization





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This report is informational only and not meant as accounting, tax, or legal advice. Exceptions and special provisions are not covered, so you should consult your accounting, tax, or legal professionals for advice specific to your situation

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# Government Accounting for Fixed Assets

Established in 1984, GASB is the source of Generally Accepted Accounting Principles (GAAP) for state and local governments.

To manage fixed assets for a governmental agency, you need to follow the guidance issued by the Governmental Accounting Standards Board (GASB). Established in 1984, GASB is the source of Generally Accepted Accounting Principles (GAAP) for state and local governments. Not only are governments fundamentally different from for-profit businesses, but the readers of government financial statements are different from those of private companies. Although GASB standards are not written into federal law, they are enforced either by state law or through the audit process. .

It is important to know that GASB's pronouncements apply not only to state and local government agencies but also to:

- Public benefit corporations and authorities.
- Public employee retirement systems.
- Public utilities.
- Public hospitals and other healthcare providers.
- Public universities and colleges.

Even though this paper refers to state and local governments throughout, it also applies to all of the above.

GASB statements improve financial reporting by reducing inconsistencies that may have developed among government agencies and provide more clarity. They make possible the comparison of the financial statements of various state and local governments and agencies.

The three principal GASB pronouncements that affect how such organizations manage their fixed assets are:

- GASB Statement No. 34: Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments (Issued 6/1999).
- GASB Statement No. 42: Accounting and Financial Reporting for impairment of Capital Assets and for Insurance Recoveries (Issued 11/2003).
- GASB Statement No. 51: Accounting and Financial Reporting for intangible Assets (Issued 7/2007).

Let's take a closer look at each of these pronouncements and how the guidance they contain should be implemented

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# GASB Statement No. 34: depreciating capital assets

Statement No. 34 requires, for the first time, that all government entities use accrual accounting and depreciate their capital assets. Its effective dates were based on the entity's annual revenues and were done in three phases: Those with total annual revenues of \$100 million or more had to comply by the first fiscal year beginning after June 15, 2001, those with total annual revenues of at least \$10 million but less than \$100 million had to comply by the first fiscal year beginning after June 15, 2002, and those with annual revenues of less than \$10 million had to comply by the first fiscal year beginning after June 15, 2003.

## Defining capital assets

Capital assets have a useful life beyond a single reporting period and include:

- Land and land improvements.
- Easements.
- Buildings.
- Vehicles.
- Machinery and equipment.
- Works of art and historical treasures.
- Infrastructure\*.

\*Infrastructure assets have long lives and are usually stationary. Examples are roads, bridges, tunnels, sewer systems, and lighting systems. Unless part of a network of infrastructure assets (such as a toll booth), buildings are not included in this category.

## Reporting

Capital assets should be reported at historical cost (including freight and any installation charges). Donated assets should be recorded at their fair market value at the time received.

Depreciable assets should be reported net of accumulated depreciation on the Statement of Net Assets. Nondepreciable assets should be reported separately if there are enough of them to warrant this. Depreciation expense should be reported in the Statement of Activities.

Assets, less any liabilities attributed to them, should be displayed in the following three categories:

- Amounts invested in capital assets, net of any related debt
- Restricted assets\*
- Unrestricted assets

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Statement No. 34 requires, for the first time, that all government entities use accrual accounting and depreciate their capital assets



\*Restricted assets are those on which constraints are imposed on the assets' use, either by outside creditors or contributors or by legislation. Where there are permanent endowments, restricted net assets should be displayed in two additional groupings: expendable and nonexpendable. (Nonexpendable net assets are required to be retained in perpetuity.)

Depreciation expense for assets that can be identified with a specific function should be included in direct expenses. "Direct expenses" are those that are identifiable to a particular function and specifically associated with a service or department. If assets are shared among several departments, their depreciation expense should be appropriately allocated. If an asset serves all functions (such as the city hall), its depreciation expense is not included in direct expenses but rather is either a separate line in the Statement of Activities or is part of the "general government" function.

Depreciation expense on infrastructure assets is not to be allocated to the various functions but should be reported as a direct expense of the function associated with their maintenance or as separate line in the Statement of Activities.

### Depreciation

Assets are depreciated over their estimated useful lives in any systematic and rational manner. Examples of depreciation methods that may be used are straight-line and declining-balance. Common declining-balance methods are double declining-balance and 150% declining-balance.

When determining the estimated useful life of an asset, the government agency can use:

- Published guidelines from professional organizations or industries.
- Available information for comparable assets used by other governments.
- Internal information based on past experience.

Always consider the asset's current condition and how long it is expected to be of service.

Depreciation may be calculated on individual assets, on classes of assets, on networks of assets, or on subsystems of a network of assets. A "network of assets" simply means a group of assets that together provide a specific type of service. A dam, for example, consists of a concrete dam, a spillway, and a series of locks. A "subsystem" of a network of assets consists of all the assets that make up a segment of a network of assets. For example, all government roads are a network of infrastructure assets, consisting of interstate highways, state highways, and rural roads, each of which is considered to be a subsystem of the network.

### Infrastructure assets:

Infrastructure assets do not have to be depreciated and may instead use a "modified approach" if the following two conditions are met:

1. They are maintained at (or above) the condition established and disclosed by the government agency, and
  2. They are managed as follows:
-

- A current inventory of the infrastructure assets is maintained.
- An assessment of the infrastructure assets' condition must be performed and reported on using a scale of measurement at least every three years.
- The amount needed to maintain and preserve the infrastructure assets in the specified condition is decided on annually.

The idea behind using the modified approach is that if infrastructure assets are being so well maintained, they really don't depreciate in value.

If the modified approach is used, any additions or improvements made to the infrastructure assets that increase their capacity or improve their efficiency should be capitalized. All other expenditures made for these assets should be expensed as incurred.

If at any point the requirements for using the modified approach are not being met, then the assets should be depreciated on a prospective basis.

**Works of art and historical treasures:**

Works of art and historical treasures should be capitalized when held in a collection if:

- They are held for public exhibition, education, or research (that is, not for financial gain).
- They are protected and preserved.
- The proceeds from their sales must be used to acquire other items for the collection.

Only if works of art and historical treasures will wear out (for example, items are on either public display or are being used for research) and their useful lives are shortened should they be depreciated. This is true whether they are individual items or if they are held in a collection.

# GASB Statement No. 42: impairment of capital assets and insurance recoveries

Statement No. 42 contains guidance for measuring impairment losses on capital assets. Governments are required to report the effect of impairments when they occur rather than through depreciation expense or when the asset is disposed. The Statement is effective for periods beginning after 12/15/04.

Prior to the issuance of Statement No. 42, governments were not required to report any decrease to an asset's carrying value except through depreciation. There was no published guidance for assessing and recording impairment losses. In addition, there was also no guidance for the proper treatment of insurance recoveries. This Statement provides guidance on both of these issues.

Statement No. 42  
contains guidance for  
measuring impairment  
losses on capital  
assets.

An asset is considered impaired when its usefulness for service (AKA, “service utility”) decreases significantly and unexpectedly (that is, something occurs that is not within the normal life cycle of the asset).

**Assessing impairment:**

When deciding if an impairment has occurred, a two-step process is required:

1. Identify any potential impairment (by looking for one of the indicators below)
2. Test for impairment

The following are some common indicators that an impairment has occurred for which the asset should be tested:

- Physical damage to the asset
- The enactment of new regulations and standards (or changes in environmental factors) that the asset cannot meet (nor is capable of being modified to comply with)
- Technological advancement that makes an asset obsolete
- A change in manner or duration of the asset’s use
- The end of construction (usually due to lack of funding)

While a change in demand for the services of an asset is not considered a separate indicator of impairment, it may signify an indicator of another sort, and, therefore, impairment testing may be required.

When assessing for impairment, land is a separate capital asset and should not be grouped with buildings or depreciable improvements. This is important so that any unrealized gain in the fair value of the land will not offset any impairment found on buildings or other improvements.

**Measurement of impairment:**

The following are methods for measuring an impairment loss for assets that will continue to be used by the government:

- Restoration cost approach: The amount of impairment is the estimated cost to restore the utility of the asset. The estimated cost of the restoration is converted to historical cost either by:
  - Restating the estimated restoration cost using an appropriate cost index.
  - Applying a ratio of estimated restoration cost over the estimated replacement cost to the carrying value of the asset.
- Service units approach: Determine the amount of the historical cost of the asset’s service utility that cannot be used due to the impairment or change in circumstances. This is done by evaluating the service provided by the asset both before and after the impairment.

- Deflated depreciated replacement cost approach: Determine the cost of replacing the asset, taking into consideration the asset's current age and utility. To do this, first, estimate the cost of an asset that could replace the current level of service. Next, depreciate that current cost estimate to reflect the age of the asset. Finally, deflate the determined amount to convert it to historical dollars.

Statement No. 42 actually recommends one of the above measurement methods based on the type of impairment indicator:

- Use the restoration cost approach if physical damage to the asset has occurred.
- Use the service units approach if there was an enactment of new regulations, changes in environmental factors, or technological advancement has occurred.
- Use the deflated depreciated replacement cost approach or the service units approach if there has been either a change in manner or duration of use of the asset.

Impaired assets that will no longer be used by the government or have been affected by a construction stoppage should be reported at the lower of their carrying value or fair market value.

#### **Reporting:**

Impairment losses (unless considered to be temporary) should be reported in the:

- Statement of Activities.
- Statement of Revenues, Expenses, and Changes in Fund Net Assets.

If reported as a program expense, an impairment loss should be reported as a direct expense of the program that used the impaired asset.

The amount of the impairment loss, a general description, and the financial statement classification should all be disclosed in the financial statement notes if not readily apparent on the face of the statements.

#### **Permanent versus temporary impairments:**

Although generally an impairment loss is permanent, there are times it may be considered temporary. This occurs when the indicator of the impairment (such as a work stoppage or change in use) can be shown to be temporary in nature. When this is the case, the asset is not written down.

Once an impairment loss is recognized, however, it should not be reversed. This is true even if there is an unforeseen change in future years of the circumstances that caused the impairment.

Whenever there is an indication of an impairment but impairment testing indicates there is no impairment loss, it is still a good idea to reevaluate the asset's remaining estimated useful life and salvage value and change them if necessary.

#### **Insurance recoveries:**

When an impairment loss and an insurance recovery occur in the same year, the impairment loss should be reported net of the insurance recovery. However, insurance recoveries in subsequent years should be reported as program revenue, nonoperating revenue, or as an extraordinary item, according to the circumstances. Insurance recoveries are not reported until they are realized or realizable (meaning the insurance company has agreed to the claim).

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# GASB Statement No. 51: accounting for intangible assets

Statement No. 51 provides guidance for the accounting and financial reporting of intangible assets.

Statement No. 51 provides guidance for the accounting and financial reporting of intangible assets. It is effective for periods beginning after 6/15/09.

## Defining intangible assets:

When defining intangible assets, Statement No. 51 lists the following characteristics:

- Lack of physical substance.
- Nonfinancial nature (that is, receivables or prepayments are not intangible assets).
- Initial useful life extends beyond a single reporting period.

Some common types of intangible assets are patents, copyrights, trademarks, easements, licenses, and computer software.

Statement No. 51 does not apply to the following intangible assets:

- Intangible assets either acquired or created for the purpose of obtaining income or profit (for example, an item that is held for sale and is part of inventory)
- Assets from capital lease transactions as reported by lessees
- Goodwill created through a combination of a government and another entity

An intangible asset should be recognized in the Statement of Net Assets if it can be identified. This is the case when either of the following conditions is met:

- The asset is capable of being separated from the government and sold, transferred, licensed, or exchanged.
- The asset arises from contractual or other legal rights.

## Internally generated intangible assets:

An internally generated intangible asset is either created or produced by the government or is acquired from a third party but needs “more than minimal incremental effort” to achieve an expected level of service capacity. Expenditures for internally generated intangible assets should be capitalized if all of the following three criteria are met:

1. The specific objective of the project can be determined, as well as the intangible asset’s expected service capacity once the project is completed.
2. The technological feasibility of the project can be demonstrated, showing that the expected service capacity of the asset will be achieved.
3. The current intention, ability, and presence of effort needed to complete the project can be demonstrated.

Until the above three criteria have been met, any expenditures on the project to create

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the intangible asset should be expensed as incurred.

Computer software is often internally generated. Software is considered to be internally generated if it is developed by either the government's own personnel or by a third-party contractor on behalf of the government. The Statement groups the activities for software development into three stages:

- Preliminary project stage, which includes the formulating and evaluation of alternatives, as well as the determination of what technology is needed. Expenditures during this stage should be expensed as incurred.
- Application development stage, which includes the design and configuration of the software, user interface, coding, installation, and testing. As long as management has committed to the project's funding and the three criteria outlined above have been met, expenditures during this stage should be capitalized.
- Post-implementation/operation stage, which includes training on the application and software maintenance. Expenditures during this stage should be expensed as incurred.

Sometimes the government purchases software that needs to be significantly modified before it can be used. Such software is also considered to be internally generated. Expenditures on such software should be considered part of the application development stage and, therefore, capitalized once the modifications made to the software result in any of the following:

- An increase in the software's functionality
- An increase in the software's efficiency
- An extension of the software's estimated useful life

If none of the above occurs, the expenditures on the software should be considered maintenance costs and expensed as incurred.

When dealing with internally generated intangible assets and deciding whether an impairment has occurred, an additional indicator of an impairment is the possibility of a development stoppage. This often occurs with internally generated intangible assets due to a change in management's priorities.

#### **Estimated useful life:**

If an asset is under contract, its useful life should not exceed the contractual obligation. Any renewal periods may be considered as long as it can be determined the government will seek and achieve the contract's renewal.

At times, an intangible asset is considered to have an indefinite useful life. A permanent easement is one example. When this is the case, the asset should not be amortized. If conditions occur that change the asset's life, however, it should be tested for impairment. Whether or not an impairment loss is recorded, once the asset's life can be determined, amortization should then be claimed. The asset's current carrying value should be amortized over its remaining useful life. (This would be considered a change in accounting estimate.)

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# Conclusion

The benefits of implementing GASB pronouncements far outweigh the challenges posed by the tasks of documenting, tracking, and managing your valuable assets. Having good and readily accessible information about your fixed assets enables you to better understand the actual cost of services your organization is providing. Whether you are depreciating your organization's capital assets, measuring impairment losses, or accounting for your intangible assets, it is important to remember that the GASB pronouncement guidelines apply to all government agencies and organizations.

One solution for handling your organization's fixed assets is to invest in fixed assets management software. With a sophisticated fixed asset management solution, calculations will be handled for you, and the reporting headache will disappear, as all of the necessary information for your financial statements becomes easily accessible. As an added bonus, increased comparability of financial statements with other organizations will help give you a clearer picture of how your organization is doing and whether there are areas that need improvement.

Detailing important information about your organization's capital assets provides valuable insights for future planning that not-for-profit organizations rely upon. Not only will this keep you in compliance with government guidelines and mandates, you will also know what capital assets you own, how old they are, and what future purchases may be needed. With so many benefits to precise fixed asset management, compliance to GASB becomes second nature, and budgeting decisions become easier when they are based on sound data.

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**POLICY FOR DELEGATING AUTHORITY TO COMMISSIONS**

**Adopted 8-27-08**

**I. GENERAL STATEMENT**

The District Board wishes to delegate some of its authority to the already existing Sanitary and Recreation Commission of the District ("Commissions"). This Statement of Policy is intended to describe the operational parameters of the delegation of authority from the District Board to the Commissions. Commissions shall have the authority required to accomplish delegated actions, but shall not act on issues outside their individual areas of concern. The Commissions may not re-delegate any authority delegated to them by the District Board.

**II. GENERAL ADMINISTRATIVE POWERS**

By law, the District Board is responsible for establishing policies for the operation of the District, and shall provide for the implementation of those policies, which is the responsibility of the District's general manager (Gov't Code Section 61040).

By law, the general manager is responsible for the supervision of the District's facilities and services, and the implementation of the policies established for the operation of the District (Gov't Code Section 61051).

As authorized by the District Board, Commissions of Crockett CSD shall have the following general powers of governance at their disposal:

- Elect officers
- Convene meetings
- Determine meeting schedule
- Hold public hearings
- Call special meetings
- Request attendance of District Counsel at meetings
- Hold closed sessions
- Appoint standing committees, ad-hoc committees and advisory committees
- Write minutes of ad-hoc committee meetings
- Approve meeting minutes
- Adopt policies necessary to protect property, meet legal requirements, control use of facilities, regulate employee conduct, and similar types of policy.

**Adopt resolutions**  
**Adopt and revise action plans**  
**Approve sponsorships**  
**Establish programs (e.g. bocce program, thermometer exchange, household hazardous waste collection)**  
**Solicit and interview candidates for appointment or election, or potential employees**  
**Receive reports and presentations**  
**Issue commendations**  
**Approve protocols**  
**Set requirements for facility renters**  
**Adopt rental regulations and facility use regulations**  
**Enforce rules and regulations relevant to jurisdiction, subject to final enforcement actions by the District Board in all matters of fines, penalties, delinquent charges, cost recovery and other such monetary matters, as well as in termination, restriction or denial of services.**  
**File Notice of Violation**  
**Hear appeals of staff decisions and grant relief to appellant, with right of further appeal to the District Board**  
**Approve abatement actions**  
**Revise construction specifications**  
**Authorize emergency powers for management staff to respond immediately to sewage spills, fires, earthquakes, and other emergencies**  
**Adopt logos**  
**Provide training that will assist in governance of the District**  
**Make recommendations on issues relevant to jurisdiction**

**The following general powers of governance are reserved to the District Board:**

**Adopt rules for meeting procedures**  
**Adopt ordinances**  
**Adopt and revise codes (e.g. conflict of interest code, district code, etc)**  
**Adopt construction specifications**  
**Adopt legally mandated plans (e.g. ADA compliance, sewer system mgmt, injury prevention)**

Execute legal documents (e.g. contracts, agreements, easements, MOU's, JPA's)  
except as may be specifically delegated to Commissions  
Determine requirements for election candidacy  
Determine election dates  
Call for elections  
Apply to LAFCO for extension of powers or boundaries  
Adopt official seal of the District  
Obtain inspection and abatement warrants  
Issue citations  
Sue or be sued in the name of the District  
Receive Government code claims against the District or its components  
Form, alter or dissolve zones for service within District boundaries  
Approve out-of-agency service agreements

### **III. INTERNAL STRUCTURE & ORGANIZATION**

Commissions of Crockett CSD shall have the following powers at their disposal:

Give directions to Department Managers  
Make recommendations on issues relevant to jurisdiction

The following powers are reserved to the District Board:

Give directions to General Manager, District Secretary, Commissions  
Determine length of term of officers and commissioners  
Establish requirements for commissioners and commissions  
Set scope and limits of commission authority  
Approve and revise organization chart

### **IV. EXTERNAL INTERACTION**

Commissions of Crockett CSD shall have the following powers at their disposal:

Conduct public outreach  
Publicize programs, events, and services  
Send members to outside meetings  
Approve newsletters  
Send letters on subjects within jurisdiction  
Make recommendations on issues relevant to jurisdiction

The following powers are reserved to the District Board:

- Speak for the District Board and the District, as a whole
- Appoint delegates to represent the District

#### V. PERSONNEL MATTERS

By law, the general manager is responsible for the appointment, supervision, discipline, and dismissal of the District's employees (Gov't Code Section 61051).

As authorized by the District Board, Commissions of Crockett CSD shall have the following powers at their disposal:

- Make recommendations on personnel matters relevant to jurisdiction

The following powers are reserved to the District Board:

- Appoint, remove or discipline general manager, district secretary, district treasurer, and their staff, along with department managers
- Engage legal counsel
- Appoint, remove or discipline commissioners
- Accept commissioner resignations and declare vacancies
- Determine exempt employee positions
- Approve employment contracts
- Approve contracts with attorneys, auditors, accountants
- Conduct employee evaluations
- Adopt job class schedules, job descriptions, minimum qualifications
- Establish employee relations system

#### VI. BUDGET AND FINANCE

By law, the general manager is responsible for the supervision of the District's finances (Gov't Code Section 61051).

As authorized by the District Board, Commissions of Crockett CSD shall have the following powers at their disposal:

- Adopt fee schedules (e.g. facility rental fees, class fees, public swim fees) for fees that need not be established by ordinance. This power shall not include any fees that will appear on the tax roll (e.g. sewer service charge).

**Approve fee waivers**  
**Approve payment of bills**  
**Adopt and revise department budgets, subject to final approval by District Board**  
**Approve facility rental agreements**  
**Adopt revenue plans**  
**Approve grant applications**  
**Accept monetary donations and grants**  
**Approve expenditures, within limits of budget appropriations**  
**Approve refunds**  
**Transfer department funds as needed to implement District policies relevant to jurisdiction**  
**Approve contracts with engineers and other consultants, within limits of budget appropriations**  
**Solicit bids and proposals**  
**Approve project documents for advertising**  
**Advertise projects for bids**  
**Accept bids and award contracts to contractors, within limits of budget appropriations.**  
**Approve budgeted project payments**  
**Approve return of contractors' bonds**  
**Recommend acceptance of projects as complete, approval of change orders, and filing of notice of completion**  
**Develop capital improvements plans**  
**Authorize expenditures for budgeted capital projects**  
**Make recommendations on issues relevant to jurisdiction**

**The following powers are reserved to the District Board:**

**Establish finance procedures**  
**Adopt and revise salary schedules**  
**Approve compensation for officers, directors, commissioners**  
**Approve employee benefits**  
**Approve monetary awards, wage increases**  
**Impose a special tax**  
**Set tax rates, sewer service charges, capacity charges, annexation charges**  
**Approve collection of taxes, service charges, and assessments on the tax roll**

Levy abatement costs, fines and other charges on the tax roll  
Borrow money or otherwise incur debt  
Issue revenue bonds or general obligation bonds  
Issue securitized limited obligation notes  
Issue promissory notes  
Invest money  
Adopt and revise investment policy  
Approve insurance coverages  
Decide apportionment of costs  
Establish new operating fund accounts and designated reserve accounts  
Establish an alternate depository to the County Treasurer  
Require an officer or employee to be bonded  
Receive annual audit report  
Establish annual appropriations limits

**VII. PROPERTY OWNERSHIP**

Commissions of Crockett CSD shall have the following general powers at their disposal:

Make recommendations on issues relevant to jurisdiction

The following powers are reserved to the District Board:

Purchase and dispose of real property

Accept real property

The power of eminent domain

**VIII. APPEALS**

Any party aggrieved with an action of a Commission may submit a written request for a hearing on reconsideration of the action to the District Board within 10 (ten) days of the Commission's action. Unless a right of appeal has been specifically provided, the District Board may exercise its discretion in granting a hearing. If it so grants, the hearing shall take place within a reasonable amount of time.

Adopted and Passed at the Board meeting of  
August 27, 2008

*Kent Peterson*

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District Secretary

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