



# Menlo Park Fire Protection District

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|----------------|--------------------|---------------|----------------------------------|
| Number         | 2025-000           | Title         | Capital Asset and Surplus Policy |
| To             | Board of Directors | Originator    | Allain Mallari                   |
| Effective Date | July 1, 2025       | Suspense Date |                                  |
| Approved By    | Board of Directors | Date          | June 17, 2025                    |

## I. PURPOSE

The Menlo Park Fire Protection District’s (“District”) capital asset and surplus policy (“Policy”) aims to ensure responsible stewardship of the District’s capital assets by establishing clear control, accountability, and standardized procedures. It outlines the policies necessary to accurately record, manage, and track changes to capital assets in compliance with Generally Accepted Accounting Principles (GAAP). The policy will also:

- Establish criteria for classifying assets as capital assets
- Ensure appropriate safeguards are in place to protect assets from loss, theft, or damage
- Maintain thorough documentation to support the effective use, maintenance, oversight, and reporting of each asset
- Support accurate calculation and recording of depreciation for all capital assets
- Outline procedures for the proper disposal of assets that are surplus, obsolete, or no longer in use

Nothing in this capital asset and surplus policy shall constitute an obligation upon the District, nor an implied contract. The District’s Board of Directors (“Board”) may revoke or amend this policy whenever it determines the changes to be in the District's best interest.

## II. DEFINITIONS

As used in this Policy, the following terms shall have the meanings specified below:

- a. Asset Capitalization – This refers to the accounting practice of classifying certain expenditures as capital assets, which provide economic benefits beyond the current fiscal year, meet the capitalization threshold, and are depreciated over their useful life.
- b. Capital Assets - These are tangible or intangible items used in operations that have a

useful life exceeding one reporting period. Examples include land, buildings and improvements, machinery and equipment, infrastructure, and intangible assets such as software.

- c. Capital Improvement Project Expenditure – This is a cost incurred to acquire, construct, or significantly enhance a long-term asset, such as buildings, infrastructure, or equipment. These expenditures add value, extend the useful life, or increase the efficiency or capacity of the asset, and are capitalized on the financial statements.
- d. Capital Outlay Expenditure – A significant individual purchase of a capital asset that meets or exceeds the District’s established capitalization threshold.
- e. Depreciation – This is the process of allocating the cost of a capital asset as an expense over its useful life. This allocation reflects the asset’s consumption, wear and tear, and reduction in value over time, in accordance with the principles set out in the Governmental Accounting Standards Board.
- f. Estimated Useful Life – This is the period during which a capital asset is expected to be used by the District, after which it may either be replaced, sold, or disposed of. This period is used to determine the asset's depreciation schedule.
- g. Governmental Accounting Standards Board (GASB) – It is an independent, non-profit organization that establishes accounting and financial reporting standards for U.S. state and local governments, including cities, counties, school districts, and public utilities.
- h. Lease – This is defined as a contract that conveys control of the right to use another entity’s nonfinancial asset (the underlying asset) as specified in the contract for a period of time in an exchange or exchange-like transactions (i.e., buildings, land, vehicles, and equipment).
- i. Subscription-Based Information Technology Arrangement (SBITA) – This is defined as a contract that conveys control of the right to use another party’s (a SBITA vendor) information technology (IT) software, alone or in combination with tangible capital assets (the underlying IT assets), as specified in the contract for a period of time in an exchange or exchange-like transactions.
- j. Surplus Property - Any property other than real property that is obsolete, fully depreciated, scheduled for replacement, or is no longer needed or usable by the District.
- k. Right-To-Use Asset – This is an intangible asset that represents a government’s legal right to control and use a specific underlying asset (physical or digital) over a specified period of time, in exchange for a series of payments.
- l. Uniform Guidance – This refers to a set of federal regulations issued by the U.S. Office of Management and Budget (OMB) that govern how non-federal entities such as state and local governments, nonprofits, and educational institutions manage and spend federal grant funds.

### **III. ASSET CATEGORY**

- a. Land

Land is real property held for use in operations that has an indefinite useful life and is therefore not depreciated. It includes the purchase price and all related costs necessary to acquire and ready the land for use.

b. Building and Building Improvements

Buildings are permanent, physical structures designed to house people, equipment, services, or functions. They may include various integral and high-cost components such as elevators, HVAC systems, plumbing systems, electrical systems, emergency and lighting systems, and roofs. When practical, these components should be recorded separately in the capital asset system to facilitate future replacement transactions, as their useful lives may differ from that of the building itself.

Building Improvements are upgrades or modifications to a building that enhance its value or extend its useful life. Examples include replacing key systems like HVAC, plumbing, or electrical, expanding apparatus bays, reinforcing structural elements, installing energy-efficient upgrades, and renovating areas with exterior deterioration. These improvements are capitalized and depreciated over their useful life, which may differ from the building itself.

c. Vehicle and Apparatus

Vehicle and Apparatus encompasses all motorized equipment and transportation vehicles utilized for firefighting, emergency response, and support activities. This category includes fire engines, fire trucks, rescue vehicles, airboats, tractor trailers, and utility vehicles

d. Machinery and Equipment

Machinery and Equipment include non-vehicular mechanical devices used to support firefighting operations, maintenance, and other fire station functions. This category includes generators, cranes, heaters, compressors, forklifts, turnout washers, and other mechanical equipment.

e. Tools and Specialized Equipment

Tools and Specialized Equipment include specialized devices and tools essential for specific firefighting, rescue, and emergency medical functions. This category includes rescue tools (such as Hurst tools, hydraulic spreaders, and cutters), hazmat equipment, fire props for training, manikins used for emergency response drills, thermal imaging cameras for detecting heat signatures, and medical equipment like defibrillators and Lucas devices for cardiac care.

f. Technology and Communications

The Technology and Communications capital asset category consists of electronic systems, devices, and equipment used to support information technology infrastructure and enable internal and external communication for emergency response and administrative operations. This category includes station alerting

equipment, which notifies personnel of incoming emergency calls; radio equipment used for communication between field units and dispatch; servers and storage area network (SAN) drives for data storage, management, and system backups; scanners and copiers to support document processing and administrative tasks; and search cameras, which assist in locating victims in confined spaces or collapsed areas during rescue operations.

#### **IV. CAPITALIZATION GUIDELINES**

To ensure consistent financial reporting in accordance with GAAP and GASB guidelines, the District has established capitalization thresholds for recognizing capital assets in its financial records.

- **Capital Outlay:** Individual items or standalone acquisitions with a unit cost of \$10,000 or more and a useful life of more than one year shall be capitalized.
- **Capital Improvement Projects:** Projects that improve, expand, or significantly extend the life of an existing asset shall be capitalized if the total project cost is \$50,000 or more.

Minor enhancements or repairs with a total cost below the \$50,000 threshold, even if they add some value or minor improvements to an existing asset, shall be treated as maintenance and repair and expensed in the period incurred. This ensures that only material improvements that significantly impact the asset's capacity, function, or useful life are capitalized. Additionally, any work performed that simply restores a capital asset to its original condition, regardless of cost, will also be treated as a maintenance and repair expense and not capitalized.

The District periodically reviews and updates these thresholds to reflect operational needs and financial reporting standards.

#### **V. PROCEDURES**

##### **a. Acquisition**

All capital asset acquisitions must comply with the District's established purchasing policies and procedures to ensure accountability, transparency, and compliance with budgetary and financial reporting standards. Capital assets shall be recorded at their historical cost, which includes the purchase price and all necessary ancillary costs required to place the asset into service. Ancillary costs may include, but are not limited to, installation fees, site preparation, modifications, delivery charges, and testing.

The acquisition of capital assets using federal grant funds must comply with all applicable federal regulations, including the requirements of 2 CFR Part 200 – Uniform

Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance).

The responsibility for acquiring capital assets rests with the designated program manager, who must ensure that all acquisitions are made within the scope of the approved annual budget. Prior to authorizing payment, the program manager must confirm that the asset is fully installed, functional, and meets all operational and contractual specifications.

In cases where prepayment is required, such as for vehicles, equipment, or other standard purchases, internal controls must be followed to ensure responsible spending. These controls include documenting the reason for prepayment, confirming that the vendor terms are standard (e.g., warranty, insurance, or lead times), and obtaining appropriate approval per the District's purchasing policy. For more complex or high-risk purchases, such as custom-built or specialized equipment, additional safeguards like contract terms or performance guarantees may be required. The program manager is responsible for tracking the order and ensuring the asset is delivered and performs as expected.

Upon approval of payment, the Finance Division will record the asset in the District's accounting system, assigning appropriate classification and asset tags as applicable and feasible. The asset tag will be issued to the designated program manager, who is responsible for ensuring it is properly affixed to the corresponding asset. The asset will also be added to a separate lapsing schedule, which serves as the basis for calculating depreciation over the asset's estimated useful life, in accordance with the District's capital asset and surplus policy and applicable accounting standards.

b. Inventory

Each year, the Finance Division will distribute a detailed asset listing to each division to verify the capital assets in their custody. Divisions are responsible for reviewing the list to confirm the continued existence, condition, and location of each asset. They must also report any discrepancies, including assets that are missing, transferred, disposed of, or in use but not listed.

The Finance Division will work collaboratively with the appropriate division to review and follow up on any unaccounted-for or missing assets. If notable discrepancies arise, they will be shared with the Finance Manager and Fire Chief for further review and determination of appropriate action.

To help maintain the accuracy of capital asset records, the Finance Division may also conduct a physical inventory on an annual basis. The scope and focus of this inventory will be determined by the Finance Manager and may vary each year depending on operational needs and available resources.

c. Depreciation

All capital assets with a finite useful life, including intangible assets, shall be subject to depreciation. Assets that do not lose service potential over time or through use, such as land, are not depreciated. The determination of an asset's estimated useful life considers factors such as physical wear and tear, technological advancements, and changes in market demand, and must comply with applicable government regulations.

In cases where an asset consists of multiple components with significantly different useful lives, the District will depreciate each component separately if omitting this would result in a material misstatement of total depreciation expense.

The District applies the straight-line depreciation method for all depreciable assets, recognizing equal depreciation expense in each period over the asset's estimated useful life. Depreciation begins when a capital asset is placed into service, meaning the point at which it is ready and available for its intended operational use. This includes the date of full installation of equipment, the in-service date for vehicles, and the completion date for capital improvement projects. Useful lives are reviewed periodically for potential adjustments.

| <b>Asset Category</b>              | <b>Years</b> |
|------------------------------------|--------------|
| Land                               | N/A          |
| Building and Building Improvements | 15 – 50      |
| Vehicle and Apparatus              | 5 – 15       |
| Machinery and Equipment            | 5 – 15       |
| Tools and Specialized Equipment    | 5 – 10       |
| Technology and Communications      | 5 – 10       |

d. Disposal or Transfer

Program managers and designated custodians are responsible for the proper care and safeguarding of all capital assets under their supervision. When an asset is no longer needed, the custodian must notify the Finance Division to initiate the disposal process.

Assets are generally disposed of when they have reached the end of their useful life. However, early replacement may be justified if the cost of repairs exceeds the value or benefit of continued use.

For assets acquired with federal grant funds, disposal must comply with applicable federal regulations and the specific terms of the grant award. These requirements may include maintaining ownership for a specified period and following prescribed procedures for the use or return of any proceeds from the sale or disposition of the asset.

## VI. SURPLUS

The Fire Chief is authorized to approve the surplus of property originally purchased at less than \$10,000, with written approval required. For property with an original purchase price of \$10,000 or more, surplus designation must be approved by the Board of Directors.

When surplus property is acquired using federal grant funds and is no longer needed, the District shall follow the applicable provisions of 2 CFR Part 200 to ensure proper resale, repurposing, donation, or disposal in compliance with federal requirements.

The Fire Chief is responsible for the subsequent resale, donation, or disposal of District property. Before initiating surplus procedures, priority will be given to evaluating whether the item can be repurposed for internal use within the District. If the item cannot be repurposed for internal use and has been approved by the Fire Chief for surplus, the priority for disposal 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.
- 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.
- c. Sale – The District may offer surplus property for sale. All surplus property is for sale “as-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.
  1. Public Auction – The surplus property may be sold at a public auction. The District may contract with a professional auctioneer.
  2. 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 responsive bidder.
  3. Negotiated Sale – Surplus property may be sold directly to a purchaser if it is determined that only one known buyer is available or interested in acquiring the property.
  4. Selling for Scrap – Surplus property with a minimal fair market value may be sold as scrap.
  5. Under circumstances that may benefit the District, items may be sold to local or regional entities for fair market value.
- d. Disposal or Donation – If the District is unable to sell or repurpose surplus property after using the methods provided in Sections a through c, above, or if 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.

The District may, at its discretion, donate surplus property directly to another fire district, fire department, municipality within its jurisdiction, or emergency service agency when it is determined that such a donation serves the public interest, enhances public safety, and supports emergency response capabilities. This donation option may be exercised without first pursuing trade-in, return to manufacturer, internal repurposing, or sale, provided the property is no longer needed by the District and has minimal resale value or limited utility to the District. All donations shall be approved by the Fire Chief, with Board approval required if the historical value meets the threshold specified in the District's surplus procedures. Recipients of property shall be required to sign a donation liability waiver.

**District employees, directors, and officers are prohibited from retaining surplus property offered for sale, donation, or disposal by the District.**

Surplus Procedure

- a. Prior to requesting to surplus an asset, offer the asset to other divisions within the District. If no other division has a use for the asset, then proceed to the next step.
- b. Verify original asset value. If unknown, please contact the Finance Division for determination.
  1. For assets with an original cost of less than \$5,000, the property can be disposed of with program manager approval.
  2. For assets with an original value of \$5,000 to \$10,000:
    - a. Complete the surplus request form
    - b. Have the Fire Chief sign the memo and provide a copy of the signed memo to the Finance Division.
  3. For assets with an original value exceeding \$10,000, the program manager must complete the surplus request form, but Board approval is required. Additionally, the program manager will need to submit a Staff Report and Resolution.
  4. Upon approval of the surplus, follow the surplus policy methods of subsequent resale, repurpose, donation, or disposal as listed in this Policy.
- c. If an asset is sold or donated, a Bill of Sale or Liability Release will need to be completed prior to releasing the asset to the receiving party. Contact the Finance Division to complete the required documentation.
- d. All supporting documentation for the surplus of a property, regardless of the original asset value, shall be provided to the Finance Division.

For vehicles or apparatus, surplus status is generally based on the following guidelines:

- a. When the odometer exceeds 100,000 miles
- b. When it reaches 10 years of age

c. When the cost of damage repairs exceeds the current market value

These criteria are intended as general benchmarks, not strict rules. Each vehicle's replacement needs will be evaluated annually, considering its condition, performance, and overall cost-effectiveness.

Vehicles or apparatus that are subject to sale procedures may be prioritized for negotiated sale to other local or regional agencies.

## **VII. BUDGET**

During the annual budget process, program managers are responsible for submitting requests for asset purchases that meet the District's established capital asset threshold. These requests will be reviewed and prioritized based on operational needs and available funding. Upon approval, the budget allocation for these purchases will be assigned to specific account codes under the Capital Improvement Project (CIP) Fund, which serves as the designated fund for tracking all capital assets and capital improvement projects of the District.

## **VIII. DONATED ASSET**

Donated capital assets are recorded at their fair market value at the time they are received, as determined through market data or appraisal. These assets must also be properly recorded in the capital asset system and tagged as appropriate.

If the District intends to sell the donated asset, its fair value is recognized as revenue at the time of donation, and the asset is classified as "Assets Held for Sale." Revenue from the sale is then recognized when the transaction is completed.

## **IX. LEASE**

The Governmental Accounting Standards Board issued GASB Statement No. 87, which became effective on July 1, 2021. The purpose of this standard is to enhance the relevance and consistency of financial reporting by improving the accounting treatment of leases in the public sector. GASB 87 applies to leases involving non-financial assets, including land, buildings, equipment, and vehicles, while explicitly excluding certain arrangements such as leases of intangible assets, biological assets, and inventory. All lease agreements are to be evaluated to determine if they meet the GASB 87 definition of a lease to comply with reporting requirements.

To align with this standard, the District has established a materiality and capitalization dollar threshold to determine whether leases should be included in the external financial statements, both as a lessee and a lessor. At the commencement of each lease, the District will review the agreement's terms and conditions to calculate the present value

of future lease payments, which represents the value of the associated right-to-use asset.

- a. A lease agreement that results in a right-to-use asset with a present value of \$50,000 or more will be capitalized and included in the external financial statements.
- b. A lease agreement with a right-to-use asset value less than \$50,000 may be included in the external financial statements at the discretion of the District's Finance Division if it is determined that excluding the lease could lead to incomplete or misleading financial reporting.
- c. Short-term leases (with a term of 12 months or less) are excluded from the scope of GASB 87 and will neither be capitalized nor included in the external financial statements, regardless of the asset value.

#### **X. SUBSCRIPTION-BASED INFORMATION TECHNOLOGY ARRANGEMENT**

The Governmental Accounting Standards Board issued GASB Statement No. 96, effective July 1, 2022, to improve the consistency and relevance of financial reporting related to governments' subscription-based information technology arrangements (SBITAs). This standard establishes a single model for accounting for SBITAs, based on the principle that such arrangements represent the financing of a right to use an IT asset over a defined subscription term.

Under GASB 96, governments are required to recognize both a subscription liability and an intangible right-to-use subscription asset at the commencement of the SBITA term. Each subscription agreement is evaluated to determine whether it meets the definition of a SBITA and to ensure compliance with GASB 96 reporting requirements.

To align with this standard, the District has established a materiality and capitalization dollar threshold based on the present value of future subscription payments, which is used to determine whether a SBITA is included in the external financial statements.

- a. A SBITA agreement that results in a right-to-use subscription asset or corresponding liability with a present value of \$50,000 or more will be capitalized and included in the external financial statements.
- b. A SBITA agreement with a present value below \$50,000 may still be included in the external financial statements at the discretion of the District's Finance Division, if it is determined that its exclusion could result in incomplete or misleading financial reporting.
- c. Short-term SBITAs (with a term of 12 months or less) are excluded from the scope of GASB 96 and will not be capitalized or reported in the external financial statements, regardless of the asset value.

#### **XI. POLICY REVIEW**

The Policy shall be reviewed at least once every three years by the Finance Division, or more frequently if deemed necessary due to changes in applicable accounting standards, regulatory requirements, or operational practices. Recommendations for updates or revisions will be presented to the Board for approval to ensure continued compliance, relevance, and alignment with the District's financial objectives and reporting obligations.