

CARMICHAEL WATER DISTRICT
Regulations Manual

REGULATION TITLE: **Asset Capitalization**

REGULATION NUMBER: **1050**

1050.00 Purpose of the Regulation

The purpose of this regulation is to establish guidance in identifying, capitalizing, depreciating, and accounting for Carmichael Water District (District) capital assets.

1050.10 Definitions

A capital asset is defined under this Regulation as an asset owned by the District that – 1) is acquired for use in District operations, 2) is long-term in nature (i.e., useful life exceeds one (1) year), and 3) has a minimum value of \$5,000 (see section 1050.30 below for more categories and their respective thresholds).

1050.20 Capital Asset Categories

Capital assets can be segregated into the following categories:

- A. Land and Land Improvements with a limited life, such as driveways, walks, fences, landscaping, and parking areas.
- B. Buildings and Building Improvements, such as HVAC equipment, interior remodeling features, and landscaping.
- C. Hydrants, pressure modulating facilities, Valves and related appurtenances.
- D. Transmission and Distribution pipelines.
- E. Water Storage Facilities.
- F. Groundwater Wells, Flow Meters, and other related appurtenance or equipment.
- G. Pumps, Motors and Water Treatment Facilities
- H. Water Meters and Appurtenances.
- I. Machinery and Equipment, such as generators, compressors, jackhammers, tools, trimmers.
- J. Fleet Equipment, such as cars, trucks, trailers and backhoes.
- K. Office Equipment such as furniture and fixtures.
- L. Computer Systems, Purchased Software and Telephones.
- M. Intangible Assets, such as easements and internally generated computer software.

1050.30 Capitalization Thresholds

Capital assets eligible for capitalization, must have:

- 1) an estimated useful life of at least one years from the date of acquisition,

- 2) a minimum value of \$5,000, and
- 3) Such criteria shall be applied to individual assets and to groups of assets acquired together.

The table below shows the threshold by asset type for the District.

Land	Capitalize
Transportation Equipment	5,000
Building & Improvements	10,000
Distribution Infrastructure	Capitalize & Depreciate
Information Technology	5,000
Machinery & Equipment	5,000
Furniture & Fixtures	5,000
Pumping & Treatment	10,000
CIP's	Capitalize & Depreciate
Water Rights	Capitalize

1050.40 Valuation of Capital Assets

The value assigned to capital assets shall be determined as follows:

1050.41 Purchased Capital Assets

The capitalized value of purchased Capital assets shall be determined using the original cost of the asset. Specific costs eligible for capitalization are identified under section 1050.44. If the original cost of an asset is not available or cannot be reasonably determined, an estimated current cost may be utilized.

1050.42 District-Constructed Capital Assets

District-constructed water system infrastructure assets intended to be used in District operations or internally generated computer software are eligible for capitalization. The capitalized value of such assets shall be determined using direct costs (labor and material costs) associated with the construction up until the time the asset is complete and ready for use.

1050.43 Donated Capital Assets

The capitalized value of donated assets shall be determined using the fair market value at the time of donation. If the fair market value of the asset is not available or cannot be reasonably determined, an estimated cost may be determined using the best available information. The value of donated intangible assets shall be accounted for separate from donated tangible capital assets.

1050.44 Capitalizable Costs

Costs eligible for capitalization under this regulation are:

For land:

- Purchase price or appraised value, whichever is more readily determinable;
- Closing costs, such as title fees, attorney fees, environmental assessments, appraisals, taxes and recording fees;
- Costs necessary to get the land ready for its intended use, such as grading, clearing, filling, draining, surveying, and demolition of existing structures;
- Assumptions of liens, encumbrances or mortgages.

For purchased assets other than land:

- Purchase price, including all taxes;
- Freight, handling and in-transit insurance charges;
- Assembling and installation charges;
- Professional fees such as engineers, inspectors, attorneys, consultants;
- Applicable purchase discounts or rebates.

For District-constructed assets:

- Direct labor costs (to include wages and benefits);
- Direct materials cost;
- Professional fees such as engineers, inspectors, attorneys, consultants;
- Insurance premiums and related costs incurred during construction;
- Costs necessary to get the site ready for its intended use, such as grading, clearing, filling, draining, surveying, and demolition of existing structures;
- Costs for intangible assets as determined in accordance with Governmental Accounting Standards Board (GASB), Statement No. 51 “Accounting and Financial Reporting for Intangible Assets.”

For donated Capital assets:

- Fair Market or Appraised Value at date of donation;
- Installation costs;
- Professional fees such as engineers, inspectors, attorneys, consultants;
- Other normal or necessary costs required to place the asset in its intended location and condition for use.

1050.50 Capitalization of Costs Subsequent to Acquisition

Additional costs incurred after a capital asset is placed in use shall be accounted for as follows:

1050.51 Additions

An “Addition” is defined as an expenditure that either significantly extends the useful life or productivity of the existing capital asset or creates a new capital asset. All “Additions” to existing capital assets should be capitalized as long as the asset meets

the criteria of section 1050.30 above.

1050.52 Improvements and Replacements

“Improvements and Replacements” are defined as expenditures that involve substituting a similar capital asset, or portion thereof, for an existing one. All “Improvements and Replacements” to existing capital assets should be capitalized as long as the asset meets the criteria of section 1050.30 above. If the existing asset’s book value is determinable, then the existing asset should be removed from the books at the time the replacement is recorded. If the existing asset is not separately identifiable, then the replacement should still be capitalized as the existing asset’s book value is assumed to be negligible.

1050.53 Rearrangement or Reinstallation

“Rearrangement or Reinstallation” costs are defined as expenditures that involve moving an existing asset to a new location or reinstalling a similar asset in place of an existing asset. All “Rearrangement or Reinstallation” costs should be expensed in the period incurred.

1050.54 Repairs and Maintenance

“Repairs and Maintenance” costs are defined as expenditures that involve maintaining the asset in good or ordinary repair. All “Repairs and Maintenance” costs should be expensed in the period incurred.

1050.60 Depreciation or Amortization of Capital Assets

Capital assets shall be depreciated/amortized on a straight-line basis beginning the first day of the month following acquisition as per the following schedule:

Category	Depreciation/Amortization Period
Land	None
Transportation Equipment	7-20
Building & Improvements	10-40
Distribution Infrastructure	10-75
Information Technology	3-7
Machinery & Equipment	5-7
Furniture & Fixtures	5-10
Pumping & Treatment	10-50
CIP’s	10-75
Water Rights	None

1050.70 Management Responsibilities and Risk Management

Acquire materials (goods/supplies), equipment, or services through purchase are responsible for having mechanisms in place to ensure the following:

1050.71 Use of appropriate District forms and account numbers to record purchases, sales, and other activity. Once capital assets are recorded, any adjustment to the values or useful lives requires management authorization.

1050.72 Appropriate care to avoid purchase of unnecessary items.

1050.73 Compliance with purchasing requirements and expense authorization when acquiring materials (goods/supplies), equipment, or services from bid, contract and grant funds.

1050.74 Prompt resolution of invoice/purchase order discrepancies to facilitate timely payment to vendors.

1050.75 Appropriate processes are followed for use of District property and disposal of property.

1050.76 Equipment purchased is received and in good condition.

1050.77 Asset tags are affixed to capital equipment.

1050.80 Regulation Review

This regulation shall be reviewed at least biennially.