

Sunnyslope County Water District

Asset Capitalization Policy

PURPOSE

The purpose of the Asset Capitalization Policy is to establish guidelines for the control of capital assets owned by the District. The purposes of the controls are to protect capital assets, to preserve the life expectancy of capital assets, to provide a guide for the future replacement of assets, and to establish a basis for the amount of insurance coverage required.

DEFINITION

A capital asset, for the purposes of this policy, is defined as tangible or intangible property owned by the District and property leased from others that qualify as a capital lease or leasehold improvement with a useful life that extends beyond the year it is placed in service and meets the definition and minimum dollar amount for capitalization per asset category as follows:

- 1). **Land** – Real property that is purchased or acquired by gift, donation, or bequest for operating purposes regardless of value.
- 2). **Land Improvements** – Costs incurred to prepare land for its intended business use in excess of \$5,000, such as landscaping shrubbery, roads, sidewalks, fences, bridges, lighting, sewers, and parking areas.
- 3). **Buildings and Improvements** – All structures acquired or constructed to be used for operating purposes including all permanently attached fixtures, machinery, and other components that cannot be removed without damage, such as boilers, furnaces, air conditioners, elevators, wiring, and lighting fixtures. All alterations, renovations, and repairs to existing structures in excess of \$10,000 that increase the value of the property, make it more useful, or lengthen its life.

The capitalized cost of a building acquired by purchase should include purchase price and other incidental expenses incurred at the time of acquisition. The capitalized cost of a building constructed should include all reasonable and necessary costs incurred to construct the building and prepare it for its intended use. Such costs include: appraisal & negotiation fees, surveying & architect fees, legal & title fees, building materials, transportation charges, building permits, demolition cost, interest during construction, damage payments, land-preparation costs, insurance during construction, accounting fees, closing costs. Construction projects are initially capitalized to construction-in-progress. Subsequently, the capitalized expenditures are recorded as an asset when put into service.

- 4). **Leasehold Improvements** – All alterations, renovations, and repairs to leased facilities in excess of \$10,000 that increase the value of the property, make it more useful, or lengthen its life.

- 5). **Furniture and Equipment** – Tangible personal property purchased, self-constructed, or acquired by gift to be used for operating purposes in excess of \$1,000, such as water mains, distribution pipes, valves, service lines, desks, workstations, computer hardware, automobiles, and shop & field equipment.

- 6). **Property Leased from Others Under Capital Leases** – A capital lease is a lease that is treated in a manner similar to an asset purchase with a minimum capitalization cost of \$1,000 per item. If the lease is non-cancelable and has at least one of the following characteristics, the leased asset is recorded on the books as a capital asset of the District:
 - a. The agreement passes title to the lessee.
 - b. The agreement contains a bargain purchase option.
 - c. The lease term is at least 75% of the asset’s estimated economic life.
 - d. The present value of the minimum lease payments (discounted at the lower of the implicit interest rate or the incremental borrowing rate) equals or exceeds 90% of the assets fair value.

- 7). **Computer Software** – Intangible property either purchased or acquired by gift that is designed to cause a computer to perform a desired function in excess of \$1,000.

DEPRECIATION GUIDELINES

Depreciation is a system of accounting which aims to distribute the cost or gift value of a capital asset, less salvage value, over the estimated useful life of the asset in a systematic and rational manner. All depreciable assets will be depreciated using the **straight-line method** of allocation. The straight-line method allocates an equal amount of the net cost of an asset to each accounting period in its useful life. Most assets retain some recovery at the end of their useful lives, which is known as salvage value. All depreciable property of the District will have a **0% salvage value** for accounting purposes. All land, other than land improvements, is non-depreciable.

The useful life of depreciable assets is based on the time period of usefulness to the District. The following table displays the estimated useful life that will be used to allocate depreciation:

<u>Asset Category</u>	<u>Estimated Useful Life (in Years)</u>
Hydrants	40
Transmission Mains	40
Distribution Pipes (Water & Sewer Mains)	40
Lift Stations	40
Valves	40
Storage Tanks	40
Service Lines	40
Wells	25 – 40
Buildings	25 – 40
Landscaping/Grading/Lighting/Fencing/Paving	10 – 25
Backflow Prevention	10 – 20

<u>Asset Category</u>	<u>Estimated Useful Life (in Years)</u>
Tools and Shop Equipment	7 – 15
Meters	10
Chlorination Equipment	10
Other Treatment Equipment	10
Office Furniture/Supplies	7 – 10
Electrical Systems	7 – 10
Pumps	5 – 10
Transportation Equipment	5 – 10
Lab/Monitoring Equipment	5 – 10
SCADA Monitoring Equipment	5 – 10
Computers/Printers	5

AUTHORIZATION FOR PURCHASING CAPITAL ASSETS

The General Manager of the District annually submits a request for capital asset acquisitions for the upcoming fiscal year in addition to the annual Operating Budget to the Board of Directors for approval. Interim requests can be made and presented to the Board for approval as needs arise. Once a request is approved, purchases may be made in accordance with current District purchasing practices.

DISPOSITION OF CAPITAL ASSETS

Capital assets which are obsolete, worn out, or no longer meet the requirements of the District may be sold as surplus, transferred to another department, traded-in, or discarded. The Finance Manager must be notified in writing of the manner and date of any dispositions to preserve the accuracy of the capital asset records.

Date Approved: 6/12/08