

Section	<b>FIN-5 Finance</b>	Approval Date	<b>10/11/17</b>
Policy	<b>FIN-5.2 Capital Asset Policy</b>	Latest Revision	<b>2/28/24</b>

## FIN-5.2 Capital Asset Policy

### 5.2.1 Purpose

The purpose of this policy is to establish guidance in identifying, capitalizing, depreciating, and accounting for District capital assets.

### 5.2.2 Definitions

A capital asset is defined under this Policy as an asset owned by the District that is: 1) acquired for use in District operations, and 2) long-term in nature.

### 5.2.3 Capital Improvement Program

District infrastructure will be maintained at a level that ensures the delivery of a reliable water supply of the highest quality at reasonable and equitable costs. Long-term capital improvement plans are created with each Master Plan. The capital improvement plan is a planning tool which assists the District in the construction and replacement of capital facilities required to provide water service to current and future customers. The Long Term Capital Improvement Plan is updated each year based on a number of factors including new projects not identified in Master Plan, funding availability, and available staff resources.

### 5.2.4 Categories

Capital assets shall be segregated into the following categories:

- A. Land (non-depreciable)
- B. Land Improvements with a limited life, such as driveways, walks, fences, landscaping, and parking areas.
- C. Pump Stations and Improvements
- D. Buildings and Improvements (excluding Water Treatment Plant)
- E. Water Treatment Plant and Improvements
- F. Mains/Pipelines and Improvements
- G. Meters & Endpoints
- H. Reservoirs and Improvements
- I. Equipment and Furniture, such as large tools, vehicle trailers, tractors, meters, hydrants, computer equipment, furniture, and fixtures
- J. Vehicles, such as cars and trucks
- K. Software
- L. Subscription Based Technology Arrangements
- M. Other Intangibles

### 5.2.5 Capitalization Thresholds

Capital assets eligible for capitalization, must have:

- A. An estimated useful life of greater than 1 year from the date of acquisition; **and**
- B. A minimum individual asset value of \$5,000. If the asset is shared between Wholesale and Retail, the combined total value must be at least \$5,000 to qualify for capitalization.
- C. Assets cannot be grouped together to meet the minimum \$5,000 value, with the exception of bundled assets as mentioned below.
- D. Bundled Assets: assets whose individual acquisition costs are less than \$5,000 if the bundle of assets in the aggregate are significant. The District considers the following to be bundled assets:
  - All meter replacements, capitalize as an annual asset
  - Service Lateral installation and replacements: capitalize by development project and/or as one annual asset
- E. A lease agreement that extends beyond one year (including extensions) and a total lease value of at least \$100,000.

### 5.2.6 Valuation of Capital Assets

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

- A. Purchased or Constructed Capital Assets  
The value is determined using the original cost of the asset, including all reasonably identifiable costs incurred to acquire, construct, and place an asset into service. Studies are not capitalized, unless they can be related to a specific asset.
- B. 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.

Fair Market or Appraised Value at date of donation includes

- Installation costs;
- Professional fees of engineers, inspectors, attorneys, consultants, etc.;
- Other normal or necessary costs required to place the asset in its intended location and condition for use.

Leased Assets (Right to Use)

- Value of lease liability;
- Lease prepayments made for future periods;
- Direct ancillary costs necessary to place asset into service (excluding debt issuance costs)

### 5.2.7 Capitalization of Costs Subsequent to Acquisition

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

- A. Additions:  
An “Addition” is defined as an expenditure that either significantly extends the useful life or productivity of an 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 5.2.5 above.
- B. 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 5.2.5 above. If the existing asset’s book value is determinable, then the existing asset should be removed from the books when taken out of service. If the existing asset is not separately identifiable, then the replacement may be capitalized as the existing asset’s book value is assumed to be negligible. The Director of Finance is authorized to make a determination when this policy does not provide clear direction.
- C. 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.
- D. 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.

### 5.2.8 Depreciation or Amortization of Capital Assets

Capital assets shall be depreciated or amortized on a straight-line basis beginning the first day of the month following acquisition in accordance with the following schedule:

Category	Useful Life in Years
<b>Pump Stations/Pressure Control Stations &amp; Improvements</b>	
Variable Frequency Drives (VFD)	12 to 35
Pumps	15 to 20
Motor Control Centers (MCC)	20
Generators	20 to 25
Pressure/Control Valve Stations	20 to 35
Pump Station Building	30 to 40

Category	Useful Life in Years
<b>Land Improvements</b> Paving/Resurfacing Landscaping Fencing Cement Work Decking	7 to 30 10 10 to 35 20 20 to 35
<b>Equipment &amp; Furniture</b> Computer Equipment Furniture Other Small Equipment (survey equipment, leak detectors, etc.) Copy Machines and Plotters Shop Equipment (welders, pipe threaders, presses, etc.) SCADA Trailers, including Vacuum Trailers Tractors, Backhoes, Forklifts Dump Trucks Meter Endpoints Meters – Water Hydrants Sewer Lift Station Fuel tanks	5 to 10 5 to 10 5 to 10 5 to 10 5 to 15 7 to 10 10 8 to 25 20 10 20 to 25 25 to 70 25 to 50 25 to 50
<b>Building and improvements</b> Hot Water Heater HVAC Lighting Solar Facility Network Cabling Roof Office Buildings	10 to 15 10 to 20 20 20 to 35 25 25 to 33 30 to 50
<b>Treatment Plant &amp; improvements</b> Filtrate Pumps Chlorine Feed System ERS Filter Media Alum Feed Pump and Feed System Backwash Hoods and Pumps Polymer System Solids Handling Alum Tank Sedimentation Basin Sludge Vacuum System Chemical Feed Pump	10 10 to 15 15 10 to 20 15 to 35 25 to 35 25 to 35 25 25 25

Category	Useful Life in Years
Treatment Plant Building	30 to 50
Flocculation & Sedimentation Basins	35
Filter Basins	35
Treatment Plant Building Improvements (see Building and Improvements)	See Building and Improvements above
<b>Mains/Pipelines</b>	
Wholesale Meters	10 to 20
Cathodic Protection	25
Air Release Valve	25
Pipelines	30 to 75
Mains	30 to 80
Services (HDPE)	40
Valves	50
<b>Reservoirs &amp; improvements</b>	
Reservoir	25 to 50
Tanks	25 to 50
<b>Vehicles</b> (see Equipment for tractors, backhoes, and trailers)	10
<b>Software</b> (including SCADA)	10
<b>Intangible</b>	Varies based on life of asset

Where the useful life is listed by a range, factors such as material type, physical environment of the asset, intensity of expected use and others as may be provided by Project and/or Department Managers will be used to determine placement within the range.

The depreciation period of an asset financed by debt shall not be less than the length of time for the debt.

### 5.2.9 Physical Inventory of Capital Assets

A physical inventory of the following categories of capital assets shall be performed at least annually:

- A. Machinery and Equipment
- B. Fleet Equipment
- C. Office Furniture and Fixtures
- D. Computer Equipment, Purchases Software and Telephones

The results of the physical inventory shall be reconciled with the District's fixed asset system.

### 5.2.10 Disposal of Capital Assets

Capital assets that have become obsolete shall be disposed of in a manner that returns the maximum value to the District and its ratepayers.

In most cases the assets are sent to auction; however, the Finance Director determines the best method of disposal.

State law prohibits District employees from purchasing District property (Government Code section 1090).

#### Revision History:

Revision Date	Description of Changes	Requested By
8/19/20	Numerous changes – see Board staff report dated 8/19/20	Finance Committee
4/27/22	Add bundled asset purchases and leases, revise useful lives – see Board staff report dated 4/27/2022.	Finance Department
12/14/22	Changed bundled asset 5.2.5 – See Board staff report dated 12/14/2022.	Finance Committee
2/28/24	Added language to specifically include that capital assets should be written off when they are disposed of or placed out of service	Finance Committee