



POLICIES, RULES AND REGULATIONS	
Title: CAPITALIZATION POLICY FOR FIXED ASSETS	
Policy No.: Appendix U	Section Nos.:1.0 – 4.1
Approval Date: 04/2011	Effective Date: 04/2011
Approved By: Board of Directors	

Table of Contents

Sections	Page #
1.0 INTRODUCTION.....	1
1.1 <u>Purpose:</u>	1
1.2 <u>Definitions:</u>	1
2.0 CAPITALIZATION POLICY.....	2
2.1 <u>Land:</u>	2
2.2 <u>Land Improvements:</u>	2
2.3 <u>Building – New Construction:</u>	2
2.4 <u>Equipment:</u>	2
2.5 <u>Reservoirs, Pipeline and Appurtenances:</u>	3
2.6 <u>Vehicles and Equipment:</u>	3
2.7 <u>Intangible Assets:</u>	4
2.8 <u>Conveyed/Donated Assets:</u>	4
3.0 RETIREMENT POLICY.....	4
4.0 DEPRECIATION.....	4
4.1 <u>Responsibility:</u>	5



POLICIES, RULES AND REGULATIONS	
Title: CAPITALIZATION POLICY FOR FIXED ASSETS	
Policy No.: Appendix U	Section Nos.: 1.0 – 4.1
Approval Date: 04/2011	Effective Date: 04/2011
Approved By: Board of Directors	

1.0 INTRODUCTION

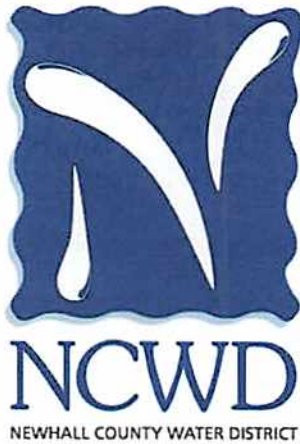
1.1 Purpose:

This guideline is to establish a financial accounting capitalization policy adopted by the Board of Directors. Unless otherwise determined or directed by the Board of Directors, this policy specifies the manner for capitalizing land, land improvements, buildings, equipment, reservoirs, pipelines and appurtenances, vehicles and intangible assets of the District. All purchases for any fixed assets including, related professional services, materials, and labor, must adhere to the methods, authority and dollar limits of this policy as outlined in this Appendix U.

This policy may be amended from time to time by action of the Board of Directors.

1.2 Definitions:

- **Fixed Asset** – To qualify as a Fixed Asset it must meet all the following requirements:
 1. Must have a useful life of longer than one year
 2. Cost must exceed \$5,000
- **Betterment of a Fixed Asset** – To qualify as Betterment of a fixed asset, the cost must be at least \$5,000, AND the addition/improvement must meet at least one of the following criteria:
 1. Extends the useful life of the asset
 2. Increases the quantity of service provided by the asset
 3. Enhances the quality of service provided by the asset
- **Group Purchase** – To qualify as a Group Purchase for items which are individually less than the capitalization amount:
 1. Must qualify as a fixed asset
 2. Items must be similar in nature
- **New Construction** – Qualifies as a Fixed Asset and will be capitalized regardless of value.



POLICIES, RULES AND REGULATIONS	
Title: CAPITALIZATION POLICY FOR FIXED ASSETS	
Policy No.: Appendix U	Section Nos.:1.0 – 4.1
Approval Date: 04/2011	Effective Date: 04/2011
Approved By: Board of Directors	

2.0 CAPITALIZATION POLICY

This policy applies to land, land improvements, buildings, equipment, pipelines and appurtenances, vehicles and intangible assets used in the operations of Newhall County Water District (District). Capitalized assets include the following:

2.1 Land:

Cost to be capitalized includes all costs connected with acquisition and incurred to prepare the land for its intended purpose. These costs include but are not limited to purchase price, real estate commissions, legal fees, escrow fees, title investigations, title insurance, and surveying, clearing, draining and filling land and clean-up or decontamination cost.

2.2 Land Improvements:

Cost to be capitalized includes the cost of landscaping, utility systems and paving. All land improvements associated with new construction will be capitalized.

2.3 Building – New Construction:

The cost to be capitalized includes, but is not limited to the cost of professional services, materials, and labor and site preparation.

1. Infrastructure costs such as pipeline, utility improvements, sidewalks and paving are capitalized.
2. If debt is used to finance the new construction, net interest expense and the amortization of loan organization costs incurred during the construction period should be capitalized.
3. Construction projects are considered “construction in progress” until they are at least 90% complete, or the project is operational and placed in use, or the construction has been certified as substantially complete. The project is then removed from construction in progress and capitalized.

2.4 Equipment:

This category of asset classification is used for all costs associated with the purchase of tangible property having a useful life of more than one year and a cost in



POLICIES, RULES AND REGULATIONS	
Title: CAPITALIZATION POLICY FOR FIXED ASSETS	
Policy No.: Appendix U	Section Nos.: 1.0 – 4.1
Approval Date: 04/2011	Effective Date: 04/2011
Approved By: Board of Directors	

excess of \$5,000 per individual unit. Unit charges may also include the cost of installation, transportation, and taxes.

1. Tangible property includes furniture, fixtures, computer equipment and software. In addition to the net invoice price of an asset, all costs associated with modifications, attachments, accessories, or auxiliary apparatus necessary to make the property usable for its intended purpose may also be capitalized, but only if incurred at the time of initial equipment purchase. All subsequent costs of this nature to maintain the equipment, will be expensed.
2. This category also includes all costs per unit related to the external purchase of software applications and the associated implementation costs (including initial licensing fees) having a useful life of at least one year. (Fees paid for the renewal of software licensing and maintenance will be expensed.)

2.5 Reservoirs, Pipeline and Appurtenances:

The costs to be capitalized include the cost of new reservoirs, pipeline construction, replacement of pipelines, and all other appurtenances connected to the pipeline. In addition to the net invoice price of the material, all costs associated with the project, including, but not limited to engineering, inspection, equipment rental, professional services, paving, labor and benefits are to be capitalized.

1. All appurtenances, not included in pipeline projects, installed and labeled as New Construction shall be capitalized, regardless of value.
2. Reservoirs, pipeline and appurtenances that are replaced for the Betterment of the asset must exceed the unit cost of \$5,000, unless the pipeline and appurtenances comply with the criteria for a group purchase.
3. Appurtenances include, but are not limited to fire hydrants, meters, services, valves, air release valves or sample taps.

2.6 Vehicles and Equipment:

All vehicle and equipment purchases are to be capitalized. This category also includes mobile and stationary equipment having a useful life of more than one year. All mobile or stationary equipment requiring DMV registration will be capitalized, regardless of value.



POLICIES, RULES AND REGULATIONS	
Title: CAPITALIZATION POLICY FOR FIXED ASSETS	
Policy No.: Appendix U	Section Nos.: 1.0 – 4.1
Approval Date: 04/2011	Effective Date: 04/2011
Approved By: Board of Directors	

1. In addition to the net invoice price of the asset, all costs associated with modifications, attachments, accessories, or auxiliary apparatus necessary to make the vehicles or equipment usable for its intended purpose may also be capitalized, but only if incurred at the time of initial equipment purchase. All subsequent costs of this nature to maintain the equipment, will be expensed.
2. In the event the District enters into a capital lease for vehicles and equipment, the asset will be capitalized at the net present value of the lease payments and recorded in the fixed asset system in the same manner as other purchased assets. Payments related to operating leases will be expensed.

2.7 Intangible Assets:

An intangible asset is not physical in nature. It has value, but it cannot be physically touched. There are many different types of intangible assets and they can be classified as either indefinite or definite depending on the specifics of the particular asset. Included in this category are the District Master Plans, Integrated Regional Water Management Plans and water rights.

These assets are to be recorded at actual cost in the year the cost was incurred. When plans become outdated and are revised, the new cost will be added to fixed assets and the previous cost removed.

2.8 Conveyed/Donated Assets:

Land, land improvements, buildings, equipment, pipelines and appurtenances, vehicles and intangible assets constructed or purchased by another party and given to the District through contractual means will be capitalized at the fair market or appraised value at the time the asset is conveyed and/or donated.

3.0 RETIREMENT POLICY

Assets are retired, at their book value, from fixed assets when it has been determined the asset is no longer operable, has been replaced, or is no longer available for use. Identification of retiring assets is done through the budgeting and/or auditing process as is verified by the appropriate department.

4.0 DEPRECIATION

The District depreciates all assets by the straight-line method over their useful life and is based on the Standard Practice U4 table as supplied by the California Public Utilities Commission.



POLICIES, RULES AND REGULATIONS	
Title: CAPITALIZATION POLICY FOR FIXED ASSETS	
Policy No.: Appendix U	Section Nos.:1.0 – 4.1
Approval Date: 04/2011	Effective Date: 04/2011
Approved By: Board of Directors	

Standard Practice U4 table estimated useful lives for District assets by category are:

Category No.	Description	Estimated Useful Life
131	Wells-Structures	21 – 28 Years
133	Wells	29 – 38 Years
141	Pumping-Structures	33 – 35 Years
142	Pumping Equipment	14 – 34 Years
151	Treatment-Structures	32 – 42 Years
152	Treatment Equipment	18 – 37 Years
162	Reservoirs	48 – 50 Years
163	Pipeline (T&D)	50 – 52 Years
165	Services	27 – 29 Years
166	Meters	26 – 29 Years
167	Hydrants	27 – 29 Years
171	Structures/Buildings	43 Years
172	Office Furniture	5 Years
173	Vehicles	8 Years
176	Communications	7 Years
178	Tools	4 Years
179	Other	9 Years
180	Sewer Plant	51 Years
182	Intangible Plant	41 – 49 Years

4.1 Responsibility:

The Finance Department is responsible for the calculation, maintenance and storage of this information.