



<b>POLICIES, RULES, AND REGULATIONS</b>	
Title: <b>CAPITALIZATION POLICY FOR FIXED ASSETS</b>	
Approval Date: July 2022	Effective Date: July 2022
Approved By: Board of Directors	DMS #29470

## **CAPITALIZATION POLICY FOR FIXED ASSETS**

### 1.0 INTRODUCTION

The Santa Clarita Valley Water Agency (SCV Water) Capitalization Policy is intended to promote good accounting and financial reporting. The policy allows SCV Water to accurately account for and report capital assets in financial reports issued to external reporting agencies, granting agencies and the public. The policy provides specific guidance to determine which capital assets are subject to separate accounting and reporting (i.e., Capitalization).

### 2.0 STATEMENT OF PURPOSE (excludes Leases and Subscription-Based Information Technology Arrangements)

In general, all capital assets, including land, improvements, buildings, machinery, and equipment, with an original cost of \$5,000 or more, and with economic lives greater than one year, are considered fixed assets and will be capitalized for accounting purposes. All costs associated with the purchase or construction should be considered, including ancillary costs such as freight and transportation charges, site preparation expenditures, professional fees, and legal claims directly attributable to asset acquisition.

#### 2.1 Specific Capitalization Requirements

For purposes of capitalization, the threshold will generally not be applied to components of capital assets. For example, a keyboard, monitor and central processing unit purchased as components of a computer system will not be evaluated individually against the capitalization threshold. The entire computer system will be treated as a single capital asset.

Repairs to existing capital assets will generally not be subject to capitalization unless it extends the useful life of the asset. In this case, it represents an improvement and is subject to the requirements described below.

A group purchase of items which are individually below the \$5,000 capitalization threshold may still qualify for capitalization. If the items are similar in nature, they qualify as a fixed asset, and in total they exceed the \$5,000 capitalization threshold, then they should be capitalized. An example is a purchase of 100 meters which cost \$500 each – the meters would be capitalized because they qualify as a fixed asset (useful life of greater than 2 years), they are similar in nature, and in total the value exceeds \$5,000.



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Assets will be capitalized as a unit. Assets will not be recorded for individual items unless the project costs are defined. An example is construction of a booster station that includes pumps, motors, electrical, structures, etc. If the separate costs are not defined, the total project cost will be capitalized as one unit.

Staff training, on new Capital Assets, should not be capitalized.

**2.2 Improvements to Capital Assets**

Improvements to existing capital assets will be presumed (by definition) to extend the useful life or increase the capacity or performance of the related capital asset and, therefore, will be subject to capitalization if the cost of the improvement meets the \$5,000 threshold. An improvement to a capital asset that had an original cost of less than \$5,000, but now exceeds the threshold because of the improvement completed within the same fiscal year as the original purchase, should be combined as a single asset at the total cost (original cost plus the cost of the improvement) and capitalized.

**2.3 Capital Projects**

Capital projects under construction will be capitalized as 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. Costs to be capitalized include direct costs, such as labor and materials, as well as ancillary costs. SCV Water adopted GASB 89, therefore construction period interest costs are no longer capitalized; they are to be expensed in the period incurred.

**2.4 Depreciation**

Depreciation is recorded on a straight-line basis over the estimated useful lives of the assets. Depreciation will be calculated when the project is operational and placed in use, or the construction has been certified as substantially complete beginning with fiscal year 2021. Depreciation will be posted monthly.

**3.0 CAPITALIZATION POLICY FOR LEASES AND SUBSCRIPTION-BASED ARRANGEMENTS**

This policy will increase the usefulness of the Agency’s financial statements by requiring reporting of certain lease liabilities and subscription-based arrangements that currently are not reported. A lease or subscription-based arrangement that meets the criteria below will have a \$100,000 capitalization threshold.



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**3.1 Leases (GASB 87)**

A lease 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 transaction. Examples of nonfinancial assets include buildings, land, vehicles, and equipment.

The lease term is defined as the period during which a lessee has a noncancelable right-to-use an underlying asset, plus the following periods, if applicable

A lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources.

**3.2 Subscription-Based Information Technology Arrangements (GASB 96)**

A Subscription-Based Information Technology Agreement (SBITA) is defined as a contract that conveys control of the right-to-use another party’s (a SBITA vendor’s) 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 transaction.

The subscription term includes the period during which a government has a noncancellable right-to-use the underlying IT assets. The subscription term also includes periods covered by an option to extend (if it is reasonably certain that the government, or SBITA vendor, will exercise that option) or to terminate (if it is reasonably certain that the government, or SBITA vendor, will not exercise that option).

**3.3 Amortization**

Amortization is recorded on a straight-line basis, over the estimated useful lives, of the assets. Amortization will begin once the Lease or SBITA is capitalized and will be posted monthly.



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Depreciation lives (years) will be as follows:

Amortization	Varies
Castaic Turnout - Regional	50
Communications Equipment	7
Computer Equipment - Hardware & Software	5
Fencing	15
Fire Mains	50
Franchise & Consents	20
Hydrants	30
Lab Equipment	5
Lighting and Roads	25
Maintenance Facility	30
Meter Installations	20
Meters	20
Office Furniture & Equipment	10
Organizational Costs	33
Other General Plant	8
Other Intangible Plant	20
Other Pumping Equipment (Disinfection)	30
Other Transmission & Distribution Plant	35
Power Operating Equipment	10
Pumping Equipment	20
Reservoirs & Tanks	50
Services	30
Sewer Lift Stations	51
Sewer Plant	50
Stores Equipment	10
Structures & Improvement (General)	40
Structures & Improvements (Pumping Plant)	30
Structures & Improvements (Reservoirs & Tanks)	30
Structures & Improvements (Wells)	30
Tools, Shop & Garage	10
Transmission & Distribution Mains	50
Treatment Plant - Regional	50
Treatment Structures	35
Vehicles	10
Water Treatment Equipment	30
Wells	30

*(Originally Adopted May 2018; revised December 2020, July 2022)*