

SOUTH PLACER MUNICIPAL UTILITY DISTRICT POLICIES

Policy Name:	3115 – FIXED ASSET CAPITALIZATION & ACCOUNTING CONTROL		
Approval Authority:	SPMUD BOARD OF DIRECTORS	Adopted:	10/27/05
Resolution No.	05-11, 15-23	Revised:	

PURPOSE

The purpose of this policy is to provide criteria for determining when assets and associated costs are to be capitalized and ensure proper accounting control resulting in the maintaining of accurate financial reports of fixed assets. It is the policy of the District that the treatment of capital assets, for accounting purposes, is according to the recommended practices of GAAP (Generally Accepted Accounting Principles) and GASB 34 (Governmental Accounting Standards Board).

POLICY STATEMENT

Section 1: Definitions

Capital Assets are defined as land, improvements to land, buildings, building improvements, vehicles, equipment, furniture and fixtures, infrastructure (sewer system), and all other tangible or intangible assets that are used in operations and that have initial useful lives extending beyond a single reporting period.

Section 2: Capitalization threshold

The capitalization threshold for capital assets will be an original cost of \$5,000 or more. Specific capitalization requirements are described as follows:

- a) All land will be capitalized regardless of cost.
- b) All other assets will be capitalized if the cost equals or exceeds \$5,000.
- c) The capitalization threshold is applied to individual units of capital assets rather than groups. (For example, five computers purchased for \$1,500 each will not be capitalized, even though the total (\$7,500) exceeds the threshold of \$5,000).
- d) For purposes of capitalization, the threshold will generally not be applied to components of capital assets. As an example, the entire computer system for the District will be treated as a single asset, if all component parts are required to make the asset functional.
- e) Repairs to existing capital assets will generally not be subject to capitalization unless repair extends the useful life of the asset. In this case the repair represents an improvement and is subject to the requirements in item "f" below.
- f) Improvements or replacements to existing capital assets will be presumed by definition to extend the useful life of the related capital assets, and therefore will be subject to capitalization if the cost equals or exceeds \$5,000.

Section 3: Record keeping

The District will keep appropriate records in order to monitor and accurately inventory all fixed assets.

Section 4: Acquisition

Fixed assets may be acquired through direct purchase, lease-purchase or capital lease, construction, eminent domain, tax foreclosures, donations and gifts.

Section 5: Recordation of costs

Capital assets are recorded at their “historical cost,” which is the original cost of the assets. Donations accepted by the District will be valued at the fair market value at the time of donation. Costs include purchase price (less discounts) and any other reasonable and necessary costs incurred to place the asset in its intended location and prepare it for service. Costs could include the following: Sales tax, freight charges, legal and title fees, closing costs, appraisal and negotiation fees, surveying fees, land-preparation costs, demolition costs, relocation costs, architect and accounting fees, insurance premiums, and interest costs during construction.

According to GASB 34, an estimate of the original costs is allowable in the absence of historical records. Standard costing is one method of estimating historical costs using a known average installed cost for a like unit at the estimated date of acquisition. Another recognized method is normal costing wherein an estimate of historical cost is based on current cost of reproduction new, indexed by a reciprocal factor of the price increase of a specific item or classification from the appraisal date to the estimated date acquired. When necessary the District will use whichever method gives the most reasonable amount based on available information.

Section 6: Enhancement of a Capital Asset

Expenditures and expenses that either enhance a capital asset’s functionality or that extend a capital asset’s expected useful life are capitalized.

Section 7: Disposal of Property

It is the District’s policy that a Resolution will be adopted by the Board of Directors for the disposition of surplus, damaged or inoperative capital assets. Please refer to Policy 3300.

Section 8: Depreciation Expense

The District will record depreciation expense on all capital assets, except for land. The District will use the straight-line method of depreciation. Depreciation will be calculated monthly commencing on the month of acquisition. Depreciation will be calculated over the estimated useful life of the asset.

Section 9: Estimated Useful Life of Capital Assets

The District follows the GFOA’s (Government Finance Officers’ Association) recommended practices when establishing recommended lives for capital assets. If the life of a particular asset is estimated to be different from these guidelines, it may be changed.

The following is a summary of the estimated useful lives:

Asset Class	Useful Life
Buildings	15-25 Years
Sewer System	75 Years
Equipment	10-20 Years
Office Furniture	5-15 Years
Vehicles	5-15 Years

Section 10: Non- Capitalized tangible capital items

The District will exercise control over the non-capitalized tangible capital-type items by establishing and maintaining adequate control procedures. The District’s capitalization threshold of \$5,000 meets financial reporting needs.