RESOLUTION NO. 16-23

RESOLUTION OF THE BOARD OF DIRECTORS OF RUNNING SPRINGS WATER DISTRICT ADOPTING A REVISED CAPITAL ASSET ACCOUNTING POLICY

WHEREAS, the auditors and accountants of Running Springs Water District have recommended the adoption of a revised uniform policy addressing the types of assets to be capitalized and the values at which such assets are capitalized; and

WHEREAS, the District's financial consultants have assisted in the preparation of a uniform policy in response to the recommendation from the District's auditors;

NOW, THEREFORE, BE IT RESOLVED that the Board of Directors of the Running Springs Water District hereby adopts the revised Capital Asset Accounting Policy attached hereto as Exhibit "A."

ADOPTED by the Board of Directors of the Running Springs Water District on the 20th day of December 2023.

Ayes: GRABOW, CONRAD, TERRY, DYBERG

Noes: 0

Abstentions: 0

Absent: ACCIANI

President of the Board of Directors
Running Springs Water District

ATTEST:

Secretary of the Board of Directors
Running Springs Water District

Running Springs Water District
Capital Asset Accounting Policy

Capital Asset Policy

A. General – It is essential for both financial statement and cost accounting purposes that all departments of the Running Springs Water District follow a uniform policy with respect to the types of expenditures capitalized and the values at which expenditures are capitalized. When there is any doubt as to the proper treatment of possible capital expenditures, contact the Administration Supervisor and/or General Manager.

B. Capitalization Policy

1. **Land** – All land purchases, regardless of cost, are capitalized. When land is acquired with a building, an allocation should be made for each individually. Typically, a recent appraised value with specific amounts for land and structure can be used for this allocation. This ratio should be applied to the purchase price to determine the capitalized amount.

2. **Buildings**

   a. New buildings are capitalized at the sum of transactions deemed to be directly related to the construction of the building upon notification the building is completed and available for occupancy. Capitalization threshold = $50,000.

   b. A renovation or building addition is capitalized when it enhances the use or efficiency of the building. This amount is generally capitalized over the remaining useful life of the building. If the building is fully depreciated, the renovation will be capitalized for 10-30 years based on input from accounting personnel or consultants, if necessary. The capitalized amount recognized is the total cost of the renovation/addition project less any movable equipment expense and other incidental expenses incurred during the project. Incidental expenses are deemed to be those which do not lend to the enhancement or extension of the building life (e.g., moving and storage costs).

3. **Land Improvements** – This category includes roads, curbs, walkways, parking lots, streetlights, landscaping, wells, irrigation systems, drainage systems, fences, boundary signs, directional signage, and similar items. Items in this category will be capitalized if they have a value of at least $50,000 and are durable.

4. **Other Assets Attached to Buildings** – Items in this category will be capitalized if they have a value of at least $25,000 and are durable. Examples include building systems and fixed equipment. Building systems include such items as elevators, HVAC units, and fire prevention systems. Fixed equipment includes items physically attached to the building that are not utilized by the whole building.

5. **Movable Assets** - This category includes vehicles, furniture, software, and equipment that are not part of a building. Movable assets are capitalized at the invoiced cost (plus any applicable transportation and installation charges) if they meet the following criteria:

   a. Have capitalized value of $25,000 or more;
   b. Are durable (an economic estimated useful life of more than one year);
   c. Are freestanding and movable (not permanently affixed to a building or structure).

6. **Construction in Progress** - Construction in progress accounts will be used as cost accumulation centers. Projects that accumulate costs that are non-capital expenditures should be cleared out and expensed before the fiscal year is closed. Projects that accumulate costs that are capital expenditures will be categorized into the appropriate capital asset classification and capitalized in the year the project is complete. Projects that primarily contain capital expenditures but have some non-capital items associated with the project will be capitalized and expensed as appropriate in the year the project is complete.

C. Amount to be capitalized – The cost values to be capitalized for a capital asset are outlined below: (Please note these lists are examples and may not be all inclusive of appropriate items to capitalize.)

1. Land:

- Original contract price
- Brokers' commissions
- Legal fees for examining and recording title
- Cost of title guarantee insurance policies
- Cost of real estate surveys
- Cost of an option when it is exercised
- Special paving assessments
- Cost of razing an old building existing when the land is originally acquired
- Cost of cancellation of unexpired lease
- Payment of noncurrent taxes accrued on the land at date of purchase if payable by purchaser

2. Buildings:

- Original contract price of cost of construction
- Expenses incurred in remodeling, reconditioning or altering a purchased building to make it available for the purpose for which it was acquired
- Cost of excavation or grading or filling of land for the specific building
- Expenses incurred for the preparation of plans, specifications, blueprints, etc.
- Cost of building permits

- Payment of noncurrent taxes accrued on the building at date of purchase if payable by purchaser
- Architects' and engineers' fees for design and supervision
- Costs of temporary buildings used during the construction period

3. **Machinery and equipment:**

- Original contract or invoice cost
- Freight, cartage, import duties, handling and storage costs
- Specific in-transit insurance charges
- Sales, use and other taxes imposed on the purchase
- Costs of preparation of foundations and other costs in connection with making a proper site for the assets
- Installation charges
- Costs for reconditioning used equipment to make it usable for the purpose it was purchased

4. **Construction in progress:**

- Direct material
- Direct labor
- Direct professional services
- Permits and fees
- Internal labor costs incrementally identified to the specific project and appropriately tracked and documented

5. **Donated assets:**

   Donated Capital Assets should be recorded at their estimated fair value at the time of acquisition.

D. Amounts not to be capitalized - following are types of expenditures that should not be recorded as Capital Assets (not all inclusive):

   1. Cost relating to the removal or demolition of buildings, structures, equipment or other facilities. The two exceptions are as follows:
      - The cost to remove or demolish a building or other structure existing at the time of acquisition of land with the intention of removal or demolition to accommodate its intended use (such cost is considered a part of the cost of the land).
      - The cost to remove or demolish a building or other structure with the intention of replacing the old asset (such cost is considered a part of the cost of the new capital projects).
   2. The cost of relocating a facility including the cost of relocating personnel. The cost of equipment rearrangement within a facility or the transfer of individual assets from one location to another should also be expensed.

3. Administrative and executive salaries even though a portion of such salary costs are related to fixed asset acquisitions.
4. Costs incurred on assets that were not purchased, e.g., surveying, title searches, legal fees, and other expert services on land not purchased.
5. Extraordinary costs incidental to the construction of Capital Assets such as those due to strike, flood, fire or other casualties.
6. The cost of abandoned construction.
7. The costs of normal repairs and maintenance that do not add to the value or extend the lives of assets materially are not capitalized, but are shown as expenses in the year incurred.

E. Asset Types and Most Common Useful Lives:

Type Classification Description Useful Life

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

	Years
Plant and Facilities	20-75
Furniture and Equipment	3-10
Trucks and Automobiles	7-15

Capital Asset Definition of Terms

The following definitions, which relate specifically to the accounting for capital assets, are presented below to afford a better understanding of the capital asset policy.

Definitions for Capital Expenditures

1. Newly acquired item.
2. Replacement of complete units.
3. Rebuilt equipment if the rebuilding project effectively restores to like-new condition and/or significantly extends the item's useful life or markedly increases the item's net book value.
4. Accessory equipment should be considered as a portion of the capitalized value of the capital item if it was invoiced at the same time of initial purchase. However, accessory equipment, which was purchased with the intent of using it interchangeably with two or more items, should capitalized and recorded as a separate item of equipment.
5. Accessory equipment, which is acquired subsequent to the purchase of the parent item, must have the capitalization criteria applied to it separately. These criteria will determine if the item is to be expensed or capitalized.

Definitions for Non-Capital Expenditures

1. Expenditures for repairs, maintenance or replacement of component parts which do not extend the unit's original life or significantly enhance its net value.

2. Expenditures incurred in demolishing or dismantling equipment including those expenditures related to the replacement of units or systems.
3. Expenditures incurred in connection with the rearrangement, transfer, or moving of capitalized items from one location to another, including expenditures incurred in dismantling, transporting, reassembling, and reinstalling such items in a new location.

Noncapital costs, such as those listed above, are expensed as incurred.

Movable Assets
Consists of vehicles and software, as well as furniture and equipment that are not part of the supporting structure of a building and that meet the specific criteria for capital assets.

Fixed Assets
Fixed assets consists of land, land improvements, buildings, building systems, leasehold improvements and fixed equipment including new construction, alterations and renovation projects that meet the specific criteria for fixed capital assets.

Depreciation
Depreciation is the process of allocating the cost of a capital asset over the period of time benefitted by the use of that asset, rather than deducting the cost of the asset as an expense in the year of acquisition. A capital asset is depreciated over its estimated useful life, which is meant to be an indication of the number of years that an asset will be used for the purpose for which it was purchased.

Accumulated Depreciation
Accumulated depreciation equals the total amount of depreciation recognized for a capital asset since it was initially put in use.

Net Book Value
Net book value represents the capitalized value of an item, less Accumulated Depreciation.

Repairs and Maintenance
Repairs and maintenance are costs to keep equipment operating for normal use that may be recurring and regular in nature. Such costs include the replacement of any existing parts of components and any repairs that do not extend the useful life of the existing asset. Any expenditure meeting the above guidelines will be treated as repairs and will not be capitalized by the property management system.

Component Parts
Component parts are any part of a unit of equipment that cannot be used independently of the remaining piece of equipment. This definition will apply even though the component part may cost more than $5,000 and have a useful life of more than one year. For property management purposes, component parts are not identified separately, but are capitalized with the system of which they are a part.

District Constructed Assets

Assets constructed by the District are made up of multiple component parts both above and below the capitalization threshold. The department generally uses a construction in progress account number to capture all the expenses related to the item. Upon completion, they collaborate with the General Manager, accounting staff or consultants to determine a description, in service date, estimated useful life and final capitalized amount for the item.