

POLICY A-4: CAPITALIZATION & SURPLUS

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POLICY A-4: CAPITALIZATION, REGULATED ASSETS & SURPLUS

This policy is intended to specify what types of costs will be capitalized by the Moulton Niguel Water District (District), how to properly account for capital assets, and to comply with the requirements of Governmental Accounting Standard Board (GASB) Statement Numbers 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, and IRS code. This Statement requires the reporting of District capital assets and depreciation and regulatory assets and amortization, in the annual audited financial statements.

1. Capital Asset Threshold

The District maintains a schedule of individual capital assets that meet the capitalization threshold within its financial reporting operating system. Items with an original value of less than \$5,000, or with an estimated useful life of less than five years, are recorded as operating expenditures with the exception of service connections which are expensed when the original value is less than \$3,000 or useful life is less than five years. Individual assets that are less than \$5,000 with a useful life of five or more years, will be capitalized if purchased as a group and are collectively significant to the District.

This financial reporting system should include:

- Capital asset description
- Location
- Physical dimensions, if possible
- Original value
- Date placed in service
- Original useful life
- Accumulated Depreciation
- Book Value
- Impairments, if any

2. Depreciation of Capital Assets Using Straight-Line Method

Depreciation will be calculated using the straight-line method with no salvage value for all depreciable capital assets. The following estimated useful lives will be used by asset type:

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| • Water and wastewater systems | 10 to 75 years |
| • Capacity rights | 10 to 99 years |
| • Buildings | 20 to 50 years |
| • Automobiles and equipment | 5 to 15 years |
| • Software and IT Infrastructure | 5 to 15 years |

The Engineering Department will provide the Accounting Department with the description and type of asset the expenditures qualify for, and the Accounting Department will record the asset in the financial reporting system.

3. Capital Assets Are Reported at Historical Value

The District will report purchased or District-constructed capital assets at their historical cost for financial reporting in audited financial statements. The total cost of each capital asset is the cash outlay (or its equivalent) required to purchase or construct the asset and put it in service.

These costs will include (when applicable):

- contract price
- freight
- sales tax
- licensing fees
- handling and assembling
- installation and testing
- fully burdened direct labor and materials
- administrative support cost allocation

Any cost specifically for a planned capital project (or asset acquisition), including public information costs and costs incurred to get project financing will be capitalized. Contributed capital assets will be recorded at their estimated fair market value at the date the asset was contributed to the District. The Accounting Department will determine if the estimated fair market value is appropriate.

4. Repairs and Maintenance Are Classified As Operating Expenses

Any outlay that only returns a capital asset to its existing condition before the repair or maintenance, regardless of amount, will be classified as an operating expense.

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5. Regulated Asset Threshold

Regulated assets are created by the Board of Directors by deferring certain expenses that are recoverable by future rate charges in accordance with the District's rate ordinance. The District maintains a schedule of individual regulated assets that meet the criteria to qualify as regulatory assets within its financial reporting operating system. The criteria are as follows:

- The District's Board of Directors establish the rates
- The regulated rates are designed to recover the specific regulated activity's costs of providing the regulated service
- The rates must be set at levels that will at least recover the costs over the life of the asset and the associated rates can be charged to and collected from customers.
- Future revenues will be provided to permit recovery of the actual regulated cost rather than expected levels of similar service.

6. Amortization of Regulated Assets

Regulated assets are amortized over the period in which future rate charges will recover actual costs incurred for regulated services. Amortization will be calculated using a straight-line method to match the associated revenues and expenses. The following estimated useful lives will be used by asset type:

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| • Potable regulated assets | 15 to 25 years |
| • Recycled regulated assets | 15 to 25 years |
| • Wastewater regulated assets | 15 to 25 years |

The Engineering and Operations Departments will provide the Accounting Department with the description and type of asset the expenditures qualify for, and the Accounting Department will record the asset in the financial reporting system.

7. Regulated Assets Are Reported at Historical Value

The District will report purchased or District-constructed regulated assets at their historical cost for financial reporting in audited financial statements. The total cost of each regulated asset is the cash outlay (or its equivalent) required to purchase or construct the asset and put it in service.

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These costs will include (when applicable):

- contract price
- freight
- sales tax
- licensing fees
- handling and assembling
- installation and testing
- fully burdened direct labor and materials
- administrative support cost allocation

Any cost specifically for a planned capital project (or asset acquisition), including public information costs and costs incurred to get project financing will be capitalized.

8. Purchasing Department Maintains Inventory

The Purchasing department safeguards and maintains inventory items. Inventory will be recorded within the District's financial reporting operating system, and the Purchasing department will count the physical inventory regularly. Access to the warehouse will be restricted to those required to perform the duties of their job. The District will measure the value of all inventory items using the perpetual method of accounting, where inventory reflects actual quantities on hand, including new arrivals and items used in operations.

This financial reporting system should include:

- Item description
- Location
- Physical dimensions
- Usage statistics
- Original value
- Quantity on hand

9. The District Will Sell or Dispose of Surplus Property

Sections 35604 and 65400 of the Water Code (California Water District Act) authorizes the District to dispose of surplus property. The District will sell or dispose of surplus property with the intent to gain the greatest return. Sales will occur in the public market, by public auction, internet sales, consignment, trade-in, or other public bidding.

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Property with no net value will be recycled, if practical, or discarded in keeping with environmental and hazardous waste disposal laws.

10. General Manager and Board Decide Whether to Dispose of Real Property

The General Manager will review the District's real property and decide whether it is surplus. Before disposing of any real property, the General Manager will:

- Determine if an appraisal is necessary, and obtain one independent appraisal if determined necessary
- Obtain authorization from the Board to dispose of real property.
- Solicit offers to purchase or lease the real property at fair market value as determined by the appraisal (or opinion of value), from certain public agencies in accordance with Chapter 5 (commencing with Section 54220) of Part 1, Division 2, Title 5 of the Government Code, or successor provisions.

If no acceptable offer is made within the required 60-day (or other) negotiation period, the General Manager may lease or sell the real property as prescribed by the Board.

11. District Recycles Surplus Scrap Material

Scrap material will be collected in a designated location on district property, and the General Manager or designee will regularly review the surplus property to determine it has been accurately designated as scrap material or surplus.

The Purchasing department will recycle scrap material as appropriate. Recycling vendors will be reviewed periodically to consider rates, quality of service provided, fees and other applicable factors.

12. All Other Surplus Property Sales Require Approval

All other surplus property, other than real property and scrap material requires approval of surplus status prior to sale. An "Approval of Surplus Property" form must be completed by staff and approved by a supervisor. Prior to disposal of the approved surplus property, the Assistant General Manager or Division Head must approve the disposal. The Purchasing department will maintain a list of all approved surplus property. The list of surplus property approved for disposal will be used to sell the items in the public market, by public auction, internet sales, consignment, trade-in, or other public bidding methods.

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13. District Follows California Law When Disposing of Property

The District will comply with the California Environmental Quality Act and all applicable laws for disposing of property.

14. Staff and Families Are Not Eligible to Acquire District Property

Board members, District staff, spouses and dependent children may not bid for, purchase, or otherwise have interests in surplus property of the District, directly with the District, or represent any potential bidder or purchaser, under any terms and conditions.

15. Accounting Will Record All Funds Received From Disposal of Surplus Property

All revenues collected from the disposal of surplus property shall be reported to and deposited by the Accounting department. All revenues will be recorded in a manner consistent with District procedures and standard accounting practices.

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TABLE 1: Definitions

Board – The Board of Directors of Moulton Niguel Water District.

Capital Asset – The Government Finance Officers Association (“GFOA”) defines capital assets as “assets that are used in operations and that have initial lives extending beyond a single reporting period.” Capital assets may be intangible (capacity rights) or tangible (buildings, equipment). To be considered a capital asset, a District expenditure must cost at least \$5,000 and have a useful life of at least five years, with the exception of service connections which must cost at least \$3,000 and have a useful life of five years or greater. There is also an exception for assets purchased as a group that are determined to be collectively significant and have a useful life of five or more years but individual asset cost is below \$5,000.

Inventory - an asset that is intended to be used in the ordinary course of business with a cost of less than \$5,000 per item or does not have an initial life extending beyond five years.

Salvage value - the estimated market value once the property has been deemed surplus. The salvage value will be determined by the purchasing department through market comparison.

Scrap material - the value of which consists only of intrinsic material content and which has no commercial value for its original purpose as fabricated.

Surplus property – property that is excess of the current or planned future needs of the District or no longer has an economic use by the District, including property that which has become worn, broken, deteriorated or obsolete to a point where it is uneconomical for use by the District.