

# Capitalization and Depreciation

## Procedures Policy

### Capitalization Policies

Capitalization will follow the guidance of the National Association of Regulatory Utility Commissions Uniform System of Accounts For Class A/B Water Districts. The following capitalization procedures will be applied to fixed assets but are not an exclusive list.

1. Land
  - a. Capitalized at cost
  - b. Land and structures purchased or donated together will be separated when possible and capitalized separately
  - c. Cost of preparing the land for use will be capitalized, when material, along with the cost of the land
2. Buildings
  - a. Capitalized if –
    - i. \$25,000.00 or more and a life expectancy of at least 10 years
  - b. Additions and renovations will be capitalized if
    - i. Cost of the project is \$25,000.00 or more, and
    - ii. The renovation extends the useful life of the facility or modifies and/or upgrades a building, i.e., installation of updated fire alarms, removal of handicapped barriers, etc.
3. Improvements other than buildings
  - a. Capitalized if –
    - i. \$5,000.00 or more
      1. Examples are parking lots, sidewalks, fiber optics, etc.
4. Equipment
  - a. Capitalized if –
    - i. Cost is \$5,000 or more
      1. The cost of the equipment will include the purchase price, freight cost, insurance while in shipment, installation cost, and other cost incurred to get the equipment ready for actual use
    - ii. Acquired for use in operations and not held for resale
    - iii. Useful life is long-term in nature - It must yield services for five years or more
    - iv. It is not an integral part of another unit
5. Software
  - a. Capitalized if –
    - i. Cost is \$5,000.00 or more
    - ii. Useful life is five years or more
    - iii. Subject to a non-exclusive license, and
    - iv. Not substantially modified

6. Assets which are constructed by the Ohio County Water District will be capitalized if it meets the criteria for its asset class. The value of such an asset is the direct cost of materials, labor, and installation of the item.
7. Leased equipment will be capitalized at the lower of (1) present value of the minimum lease payments during the lease term or (2) the fair value of the leased asset at the inception of the lease if it meets one of the following criteria:
  - a. Lease transfers ownership of the property to the lessee.
  - b. Lease contains a bargain purchase option which allows the lessee to purchase the leased property for a price that is lower than the expected fair value at the date the option becomes exercisable. The difference must be large enough to make exercise of the option reasonably assured.
  - c. Lease term is 75% or more of the estimated economic life of the leased property.
  - d. The present value of the minimum lease payment equals or exceeds 90% of the fair value of the leased property at the time of the lease.

### **Depreciation Policies**

Depreciation will follow the guidance of the National Association of Regulatory Utility Commissions Uniform System of Accounts For Class A/B Water Districts.

Prior to 2022, depreciation fixed asset threshold was \$2,500.

For 2022 and beyond, the fixed asset depreciation threshold limit is increased to **\$5,000**.

### **Capitalization Procedures**

1. All invoices received through the mail by the OCWD Office personnel will be routed to the Finance & Administrative Manager for processing.
2. The Finance & Administrative Manager will process each invoice with a bill and contact the authorizing department for approval of such purchase to ensure the asset has been received. The purchase will be coded to the corresponding account as listed in the National Association of Regulatory Utility Commissions Uniform System of Accounts For Class A/B Water Districts.
3. The Finance & Administrative Manager will review invoices with the General Manager for approval in accordance with the OCWD budget.
4. The number of budgeted expenditures which may be approved by each level of management is as follows:
  - a. Department supervisors/managers with General Manager approval may approve budgeted expenditures up to \$2,000;
  - b. The General Manager may approve budgeted expenditures without bidding according to KRS 45A; and

- c. The General Manager approves all budgeted expenditures exceeding the threshold set in KRS 45A that have been properly bid.
5. No employee may give final approval for expenditures directly relating to themselves. All such expenses, regardless of the dollar amount, must be approved by the employee's immediate department supervisor/manager or by the General Manager.
6. Accounts payable checks will be cut weekly. The Finance & Administrative Manager shall review all check run reports prior to the release of checks. All checks shall require two signatures.
7. Invoices received for payment will be paid in accordance with the terms stated on the invoice or by the negotiated agreement/contract.
8. The contracted accountant/book-keeper will sort from detail files kept in QuickBooks for all equipment purchases and review and reconcile on a monthly basis. Upon reviewing the month's activity, differences are noted. Sometimes purchases are classified equipment when they are in fact, supplies and materials or computer upgrades. If this is occurring the expense will be reclassified to appropriate code.
  - a. Accountant will approve the capital expenses and will update the depreciation schedule.
9. In the month of February each year, an updated depreciation schedule listing is sent to the General Manager and Finance & Administrative Manager to verify equipment inventory. Any changes noted on the inventory listing will be forwarded to contracted accountant in order to update the depreciation schedule for the year end audit.

# Questions and Answers

## **1. What is the change?**

The Ohio County Water District currently defines fixed assets as articles of non-expendable tangible personal property having a life of more than one year, and an acquisition cost of \$2,500 or more per unit. Effective January 1, 2022, the acquisition cost threshold will be increased to \$5,000.

## **2. Are any other asset categories affected by this change?**

Yes. Any asset category with a current capitalization threshold of \$2,500, such as software, will also use the \$5,000 threshold beginning January 1, 2022.

## **3. Does the change apply to all types of equipment and materials, such as fabricated equipment, furniture, etc.?**

Yes. The new threshold will apply to all equipment items.

## **4. Why is the change needed?**

There are two primary reasons for the change. One is to reduce the administrative costs of recording and tracking items of equipment. The reduction is needed, especially in these times of budgetary constraint. The second, and more compelling reason, is that by eliminating the requirement to record and track relatively low valued items, more attention and effort can be given to safeguarding the remaining, higher valued items. This should enhance the District's overall control and stewardship of its assets and promote our compliance with external regulations. Immediate implementation will reduce the administrative burden of tracking low-value items as soon as possible.

### *Financial Statements:*

The threshold change will be reported in the District's audited financial statements (consolidated statements and individual medical center statements) beginning in the fiscal year ending December 31, 2022.