



<b>Policy:</b>	<b>CAPITAL ASSET POLICY AND PROCEDURE</b>	
<b>Approval Date:</b> November 12, 2014	<b>Revision Date:</b> June 23, 2020	<b>Approved by:</b> Board of Directors

**PROCEDURE**

Purpose:

The Coachella Valley Water District (CVWD) has a significant investment in a variety of Capital Assets, which are used to provide services to customers. The purpose of this policy is to ensure that the District's Capital Assets are acquired, safeguarded, controlled, disposed of, and accounted for in accordance with state and federal regulations, generally accepted accounting principles, internal controls, and audit requirements. This policy addresses the following issues related to capital assets:

- A. Scope
- B. Asset classes and lives
- C. Depreciation Method
- D. Budgeting for Capital Asset Purchases
- E. Funding sources
- F. Accounting
- G. Management of assets
- H. Disposal

Additional Authority:

- A. Generally Accepted Accounting Principles (GAAP)
- B. Governmental Accounting Standards Board (GASB) Statement No. 34, Basic Financial Statement-and Management's Discussion and Analysis-for State and Local Governments
- C. Government Finance Officers Association (GFOA) Best Practices

Scope:

This policy encompasses capitalization of capital assets to include land, infrastructure, buildings and improvements, machinery and equipment, and construction-in-progress. CVWD will employ a CIP plan that has a five-year timeline. This five-year timeline helps CVWD to prioritize projects from year-to-year and establish plans for funding sources. The capitalization threshold for individual items is \$10,000, unless the Capital Asset is purchased or acquired using Federal Grant Funds. Any Capital Asset acquired with Federal Grant Funds must be capitalized if it has a cost greater than \$5,000. Assets are capitalized if the cost exceeds the respective capitalization threshold. It is the Project Manager's responsibility to know the funding source(s) for each project.

Responsible Party:

Geoffrey Kiehl, Director of Finance

---

**POLICY****I. Policy Statement**

This policy sets forth the criteria necessary to determine the type of costs that should be capitalized as a Capital Asset versus an Expense, the appropriate Capital Asset classification and related depreciation period for each Capital Asset classification, and the process for taking an inventory of such Capital Assets. Finance will be responsible for determining which costs are capitalized or expensed, based upon accounting standards.

**II. Definitions**

- A. Capital Assets: Non-consumable and non-financial items including but not limited to: land, land improvements, easements, buildings, building improvements, vehicles, machinery, equipment, infrastructure and all other tangible and intangible assets that are used in operations and that have initial useful lives extending beyond one year.
- B. Capitalization Threshold: The minimum cost which an asset must exceed in order to be capitalized. This threshold should be applied at the individual asset level. Group purchases of individual assets under \$10,000 should not be capitalized, even if the group purchase totals to more than \$10,000. Any Capital Asset acquired with Federal Grant Funds must be capitalized if it has a cost greater than \$5,000.
- C. Capital Improvement Project (CIP): CVWD defines CIP as an individually significant construction project with a cost of \$10,000 or more that creates a new capital asset, improves an existing asset (Example: increases its service capacity) or significantly extends an asset's operating life by three or more years. This may include expenditures purchase, construction, replacement, addition or major repair of public facilities and major equipment.
- D. Non-Capitalized Expenses: Costs incurred which do not result in an asset with a useful life of more than one year or that are incurred in the regular maintenance and operation of District assets that do not extend the life or capacity of the asset.
- E. Depreciation: The process of allocating the cost of an asset over a period of time, usually its estimated useful life.
- F. Intangible Assets: An asset that is not physical in nature. CVWD's most important intangible asset is water rights.

- G. Tangible Assets: An asset that has a physical form.
- H. Useful Life: The amount of time that an asset is expected to provide benefit to the District.

**III. Asset Classes**

- A. Land and Land Improvements
- B. Construction in Progress
- C. Intangibles (Water Rights, Easements, etc.)
- D. Infrastructure
- E. Buildings and Building Improvements
- F. Machinery and Equipment
- G. Miscellaneous

**IV. Capitalization Threshold**

The District maintains a capitalization threshold as follows:

- A. Land is not subject to capitalization thresholds (All Land Purchases, regardless of cost, are capitalized and are non-depreciable)
- B. Water Rights are not subject to capitalization thresholds (All Water Right Purchases, regardless of cost, are capitalized and are non-depreciable)
- C. Infrastructure, Buildings, Machinery, Equipment, Vehicles, CIP, and miscellaneous Equipment: \$10,000. Any Capital Asset acquired or constructed with Federal Grant Funds must be capitalized if it has a cost greater than \$5,000.

**V. Depreciation Method and Useful Life**

Assets that are depreciable are depreciated using the straight line method over the following estimated useful lives:

TYPE	LIFE IN YEARS
Vehicles, Software and Small Equipment	5 - 8
Meters	10
Machinery, Tools and Equipment	10 - 20
Valves	25 - 30
Property, Plant and Improvements	25 - 50
Services	30
Transmission and distribution	40 - 50
Reservoirs	50
Source of supply (Canal)	100

## VI. Budgeting

The General Manager is responsible for the oversight of the Capital Asset Program and the development of the Budget. The General Manager may delegate responsibility to various Department Heads and managers to identify what Capital Assets are needed and requested in the budget process.

Asset purchases are authorized through the budget process (except for emergency projects) which involves the following steps:

- A. Need is identified - either a new asset is needed or an asset is in need of replacement or major repair
- B. Manager who is responsible for operating the asset submits a Budget Request or Capital Project Request form during the budget process.
- C. Funding source for the project is identified. (See section VII).
- D. Projects are reviewed by the General Manager & Department Heads.
- E. Project funding is granted through approval of the Operating and Capital Improvement Budget by the Board of Directors.
- F. Each department should budget for the repair and renewal needs of its assets consistent with best practices.

The various requests submitted in the budget process will be compiled by the Finance Department. Funding sources must be identified for each Budget Request and Capital Project Request.

The budgets will be reviewed, in detail, by the General Manager & Department Heads. The Board of Directors will subsequently review and approve the Operating and Capital Improvement Budgets.

The procurement process will be handled primarily by the manager who submitted the request. The acquisition of Capital Assets must follow the steps and rules stated in the CVWD Procurement Policy.

If actual costs are expected to be higher than what was budgeted, these options are available within the requirements of existing policies:

1. Cancel the project or reduce the scope of the project.
2. Transfer funds from another project with lower priority or excess funds available.
3. Appropriate funds from reserves, with Board approval.
4. Re-budget the project, with additional funding, in the following fiscal year.
5. Board approval is required for any new projects added during the fiscal year.

## VII. Funding Sources

All expenses included in the Capital Budget must not exceed estimated funding sources available for capital spending.

The source of funding for each project must be identified as part of the Capital Budgeting Process. Possible sources of funding include:

- A. Pay-As-You-Go "Pay-Go" - this source means that the Asset will be purchased with resources provided by the current year Operating Activities of the District.
- B. Debt - this source can be used to fund large projects, with useful lives of 20 years or more, with Board Approval.
- C. Reserves - this source may only be used with Board approval.
- D. Grant or other outside source - this source may be used only if there is preliminary or guaranteed approval of the project.

Due to the significant size and cost of some assets, staff may wish to fund only preliminary engineering/planning activities before committing to funding the whole project. This policy permits funding preliminary activities.

**VIII. Accounting**

- A. Asset purchases will be accounted for and tracked. Project numbers will be utilized in order to facilitate tracking of purchases, budgets, and assets in the computerized accounting system.
- B. The Finance Department will track all assets in a subsidiary ledger that will contain at a minimum: asset name, description, cost, year placed in service, and expected life.
- C. The Finance Department is responsible for recording the reallocation of funds from projects that were under budget or not included in a carryover request.
- D. Depreciation: booked on a monthly basis, based upon the date the asset is placed into service and the estimated useful life of the asset. The Finance Department has the responsibility to track and record depreciation.
- E. Any improvements to an existing capital asset that do no more than return a capital asset to its original condition, regardless of the purchase amount, shall be classified as maintenance and repairs expense in the period incurred.

**IX. Management of Assets**

- A. The department that requests and purchases the assets is responsible for the

operation and maintenance of the assets.

- B. Department managers will periodically measure and quantify the condition of assets. Managers must identify adequate funding to support repair and replacement of deteriorating capital assets and avoid a significant unfunded liability from deferred maintenance.
- C. The tools that should be utilized to manage assets include but are not limited to: Asset Management Software and Master Plans which are utilized for long-term planning of capital asset needs. Historical and projected operating costs are considered.
- D. If an asset requires excessive amounts of repairs, then the manager should consider replacing the asset. When a new asset is requested, the operating costs over the life of the new asset should be considered.
- E. Inventories of "capital-type" assets should be kept, by each department, at a minimum annually, in order to track assets that are susceptible to theft, such as computers, digital cameras, cellular phones, GPS units, etc. Refer to the Government Finance Officers Association "GFOA" Best Practice, "Control over Items that Are Not Capitalized." These practices in brief are as follows:
  - 1. Control normally should occur at the departmental level.
  - 2. Control responsibility should be assigned within each department.
  - 3. Individuals responsible for controlled capital-type items should prepare and maintain a complete list of those items each year within the department.
  - 4. Departments should certify each year to the central accounting function that updated lists of controlled capital-type items are on file and available for inspection.
  - 5. The central accounting function should periodically verify the data on the controlled capital-type item lists on file in each department.

## **X. Disposal of Assets**

Surplus property is defined as any unnecessary, obsolete or excess supplies, materials, tools, vehicles, equipment or furniture that has been replaced or retired due to damage, age or change in District's standards and/or specifications. Assets that have exceeded their useful lives, other than Real Estate, may be disposed of in several ways according to the procedures outlined in the CVWD Procurement Policy, Section 20. Assets that were acquired with federal grant money and later disposed of may require proceeds from any sale be repurposed or refunded, depending on the grantor's requirements.

The surplus property shall be approved for disposal of in the following manner:

- A. If the value of the surplus property is within the Department Director's authority, as denoted in the District Procurement Policy Exhibit A, the department shall complete an Equipment Deletion Notice which should be routed to the Procurement Division.
- B. If the value of the surplus property is within the General Manager's authority, as denoted in the District Procurement Policy Exhibit A, the Department shall route the Equipment Deletion Notice to the General Manager for signature. The General Manager's office shall then route the Equipment Deletion Notice to the Procurement Division for processing.
- C. If the value of the surplus property requires Board approval, the Department shall prepare the Board Action Item of the itemized surplus property and present it to the Board for approval of the disposal. If the surplus property is being replaced, the Board Action Item authorizing the purchase of the replacement property may include the approval for the disposal of the itemized surplus property.

After appropriate approval of disposal has been obtained, surplus property may be disposed of in an authorized manner.

#### Methods of Disposal

Once the Equipment Deletion Notice is processed, the method of disposal of the surplus property may be in any of the following manners as determined by authorized staff or the Board based on the value of the surplus property. Resale value of surplus property shall be determined by the Department Director.

- A. Surplus property may be exchanged or traded for new goods.
- B. Surplus property may be advertised and sold using competitive procedures similar to standard acquisition practices.
- C. Surplus property may be sold at public auction.
- D. Surplus property may not be sold to any employee, friend, or family member (outside of public auction).
- E. When approved as required based on the value of the surplus property it may be sold utilizing the negotiation process when it is deemed to be in the best interest of CVWD.
- F. Surplus items may be eliminated, recycled, or donated if it is determined they have no resale value.

The disposal of surplus real estate shall follow the procedures outlined in Resolution

2014 169, adopted by the Board of Directors on August 26, 2014.

**XI. Policy Review**

This policy must be reviewed annually to ensure careful and responsible management over District resources.