

POLICY NO. 1.7 Capital Assets Policy	DISTRICT CODE Chapter 3.13 Sections 3.13.010 – 3.13.050	APPROVAL DATE 05/23/2023 EFFECTIVE DATE 05/24/2023
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SECTION 1: POLICY STATEMENT (3.13.010)

The Cucamonga Valley Water District (CVWD) has a significant investment in a variety Capital Assets, which are used to provide water, sewer, and recycled water 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 (GAAP), internal controls, and audit requirements. This policy addresses the following issues related to Capital Assets:

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

SECTION 2: DEFINITIONS (3.13.020)

Term definitions as utilized by CVWD:

- A. CAPITAL ASSET:** Non-financial assets that are used in operations and have an initial useful life in excess of one year.
- B. CAPITALIZATION THRESHOLD:** The minimum cost which an asset must exceed in order to be capitalized.
- C. CIP:** (Capital Improvement Project) CVWD defines CIP as any expenditure that relates to the purchase of a Capital Asset.
- D. DEPRECIATION:** The process of allocating the cost of an asset over a period of time.
- E. DEPRECIATION METHOD:** CVWD utilizes the straight-line method with the half-year convention.

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.

SECTION 3: GENERAL PROVISIONS (3.13.030)

A. Capital Asset Types and Lives

See the table below for the Capital Asset categories used by CVWD.

Asset Types	Asset Categories	Asset Life
Land	Land	Infinite
Water Rights	Water Rights	Infinite
Intangibles	Organization Costs	40
Source of Supply	Wells	50
	Water Supply Mains	50
	Canyons & Tunnels	50
Pumping Plant	Pumping Stations	40
	Telemetry Equipment	20
	Pumping Equipment	10
Transmission and Distribution	Reservoirs	50
	Water Mains & Lines	50
	Water Meter	25
Treatment Plant	Treatment Building	40
	Treatment Building Improvement	15
	Treatment Equipment	10
Collection and Transmission	Sewer Mains & Lines	50
	Lift Stations	40
	Equipment	10
Wastewater Reclamation	Recycled Water Mains & Lines	50
General	Buildings	40
	Building Improvements	15
	Heavy Equipment Vehicles	15
	Shop Equipment	10
	Autos & Trucks	7
	Office/Telecom & Network Equipment	7
	Software	7
	Computers	5

B. Scope

CVWD will employ a CIP plan that has a 5-year timeline in addition to the current year carryover. This 5-year timeline helps CVWD to prioritize projects from year to year and establish plans for funding sources.

The capitalization threshold for CVWD is \$5,000. Assets are capitalized if the cost exceeds the capitalization threshold except for groups of similar assets such as meters, computers, or printers when the total of the similar assets purchased during the year exceeds \$5,000.

C. Budgeting

The Director of Finance and Technology Services (Finance Director) is responsible for the oversight of the Capital Asset Program and the development of the CIP Budget. The Finance Director may delegate responsibility to various managers to identify what Capital Assets are needed and requested in the CIP Budgeting process.

Asset purchases are authorized through the CIP Budgeting 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 request form during the CIP Budget process.
- c. Funding source for the project is identified (See part d-).
- d. Projects are reviewed by the Engineering Committee.
- e. Project funding is granted through approval of the Biennial Operating and Capital Improvement Budget by the Board of Directors.

The various requests submitted in the CIP Budget process will be compiled by the Accounting Department. The total of the CIP requests must be balanced in the overall Operating and Capital Improvement Budget. Capital funding sources must be identified for each request.

The CIP Budget will be reviewed in detail by the Engineering Committee. The Board of Directors will subsequently review and approve the CIP Budget as part of the Biennial Operating and Capital Improvement Budget.

The procurement process will be handled primarily by the manager who submitted the request. The procurement must follow the steps and rules stated in the CVWD Administrative Policy No. I.1 – Purchasing.

If actual costs are lower than budgeted, the balance will be unappropriated back to the funding source or allocated to another project.

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

- a. Cancel the project or reduce the scope of the project.
- b. Transfer funds from another project with lower priority or excess funds available.
- c. Appropriate funds from reserves with Board approval.
- d. Request carryover of the project with additional funding in the following fiscal year.

D. Funding Sources

All expenditures 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-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 30 years or more. See Administrative Policy No. 1.5 - Debt Management.
- c. Reserves – this source may only be used with Board approval. See Administrative Policy No. 1.3 - Reserve and Financial Benchmarks for the reserves that may be used for Asset purchases.
- d. Grant or other outside source – this source may be used only if there is preliminary or guarantee approval of the project.
- e. Carryover – this source must be used when a project was budgeted in the previous year but was not completed.

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.

E. Accounting

Asset purchases will be accounted for in the Capital Asset Accounts. Project numbers will be utilized in order to facilitate tracking of purchases, budgets, and assets in the computerized accounting system.

The Accounting 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.

The Accounting Department is responsible for recording the reallocation of funds from projects that were under budget or not included in a carryover request.

F. Depreciation

CVWD uses the straight-line method of depreciation for all depreciable capital assets (land, intangible assets, and construction-in-progress are not depreciated). A half year of depreciation is recognized in the year the asset is placed into service and in the last year of estimated useful life. The Accounting Department has the responsibility to track and record depreciation.

G. Management of Assets

The department that requests and purchases the assets is responsible for the operation and maintenance of the assets. 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.

The tools that should be utilized to manage assets include but are not limited to:

- a. Master plans which are utilized for long-term planning of Capital Asset needs.
- b. Historical and projected operating costs are considered. 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.
- c. Inventories should be kept in order to track assets that are susceptible to theft.

SECTION 4: DISPOSAL OF ASSETS (3.13.040)

A. Surplus Property Disposal

The Department Supervisor or Manager are responsible for the transfer and disposition of surplus District property. “Surplus property” is used generically to describe any District property that is no longer needed or useable by the holding department/division. The Supervisor or Manager have the authority to declare item(s) surplus according to the authorization table in sub-section B.

Surplus property that may result from the termination of a lease agreement shall be specifically reported to the Finance Director prior to the termination of the lease. The report shall include all information about the lease, including purchase price at the commencement of the lease, residual value at the end of the lease, the total payments through the end of the lease and the fair market value at the end of the lease. In determining the fair market value, each department shall document the methods used to make such a determination including tools such as Kelly Blue Book, classified advertisements, and local vendors with similar products available.

Each department shall periodically review its equipment, material, and inventory, and shall promptly notify the Accounting Department of any surplus property. A memo shall be completed to document the reason(s) that the property is surplus and the recommended method of disposal. This memo must then be submitted to the Accounting Department. The Accounting Department will then make the appropriate adjustments to the Capital Assets Subsidiary Ledger.

B. Authority

Salvage Value up to:	Approval Level (Except when items are scrap)
\$500	Supervisors
\$2,000	Managers
\$5,000	Directors
\$10,000	General Manager / Assistant General Managers
\$10,001+	Board of Directors

C. Method

The staff member requesting disposal shall determine one of the following methods of disposition that is most appropriate and in the best interest of the District.

a. Transfer to Another Department

Surplus property may be transferred between District departments. Departments wishing to transfer surplus property to or from another department shall complete a memo to document the request and submit it to the Finance Director for approval. All transfers of items require approval of the Department Manager from each department affected by the transfer.

b. Trade-In

Property declared as surplus may be offered as a trade-in for credit toward the acquisition of new property. All trade-in offers will be submitted for the review and approval of the Finance Director. If surplus property is to be applied to a purchase order, the trade-in value shall be itemized on the purchase order. The amount charged against the expense account will be the value of the purchase before application of the trade-in credit.

c. Sale

Surplus property may be offered for sale by the Department Manager. All surplus property is for sale “as is” and “where is”, with no warranty, guarantee, or representation of any kind, expressed or implied, as to the condition, utility or usability or the property offered for sale. Appropriate methods of sale are as follows:

- i. Public Auction - Surplus property may be sold at public auction. Public Auctions may be conducted by District staff, or the District may contract with a professional auctioneer including professional auction services.
- ii. Sealed Bids - Sealed bids may be solicited for the sale of surplus property. Surplus property disposed of in this manner shall be sold to the highest responsible bidder.
- iii. Selling for Scrap - Surplus property may be sold as scrap if the Department Manager deems that the value of the raw material exceeds the value of the property as a whole.
- iv. Negotiated Sale - Surplus property may be sold outright if the Department Manager determines that only one known buyer is available or interested in acquiring the property.
- v. No Value Item – Where the Department Manager determines that specific supplies or equipment are surplus and of minimal value to the District due to spoilage, obsolescence or other cause or where the Department Manager determines that the cost of disposal of such supplies or equipment would exceed the recovery value, the Department Manager shall dispose of the same in such a manner as he or she deems appropriate and in the best interest of the District.

d. Donation

Surplus property may be donated, in accordance with the authority table, to non-profit organizations such as school districts within CVWD boundaries. When property is donated, a donation receipt letter must be obtained from the receiving organization and kept on file by the Department Manager.

D. Proceeds

Proceeds from the sale or trade-in of surplus property shall be recorded in the Gain/Loss On Sale account in the related fund. Proceeds from the sale of scrap will be recorded in the Scrap Metal Miscellaneous Revenue account. Proceeds from the sale of surplus property or scrap may not be used to offset departmental operating expenses.

SECTION 5: POLICY ADOPTION AND REVIEW (3.13.050)

This Policy shall be adopted by resolution of the Board. Moreover, the Policy shall be reviewed on a biennial basis and modifications, if any, must be approved by the Board.

POLICY REVISION DATES

05/25/2021 (Resolution No. 2021-5-1)
02/12/2019 (Resolution No. 2019-2-5)
02/23/2016 (Resolution No. 2016-2-4)
11/12/2013