



UPDATE: SGPWA Policies Review



Board of Directors
November 20, 2023

Policies

“rule or principle that guides decisions”

Employee Guide/Manual Approved	Capitalization Policy – inform Agendized	Credit Card Policy - inform	Investment Policy – inform Reviewed
Invocation Policy - inform	Medical Reimbursement – inform/review	Procurement Policy - update in process	Records Retention - inform
Reserve Policy - inform	Social Media Policy – inform/review	Travel Policy - review	Director’s Technology Policy - inform
Purple Boxes - Operations Policies	Green Boxes - Financial Policies	Black Boxes - Board Policies	

San Geronio Pass Water Agency

DATE: November 20, 2023
TO: Board of Directors
FROM: Lance Eckhart, General Manager
BY: Tom Todd, Jr., Chief Financial Officer
SUBJECT: REVIEW OF CAPITALIZATION POLICY

RECOMMENDATION

The Board review the policy as part of the on-going policy review process.

PREVIOUS CONSIDERATION

- Board Meeting – October 1, 2018: The Board approved the Capitalization Policy.

BACKGROUND

In the normal course of business, the Agency makes expenditures for a variety of goods, services, and equipment. Most of the time, these expenditures are considered ‘Expenses’ in accounting terms. During the fiscal year, the expenses are categorized and summarized, and combined with ‘Revenue’ at the end of the fiscal year to determine a net balance.

On occasion, an expenditure may be of a significant amount, for example, the purchase of a copier or the installation of a monitoring well. An expenditure that involves a high dollar amount could significantly impact the net balance at the end of the fiscal year, so accounting convention has established a mechanism to spread the value of the expenditure over a number of fiscal years. The expenditure is called an ‘Asset’, and spreading the value of the asset over multiple fiscal years is called ‘Depreciation’.

In order to determine what is an expense and what is an asset, a dollar threshold is established. This is called a Capitalization Threshold. Expenditures that fall below the threshold are considered expenses, so are combined in their entirety with revenues, to determine the net balance at the end of the fiscal year.

Expenditures for items that are over the threshold are considered assets, so are capitalized. The item is recorded in a different accounting category than an expense. The value of the asset is divided by the number of years of the useful life of the asset to determine an amount that can be considered an expense for a fiscal year. Then, just that value is considered an expense for the fiscal year, rather than the whole value of the asset.

ANALYSIS

The dollar amount that is determined to be the threshold for capitalization varies from organization to organization and could vary from year to year. An organization that has only a few pieces of owned equipment or other potential assets may have little to record, little to depreciate, and therefore may choose to have a lower capitalization threshold. An organization with lots of high-value assets may choose to have a higher threshold, because the value of the asset is less significant in comparison to the overall business, and also to avoid overly complicated financial statements.

When considering the appropriate threshold to establish for the Agency, Staff consulted with the auditors contracted at the time and reviewed accounting practices of other similar organizations. Taking into account past experience, current market values, and auditors' suggestions, the capitalization threshold for the Agency was set at \$5,000.

Staff have reviewed current accounting practices and Agency accounting experience for the past five years and see no reason to change the threshold at this time.

FISCAL IMPACT

The capitalization threshold has no impact on the Agency budget, or expenditure plans. Lowering the threshold might increase Staff time to track and account for additional assets; raising the threshold might cause the net year-end balance to vary a bit more than in the past. Staff do not consider either change to be significant.

ACTION

The Board review the policy as part of the on-going policy review process, and fulfill the policy requirements. No change is recommended.

ATTACHMENTS

Capitalization Policy

**SAN GORGONIO PASS WATER AGENCY
CAPITALIZATION POLICY
Adopted October 1, 2018**

Purpose

This accounting policy establishes the capitalization amount that shall be used to determine the capital assets that are to be recorded in the annual financial statements and asset records of the San Gorgonio Pass Water Agency.

Capital Asset Definition

A “Capital Asset” is defined as a unit of property that: (1) has an economic useful life that extends beyond 12 months; and (2) was acquired or produced for a cost of \$5,000 or more. Capital Assets must be capitalized and depreciated for financial statement purposes. Capital Assets, or Fixed Assets, generally include items of property and equipment such as buildings, leasehold improvements, water supply facilities, office furniture, fixtures, computers and other technology-related equipment.

Capitalization Thresholds

The San Gorgonio Pass Water Agency establishes \$5,000 as the threshold amount for minimum capitalization. Any items costing below this amount shall be expensed in the accounting records and financial statements of the San Gorgonio Pass Water Agency.

Capitalization Method and Procedure

The basis of accounting for capital assets is the historical acquisition cost, and all normal expenditures, including installation costs, architect-engineer fees, etc., of readying an asset for use will be capitalized. However, unnecessary expenditures that do not add to the utility of the asset will be charged to the period incurred.

Tangible assets costing below the aforementioned threshold amount are recorded as an expense. Alternatively, assets with an economic useful life of 12 months or less are required to be expensed for financial statement purposes, regardless of the acquisition or production cost. Repairs or improvements to a capital asset will be reviewed by management in accordance with the above principles to determine their inclusion or exclusion in the capital asset listing.

Recordkeeping

Invoices substantiating an acquisition cost of each unit of property shall be retained according to guidelines set by the document retention policy of the San Gorgonio Pass Water Agency.

Asset Review

The assets and the asset listing shall be reviewed annually. New assets need to be listed, and assets that are no longer in service shall be removed from the list and disposed of. Procedures and policies for the proper disposal of surplus property are described in other policy statements of the San Gorgonio Pass Water Agency.

Policy Review

This policy shall be reviewed at least every 5 years, to make sure the asset threshold and the procedures meet current accounting standards and the needs of the San Gorgonio Pass Water Agency.