

# ***San Geronio Pass Water Agency***

**DATE:** May 4, 2026

**TO:** Board of Directors

**FROM:** Lance Eckhart, General Manager

**BY:** Jennifer Ustation, Chief Financial Officer

**SUBJECT: APPROVAL OF UPDATED CAPITALIZATION POLICY**

## **RECOMMENDATION**

That the Board of Directors approve the updated Capitalization Policy.

## **PREVIOUS CONSIDERATION**

- Board Meeting – October 1, 2018: The Board approved the Capitalization Policy.
- Board Meeting – November 20, 2023: Board reviewed the policy as a part of the Agency's ongoing policy review process and no changes were recommended at that time.

## **BACKGROUND**

The Capitalization Policy establishes the criteria used to determine whether expenditures are recorded as expenses or capital assets. Capital assets are recorded on the Agency's financial statements and depreciated over their useful lives, while expenditures below the capitalization threshold are expensed in the year incurred.

Historically, the Agency established a capitalization threshold of \$5,000 based on prior operational scale, asset inventory, and auditor guidance.

As part of ongoing policy review and alignment with current accounting standards and operational practices, staff conducted an evaluation of the Agency's capitalization practices, administrative burden, and industry trends.

## **ANALYSIS**

The updated Capitalization Policy includes several key revisions intended to improve clarity, align with current accounting standards, and enhance administrative efficiency.

1. Increase to Capitalization Threshold

The most significant update is an increase in the capitalization threshold:

- From: \$5,000
- To: \$20,000

This change reflects:

- Inflationary impacts on asset costs since the policy was last substantively updated
- Industry practices among similar agencies
- The desire to reduce administrative burden associated with tracking lower-value assets

Raising the threshold allows staff to focus on material assets while maintaining accurate and meaningful financial reporting.

In evaluating the updated capitalization threshold, staff considered current industry standards among comparable public agencies and incorporated feedback from the Agency's auditors. These factors, combined with internal operational experience, support the proposed increase as both appropriate and consistent with best practices.

## 2. Inclusion of GASB Guidance (Leases and Subscription-Based IT Arrangements (SBITA))

The updated policy incorporates guidance from:

- GASB Statement No. 87 (Leases)
- GASB Statement No. 96 (SBITA)

The policy now clarifies that:

- Lease and SBITA assets will be capitalized based on the Agency's established threshold for materiality

This ensures compliance with current governmental accounting standards and provides clear direction for implementation.

## 3. Clarification of Capitalization Criteria

Additional language improves clarity and consistency in application, including:

- Assets must have a useful life greater than 12 months
- Routine repairs and maintenance are expensed regardless of cost
- Projects are evaluated in aggregate when determining capitalization
- Construction in Progress (CIP) is used until assets are placed into service

These updates reduce ambiguity and support consistent decision-making.

## 4. Formalization of Depreciation Methodology

The policy now explicitly states that:

- Capital assets will be depreciated using a systematic and rational method, such as straight-line depreciation

This addition strengthens the policy by documenting existing practice and ensuring continuity for future staff.

## 5. Administrative and Operational Improvements

The revised policy:

- Reduces the number of assets requiring tracking and annual inventory
- Improves efficiency in financial reporting and audit preparation
- Aligns policy language with current practices and expectations

This policy was reviewed by the Finance and Budget Committee on April 23, 2026, and was recommended to move forward to the Board of Directors for approval.

### **FISCAL IMPACT**

The capitalization threshold has no impact on the Agency budget or expenditure plans. However, it may result in:

- Slight increases in annual operating expenses due to more items being expensed rather than capitalized
- Reduced administrative costs and staff time associated with asset tracking and depreciation.

Overall, the fiscal impact is expected to be minimal and operationally beneficial.

### **ACTION**

That the Board of Directors approve the updated Capitalization Policy

### **ATTACHMENTS**

Updated Capitalization Policy (Redlined)

**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~~ \$20,000 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.

Leases and subscription-based information technology arrangements (SBITAs), in accordance with GASB Statement No. 87 and No. 96, shall be recognized and capitalized based on the Agency’s established capitalization threshold for materiality to lease and SBITA assets.

Capitalization Thresholds

The San Gorgonio Pass Water Agency establishes ~~\$5,000~~ \$20,000 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, Additionally,~~ assets with an economic useful life of 12 months or less are also required to be expensed for financial statement purposes, regardless of the acquisition or production cost. ~~Individual items that are part of a larger project or system shall be evaluated in aggregate for capitalization purposes. 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.~~ Expenditures that extend the useful life, increase capacity, or improve the efficiency of an asset shall be capitalized. Routine repairs and maintenance shall be expensed regardless of the cost.

Capital projects shall be recorded as Construction in Progress (CIP) until the asset is substantially complete and placed into service, at which point it will be capitalized and depreciated.

#### Depreciation Method

Capital assets shall be depreciated over their estimated useful lives using a systematic and rational method such as straight-line depreciation.

#### 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 Geronio 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 Geronio 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 Geronio Pass Water Agency.