



Budget & Finance Committee Meeting  
Tuesday, January 4, 2022 at 1:00 PM  
Valley Sanitary District Board Room  
45-500 Van Buren Street, Indio, CA 92201

Members of the public wanting to participate in the open session of the meeting may do so via the following Zoom link: <https://us06web.zoom.us/j/86596811074> Meeting ID: 865 9681 1074 or by calling 253-215-8782. Members of the public wanting to address the Board may do so up until the public comment period is closed at the meetings

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<b>1. CALL TO ORDER</b>	
1.1. Roll Call	
1.2. Pledge of Allegiance	
<b>2. PUBLIC COMMENT</b>	
<i>This is the time set aside for public comment on any item not appearing on the agenda. Please notify the Secretary in advance of the meeting if you wish to speak on a non-hearing item.</i>	
<b>3. DISCUSSION / ACTION ITEMS</b>	
3.1. Recycled Water Project - Phase 1 Financing Options	3 - 4
<a href="#">3.1 Recycled Water Project Financing Options.pdf</a> 	
<a href="#">3.1 Attachment A. Financing Memo Valley Sanitary District.pdf</a> 	
3.2. Fiscal Year 2022/2023 Budget Timeline - Discussion	5 - 6

[3.2 Budget Timeline for Fiscal Year 2023.pdf](#) 

[3.2 Attachment A FY23 Budget Timeline.pdf](#) 

3.3. Capital Expenditure Allocation

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[3.3 Capital Expenditure Allocation.pdf](#) 

[3.3 Attachment A Fixed Assets Accounting Policy.pdf](#) 

[3.3 Attachment B 2013-1040 District Reserve Policy.pdf](#) 

[3.3 Attachment C Unaudited Fund Balance.pdf](#) 

**4. FUTURE MEETING ITEMS**

**5. ADJOURNMENT**

Pursuant to the Brown Act, items may not be added to this agenda unless the Secretary to the Board has at least 72 hours advance notice prior to the time and date posted on this notice.



**Valley Sanitary District  
Budget and Finance Committee Meeting  
January 4, 2022**

**TO:** Budget and Finance Committee

**FROM:** Jeanette Juarez, Business Services Manager

**SUBJECT:** **Recycled Water Project – Phase 1 Financing Options Discussion**

<input type="checkbox"/> Board Approval	<input type="checkbox"/> New Budget Approval	<input type="checkbox"/> Contract Award
<input checked="" type="checkbox"/> Board Information	<input type="checkbox"/> Existing FY Approved Budget	<input type="checkbox"/> Closed Session

**Executive Summary**

The purpose of this report is to provide the Budget and Finance Committee with information regarding financing options for the Recycled Water Project – Phase 1.

**Strategic Plan Compliance**

This item complies with VSD Strategic Plan Objective 5.1: Align long-term financial planning with strategic priorities.

**Fiscal Impact**

None.

**Background**

The Recycled Water Project – Phase 1 is a Capital Improvement Project of high priority for the District. The Reclaimed Water Project – Phase 1 will replace an aging and capacity restricting grit chamber and provide redundancy by adding a second digester and expanding the bar screens. This project will also include adding a sludge thickener unit. This project is necessary to meet anticipated regulatory requirements, tertiary treatment, and recycled water production. Valerie Houchin from Schneider Electric provides financing options to the committee for review and discussion.

**Recommendation**

Recommend that the Budget and Finance Committee receive this report for information.

**Attachments**

Attachment A            Technical MEMO Schneider Electric

# MEMO

TO: Valley Sanitary District - Budget & Finance Committee

FROM: Valerie Houchin and Kimberly Albertson, Schneider Electric

DATE: December 27, 2021

SUBJECT: Recycled Water Project – Phase 1 Financing

As Valley Sanitary District evaluates options for funding its capital improvement projects in the upcoming years, certain funding structures have more flexibility for certain types of projects. For the Recycled Water Project – Phase 1, the District is working with Energy Services Company (referred to as an ESCO) and Design-Build firm Schneider Electric. In the development of the project scope, Schneider Electric works in parallel with its clients to obtain competitive financing options from third party lenders that offer financing for these unique projects. Because this project is being delivered through an alternative delivery method, the District has the benefit of working with lenders that are accustomed to funding these energy/sustainability related projects.

Kimberly Albertson is Schneider Electric's National Finance Manager. Kimberly has a background as a paralegal in public finance and many years as a lender prior to joining Schneider. She works to nurture relationships with lenders/financial institutions across the country to encourage them to offer financing to clients directly for ESCO/design-build projects. Schneider works with many lenders that vary by types, local banks, national banks and investment banking firms. These are all financial institutions that have appetite specifically to finance ESCO/design-build projects. Schneider has found Banc of America Public Capital Corp (Bank of America or BOA for short) to be consistently top-notch, reliable and dependable. Banc of America Public Capital Corp has been a front runner across the country leading in extremely low rates and is one of the only lenders able to offer 20 year financing terms. In the last eight years, BOA has funded more than \$480,000,000 for Schneider's ESCO projects. BOA can capably finance large volume projects; many lenders simply don't have the capacity or lending appetite.

Some specific benefits we have seen that set BOA apart in the market:

- We have seen them offer our clients very flexible prepayment provisions (for example, payable *on any payment date* with or without a penalty).
- Bank of America's Environmental Business Initiative will deploy and mobilize \$1 trillion by 2030 to accelerate the transition to a low-carbon, sustainable economy, as part of a broader \$1.5 trillion sustainable finance goal aligned to addressing the United Nation's Sustainable Development Goals (SDGs). This multi-year financing commitment provides financial capital, along with significant intellectual capital, to develop solutions to climate change and other environmental challenges. It focuses on low-carbon energy, energy efficiency, and sustainable transportation, in addition to addressing other important areas like water conservation, land use and waste.
- Professional working relationship with Schneider Electric over the course of many years.
- Familiarity with several California law firms, such as Best, Best & Krieger which is the District's law firm, to get financing contractual documents created and executed smoothly.
- Interest rate locks as long as 90 days.
- Ease of documentation – can generally close and fund within 3 weeks.
- No costs of issuance from Bank of America.
- Doesn't impact the District's ability to do traditional lease revenue bonds in the future.
- Could finance the entire Phase 1 project volume, if desired by the District.



**Valley Sanitary District  
Budget and Finance Committee Meeting  
January 4, 2022**

**TO:** Budget and Finance Committee

**FROM:** Jeanette Juarez, Business Services Manager

**SUBJECT:** **Budget Timeline for Fiscal Year 2022/2023**

<input type="checkbox"/> Board Approval	<input type="checkbox"/> New Budget Approval	<input type="checkbox"/> Contract Award
<input checked="" type="checkbox"/> Board Information	<input type="checkbox"/> Existing FY Approved Budget	<input type="checkbox"/> Closed Session

**Executive Summary**

The purpose of this report is to provide the Budget and Finance Committee the proposed fiscal year 2022/23 budget timeline for review.

**Strategic Plan Compliance**

This item complies with VSD Strategic Plan Objective 5.1: Align long-term financial planning with strategic priorities.

**Fiscal Impact**

None.

**Background**

The action for approval and adoption of the annual budget is completed in June of each calendar year. In preparation for the fiscal year 2022/23 budget, staff has prepared a budget timeline, Attachment A, for the Budget and Finance Committee to review. The timeline includes deliverable due dates and meeting dates. The timeline will serve as a guide during the upcoming weeks to continue budget discussions and allow for any modifications if needed.

**Recommendation**

Recommend that the Budget and Finance Committee to receive this report for information.

**Attachments**

Attachment A                      Fiscal Year 2022/23 Budget Timeline

## Fiscal Year 2021/22 Budget

Company Name: Valley Sanitary District

Project Lead: Jeanette Juarez

Task	Assigned To	Progress	Date
<b>Phase 1 January</b>			
Task 1.1 Budget Worksheets Distributed To All Departments	Business Services Manager	0%	4-Jan-22
Task 1.2 Budget Kickoff Meetings With All Departments	Business Services Manager	0%	4-Jan-22
Task 1.3 Budget Worksheets Due To Business Services Manager (BSM)	All Departments	0%	25-Jan-22
Task 1.4 Review Of Budget Worksheets	Business Services Manager	0%	7-Feb-22
<b>Phase 2 February</b>			
Task 2.1 Operations Committee Reviews 10 Year Capital Improvement Plan	Operations Committee	0%	1-Feb-22
Task 2.2 Department Overview Meetings With BSM	Business Services Manager	0%	7-Feb-22
Task 2.3 Departmental Summaries And Goals Due To BSM	All Departments	0%	8-Feb-22
Task 2.4 Organizational Charts Due To BSM	All Departments	0%	8-Feb-22
Task 2.5 Departmental Performance Metrics Due To BSM	All Departments	0%	15-Feb-22
Task 2.6 Budget Worksheets Due To BSM	All Departments	0%	22-Feb-22
Task 2.7 Capital Improvement Project Worksheets Due	All Departments	0%	22-Feb-22
<b>Phase 3 March</b>			
Task 3.1 Review Capital Project Requests With BSM	Business Services Manager	0%	1-Mar-22
Task 3.2 Budget Meetings With The General Manager And Department Heads	Business Services Manager	0%	17-Mar-22
Task 3.3 Develop Budget Presentation	Business Services Manager	0%	22-Mar-22
Task 3.4 Budget And Finance Committee Review And Recommendations	Budget and Finance Committee	0%	29-Mar-22
<b>Phase 4 April</b>			
Task 4.1 Draft Budget Book	Administration Department	0%	14-Apr-22
Task 4.2 Board Study Session For The Fiscal Year 2022/23 Fees, Charges, 10 Year CIP, and Budget	Board of Directors	0%	19-Apr-22
Task 4.3 Department Overview Meetings With BSM To Discuss Board Comments And Edit Requests	Business Services Manager	0%	21-Apr-22
Task 4.4 Final Worksheets Submitted To BSM	All Departments	0%	28-Apr-22
<b>Phase 5 May</b>			
Task 5.1 Budget Meetings With The General Manager And Department Heads	Business Services Manager	0%	5-May-22
Task 5.2 Draft Budget And Budget Presentation Posted To Board Agenda	Clerk of the Board	0%	19-May-22
Task 5.3 Board Adopts Fiscal Year 2022/23 Fees and Charges for District Services	Board of Directors	0%	24-May-22
Task 5.4 Board Adopts 10 Year Capital Improvement Plan	Board of Directors	0%	24-May-22
Task 5.5 Board Reviews Draft Budget And Makes Final Changes	Board of Directors	0%	24-May-22
Task 5.6 Department Overview Meetings With BSM To Discuss Final Changes	Business Services Manager	0%	25-May-22
<b>Phase 6 June</b>			
Task 6.1 Final Edits Due To BSM	All Departments	0%	1-Jun-22
Task 6.2 Review Final Budget With General Manager And Department Heads	Business Services Manager	0%	8-Jun-22
Task 6.3 Final Budget Posted To Board Agenda	Clerk of the Board	0%	23-Jun-22
Task 6.4 Board Adopts the Fiscal Year 2022/23 Budget	Board of Directors	0%	28-Jun-22
Task 6.5 Fiscal Year 2022/23 Final Budget Posted To District Website	Administration Department	0%	29-Jun-22



**Valley Sanitary District  
Budget and Finance Committee Meeting  
January 4, 2022**

TO: Budget and Finance Committee

FROM: Jeanette Juarez, Business Services Manager

**SUBJECT:** Capital Expenditure Allocation

<input type="checkbox"/> Board Approval	<input type="checkbox"/> New Budget Approval	<input type="checkbox"/> Contract Award
<input checked="" type="checkbox"/> Board Information	<input type="checkbox"/> Existing FY Approved Budget	<input type="checkbox"/> Closed Session

**Executive Summary**

The purpose of this report is to provide the Budget and Finance Committee to discuss the District’s policy and processes for capital allocations.

**Strategic Plan Compliance**

This item complies with VSD Strategic Plan Objective 5.1: Align long-term financial planning with strategic priorities.

**Fiscal Impact**

None.

**Background**

At the December 14, 2021, Board of Directors Meeting, some Directors had questions regarding the allocation of capital expenditures to specific funds. This Discussion will allow for further analysis and review of District policies and the allocation of depreciable assets. The following policies have been attached to this report for review Fixed Asset Accounting Policy, District Reserve Policy, and the List of Unaudited Fund Balances.

**Recommendation**

Recommend that the Budget and Finance Committee receive this report for information.

**Attachments**

- Attachment A Fixed Asset Accounting Policy
- Attachment B District Reserve Policy
- Attachment C Unaudited Fund Balances



## Fixed Assets Accounting Policy

Adopted: \_\_\_\_\_/2021

### I. PURPOSE

The District has a significant investment in fixed assets that include land, buildings, fixed equipment, infrastructure, and moveable equipment. This policy addresses the basic requirements and procedures that must be followed to meet all state and federal regulations related to fixed assets. In addition to land, buildings, improvements and equipment, the District will maintain an inventory of all controllable items as defined below.

This policy is an overview of various components as they relate to fixed assets:

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## Definitions

Capitalizable Assets: A fixed asset with an expected useful life of greater than one (1) year and the asset individually has a value or cost of \$5,000 or greater at the date of acquisition.

Controllable Assets: Tangible property that has an expected life of greater than one (1) year and value or cost less than \$5,000 at the date of acquisition.

Depreciation: The process of allocating the cost of an asset over a period of time, usually its estimated useful life.

Depreciation Method: Straight-line method with half-month convention.

Intangible Assets: An asset that lacks physical substance, is nonfinancial in nature, and has an initial useful life extending beyond a single reporting period. Examples of intangible assets include easements, computer software, water rights, timber rights, patents, and trademarks.

Tangible Assets: Assets are physical and measurable assets that are used in a company's operations. Assets like property, plant, and equipment, are tangible assets.

Useful Life: The amount of time that an asset is expected to provide benefit to the District.

## II. POLICY

The purpose of this policy is to ensure the District's fixed assets are acquired, safeguarded, controlled, disposed of, and accounted for in accordance with state and federal regulations, auditor requirements, applicable accounting pronouncements, and in a manner that adequately supports the maximum recovery of Facilities and Administrative (indirect) costs associated with these assets. This policy applies to all fixed Assets (land, buildings, infrastructure, and equipment) regardless of source of funds used to acquire these assets (including donated assets) and applies to all departments that use, have custody of, or have been assigned responsibility for such fixed assets.

### Management of Fixed Assets

#### Departmental Responsibilities

All District employees are responsible for protecting District property and are ultimately responsible for, and are held accountable for, assuming proprietary control of all equipment and other fixed assets in their custody or assigned to their department.

1. This responsibility includes establishing business practices and procedures for such equipment and other fixed assets that provide for the following:
2. The proper care, maintenance, control, and reasonable safeguards to prevent loss, damage or theft of such equipment and other fixed assets.
3. The proper usage of such equipment and other fixed assets. Such items should be used for District business purposes and in accordance with District policies and state and federal regulations.
4. The creation of procedures related to the acquisition of equipment and other fixed assets requiring initial screening to avoid the purchase of duplicative equipment is

performed before requisitioning such equipment; verification steps are performed to ensure all items ordered are actually received and are in good operating condition; and assistance is provided to the Business Services Manager to complete the initial inventory of items acquired within 30 days of receipt for those items delivered directly to the ordering department, gather complete demographic information (location, serial number, etc.), and attach a barcode tag to the item whenever possible. Once the barcode tags are put on the equipment they should not be removed.

5. The proper disposal of obsolete, unneeded, or inoperable fixed assets and other property in accordance with the asset disposal policy. Department Heads may act to transfer property to another department but cannot sell or donate property to an individual or commercial firm. The departmental procedures for all disposals or transfers to other departments should ensure that the transfer or disposal forms for all such items are forwarded to the Business Services Manager for recording in Fixed Asset Module on a timely basis.
6. The reporting of thefts of equipment and other fixed assets to the Business Services Manager. In addition, equipment that is lost or has been destroyed because of a casualty (fire, flood, etc.) should be immediately reported to the Business Services Manager.
7. Ensuring that a Loan of District Property Form is completed, with an electronic copy forwarded to the Business Services Manager, for any equipment loaned to employees so that they may work on District business onsite or at home. Ensure that the form is properly authorized by the department head with a signed consent by the employee to return the equipment upon request or upon termination of employment. Include specific details about the equipment (barcode number, serial number, manufacturer, model number, cost, etc.), and have a department process to track all such equipment. Ensure that all loaned equipment is returned from any employee prior to termination of employment.
8. The designation of an equipment coordinator(s) for the department who will assist in the management and control of the equipment and other fixed assets assigned to the department, document and forward all inventory information to include location changes, surplus and disposal documents, and new equipment acquisition documents to the Business Services Manager within 30 days of the change. This individual will also act as the primary point of contact for the department during the District's annual physical inventory process. The department head is responsible for communicating to the Business Services Manager any change of the equipment coordinator duty within the department.

### Business Services Manager

The responsibilities of the Business Services Manager are to:

1. Initiate and control the collection of detailed demographic information (location, serial number, etc.) of all equipment acquired by purchase, donation, fabrication, transfer, or other method of acquisition.
2. Coordinate the taking of annual physical inventories of equipment and certain other fixed assets. Reconcile and update the fixed asset module for the results of these inventories and report the results to management.
3. Record disposals (and related sales proceeds, gains or losses, and reduction of accumulated depreciation) through sales, write-offs, trade-ins, and all other means for all fixed assets in the fixed asset module.

## Fixed Assets Accounting Policy

4. Provide guidance to Department Heads and other Valley Sanitary District Staff related to fixed assets policies and procedures.
5. Maintain and record changes or updates as appropriate to the land, building, infrastructure, fixed equipment and moveable equipment records in the fixed asset module.
6. Reconcile the fixed asset module to the general ledger for all capital asset categories.
7. Provide Department Heads with accurate and timely information about equipment and other such assets under their control or assigned to their departments.
8. Prepare data on depreciation for the District's financial statements.
9. Assist in the preparation and completion of property information reports, as required by governmental entities, or state or federal auditors, etc.
10. Enter all leases for buildings or equipment into the accounting system for determination of proper reporting category for financial statement purposes (i.e., operating or capital).
11. Prepare calculation for future minimum lease payments for the District's financial
12. statements.

### Capitalization Threshold

All fixed assets, including buildings, equipment, furniture, improvements, infrastructure, land, software, and vehicles with an original cost of \$5,000 or more, will be subject to capitalization. All costs associated with the purchase or construction should be considered, including ancillary costs such as freight and transportation charges, site-preparation expenditures, installation charges, professional fees, and legal costs directly attributable to asset acquisition. The purchase of these fixed assets shall be included on the District's statement of net assets and depreciated over the asset's estimated useful life. The purchase of fixed assets for less than \$5,000 shall be expensed.

Specific capitalization requirements are described below.

- The capitalization threshold is applied to individual units of fixed assets. For example, ten desks purchased through a single purchase order each costing \$1,000 will not qualify for capitalization even though the total cost of \$10,000 exceeds the threshold of \$5,000.
- The capitalization threshold will generally not be applied to components of fixed assets. For example, a keyboard, monitor, and central processing unit purchased as components of a computer system will not be evaluated individually against the capitalization threshold. The entire computer system will be treated as a single fixed asset.
- Repairs to fixed assets will generally not be subject to capitalization unless the repair extends the useful life of the asset. In this case, it represents an improvement and is subject to the capitalization policy and should be evaluated separately.
- Improvements to existing fixed assets will be presumed (by definition) to extend the useful life of the related fixed asset and, therefore, will be subject to capitalization only if the cost of the improvement meets the \$5,000 threshold. In theory, an improvement to a fixed asset that had an original cost of less than \$5,000, but now exceeds the threshold because of the improvement, should be combined as a single asset at the total cost (original cost plus the cost of the improvement) and capitalized.

### Asset Categorization and Capitalization

Two (2) different categories fixed assets are tracked in the fixed asset module capitalizable and controllable.

1. Capitalizable assets are all fixed assets that meets the District's capitalization criteria as stated in the Threshold Policy. Statement No. 34 Basic Financial Statements and Management's Discussion and Analysis (MD&A) for State and Local Governments of the Governmental Accounting Standards Board (GASB) defines Capital Assets as:

*“land, improvements to land, easements, buildings, building improvements, vehicles, machinery, equipment, works of art and historical treasures, infrastructure, and all other tangible or intangible assets that are used in operations and that have initial useful lives extending beyond a single reporting period. Infrastructure assets are long-lived capital assets that normally are stationary in nature and normally can be preserved for a significantly greater number of years than most capital assets. Examples of infrastructure assets include roads, bridges, tunnels, drainage systems, water and sewer systems, dams, and lighting systems”* (GASB, Para 19).

2. Controllable property is all property that does not meet the District's capitalization criteria, but which the District is obligated to physically control (e.g., laptops, computers, cell phones, lab chemicals, tools). These assets are in the fixed asset module but have no depreciation to distinguish them from capitalized assets. For accounting purposes, controllable property is not included in the fixed assets general ledger control accounts, nor is it included in the calculation of depreciation expense.

### Buildings

1. Buildings acquired by purchase are recorded at cost and include all permanent structures and all integral fixtures, machinery, and other appurtenances that cannot be readily removed without disrupting the basic building structure or services to the building. The cost should also include professional fees for attorneys, appraisers or financial advisors, and any other expenditure necessary to put a building or structure within its intended state of operations.
2. Buildings acquired by gift or bequest are recorded at the fair market value at the date of acquisition. Donations from related entities require the asset be recorded at the book value of the donating entity.
3. When buildings are constructed, all identifiable costs are included, such as (but not limited to) contract costs, insurance and interest costs incurred during the period of construction in excess of interest revenue on any borrowed funds. Costs are accumulated in Construction in Progress until the date of beneficial occupancy.
4. Structural remodeling/renovation and additions are capitalized when they enhance the use of, extend the life of the building beyond its original estimated useful life, or significantly increase the efficiency of the building.

### Construction-in-Progress

1. Construction in progress includes all expenditures directly related to building construction, renovations, or additions. These costs include contract cost (materials, labor, and overhead) as well as professional fees and interest incurred during the construction period.
2. Upon completion, construction- in- progress costs are transferred to buildings, Improvements, or infrastructure.

### Equipment - Capitalized

1. Moveable equipment and separately acquired fixed equipment that has an original unit cost of \$5,000 or more and an expected useful life of greater than one (1) year. The amount capitalized is the purchase price of the asset plus any cost necessary to prepare the asset for use, including shipping and installation. Vendor discounts are deducted, but trade-in allowances are not.
2. Fixed equipment is generally of a configuration requiring contractor installation. Installation often includes charges for various permanent service connections, assembly, site preparations and other miscellaneous types of labor. These associated installation costs, when properly documented, are included in the capitalized cost of newly acquired fixed equipment.

### Equipment - Controllable

Controllable equipment carried on the District's inventory is generally defined as moveable, non-consumable items that are not permanently fixed or installed and that have a useful life of at least one-year. Microcomputers, laser printers, LCD projectors, digital cameras, camcorders, and laptop computers with an initial purchase price between \$500 and \$4,999 will be included in the inventory as a controllable asset. It is essential that all controllable assets for the District are always accounted for. Any equipment meeting the definition of controllable equipment will be tagged with a unique bar code label identifying the asset as property of the District. The tagging is generally done at the time the new item is delivered. It is the department's responsibility to notify the Business Services Manager of the receipt and location of the items within 30 days of delivery.

### Furniture and Fixtures

Examples of furniture and fixtures are tables, chairs, file cabinets, cubicle walls, etc. used to furnish an office. This category does not include computers or laptops which are classified as equipment.

### Improvements

Significant costs incurred after an asset is acquired that increase the future economic benefits of the asset are capital expenditures. Future economic benefits are increased by extending the life of the asset, improving productivity, or improving the quality of service. If the cost incurred was to maintain the asset, it is a current period expense.

### Infrastructure

Infrastructure assets are long-lived and can be preserved for a significantly greater number of years than most capital assets and are normally stationary in nature. Examples include paving, roads, bridges, tunnels, utility distribution systems, water and sewer systems, parking lots, fencing and outdoor lighting.

Infrastructure assets with an estimated life greater than one year will be capitalized.

### Land

1. Land acquired by purchase is recorded at cost and includes the amount paid for the land itself and all related acquisition costs. Land is considered to be an inexhaustible asset (with infinite life) and therefore is not depreciated. In addition to the costs of acquisition, the cost of land should include ancillary costs such as:
  - Legal and title fees,
  - Unpaid taxes assumed,
  - Surveying and recording fees,
  - Appraisal and negotiation fees,
  - Easements,
  - Damage payments,
  - Site preparation costs (clearing, filling, and leveling) and
  - Demolition of unwanted structures.
2. Land acquired by gift or bequest is recorded at the fair market value at the date of acquisition. Donations from related entities require the asset be recorded at the book value of the donating entity.
3. When land is acquired with buildings erected thereon, total cost is allocated between land and building in reasonable proportion at the date of acquisition. If the transfer document does not show the allocation, other sources may be used, such as an expert appraisal or real estate tax assessment records.
4. Land improvements with an estimated life greater than one year will be capitalized. Examples of such improvements include (but are not limited to) landscaping, athletic fields, and tennis courts.

Those improvements that produce permanent benefits to the land, such as costs for fill and grading that ready the land for erection of a structure, or landscaping are considered inexhaustible and are therefore capitalizable. However, they are not depreciable.

The cost of land does not include those expenditures made in connection with land improvements that are exhaustible (i.e., that deteriorate with use or the passage of time) or are part of an infrastructure asset such as paving, parking lots, and fencing. These fall in the category of infrastructure.

### Software

GASB Statement No. 51 Accounting and Financial Reporting for Intangible Assets establishes financial reporting requirements for intangible assets including easements, water rights, timber rights, patents, trademarks, and computer software.

Software intangible assets include computer “programming” or “coding language” that provide the necessary instructions for the computer hardware to perform a desired task or series of tasks. Software intangible assets include purchased “off the shelf” software,

including all necessary modifications, software specifically developed by an outside contractor, and software developed internally by agency personnel, or acquired through any combination of the above.

1. Computer software developed or obtained for internal use should be capitalized if the cost of the license is \$5,000 or more and the software license has a useful life of greater than one (1) year and meets the following condition:
  - Software or licenses purchased and placed into operation without modifications exceeding ten percent of the software purchase price should be considered an intangible asset. This type of computer software is not considered to be internally generated, and therefore, the entire purchase price of the software is capitalized.
2. State agencies often acquire software systems from a vendor that may be customized or developed for their internal use. While the licensing agreement and fee itself would not generally be capitalizable, any significant costs incurred to customize the software to meet the needs of the District should be capitalized. Software is considered to be developed or obtained for internal use if both of the following tests are met:
  - The software is purchased, internally developed, or modified solely to meet the entity's internal needs; and
  - During the software's development or modification, no substantive plan exists or is being developed to market the software externally.

Commercially available software purchased or licensed by an agency that requires modification by agency personnel or a third party and the cost incurred for the modification equals or exceeds ten percent of the total software acquisition cost before being placed into operation should be considered internally generated for purposes of GASB No. 51. For example, licensed financial accounting software that the agency modifies to provide special reporting capabilities and the cost of the modification equals or exceeds ten percent of the software purchase price would be considered internally generated.

### Vehicles

Can include company cars, trucks, trailers, and more specialized moving equipment, such as forklifts, Vactors, and TV Vans.

### Useful Life

The following durations will be used to determine the useful life and term of depreciation.

<u>Type of Fixed Asset</u>	<u>Life in Years</u>	<u>Life in Miles</u>
Buildings – General Structures	30	N/A
Buildings – Lift Stations, Pump Stations, Out Buildings	20	N/A
Buildings – Modular	10	N/A
Buildings – Office Buildings	50	N/A
Equipment – PCs, Laptops, and Printers	3	N/A
Equipment – Office Equipment (copiers, servers, etc.)	5	N/A
Equipment – Light Duty	5	N/A
Equipment – Medium Duty	10	N/A
Equipment – Heavy Duty	15	N/A
Furniture – Office	5	N/A
Furniture – Office Fixtures	10	N/A
Improvements – General	15	N/A
Infrastructure – Manholes	50	N/A
Infrastructure – Outfall	70	N/A
Infrastructure – Sewer Lines	50	N/A
Infrastructure – Treatment Plant	40	N/A
Land	Indefinite	
Software	5	N/A
Vehicle – Autos & Vans	7	80,000
Vehicle – Trailer	15	N/A
Vehicle – Truck, Light Duty (Inspector, TV, Ops, etc.)	5	60,000
Vehicle – Truck, Heavy Duty (Hydro, Vactor, Dump, etc.)	10	100,000

### Leases

GASB Statement No 87 defines a lease as a contract that conveys control of the right to use another entity’s nonfinancial asset (the underlying asset) as specified in the contract for a period of time in an exchange or exchange-like transaction. Examples of nonfinancial assets include buildings, land, vehicles, and equipment.

### Exceptions

- Lessee
  - Short-term lease (maximum possible term of 12 months or less)
  - Lease payments recognized as expense by the lessee and recognized as revenue by the lessor.
  - Contracts that transfer ownership
  - The transaction should be reported as a financed purchase of the underlying asset by the lessee and sale of the asset by the lessor.
  - Leases for \$1 (Exchange/Exchange like Transaction)
- Lessor
  - Investments
  - If the underlying assets meets the requirements of GASB72 then it should be reported as an investment measured at fair value.



### Exclusions

- Intangible assets, such as mineral rights, patents, software and copyrights
- Short term leases
- Biological assets, including timber, living plants, and living animals
- Inventory
- Contracts that meet the definition of a service concession agreement (GASB 60)
- Assets financed with outstanding conduit debt, unless both the underlying asset and the conduit debt are reported by the lessor.
- Leases that transfer ownership
- Supply contracts, such as power purchase agreements

### Lessee Accounting

A lessee should recognize a lease liability and a lease asset at the commencement of the lease term, unless the lease is a short-term lease or it transfers ownership of the underlying asset. The lease liability should be measured at the present value of payments expected to be made during the lease term (less any lease incentives). The lease asset should be measured at the amount of the initial measurement of the lease liability, plus any payments made to the lessor at or before the commencement of the lease term and certain direct costs.

A lessee should reduce the lease liability as payments are made and recognize an outflow of resources (for example, expense) for interest on the liability. The lessee should amortize the lease asset in a systematic and rational manner over the shorter of the lease term or the useful life of the underlying asset. The notes to financial statements should include a description of leasing arrangements, the amount of lease assets recognized, and a schedule of future lease payments to be made.

### Entries for Lessee

- Lease Liability
  - Present value of payments expected to be made during the lease term
- Intangible right-to-use (capital asset)
  - Lease Liability
  - Payments made on the lease prior to commencement of the lease term
  - Direct costs necessary to place the lease asset into service
- If interest rate cannot be determined, use the lessee's incremental borrowing rate
- Lease asset should be amortized over the shorter of the life of the lease or the useful life of the assets
- Debt issuance costs are expensed in the period incurred
- Exclude maintenance type costs when calculating the lease liability

### Lessor Accounting

A lessor should recognize a lease receivable and a deferred inflow of resources at the commencement of the lease term, with certain exceptions for leases of assets held as investments, certain regulated leases, short-term leases, and leases that transfer ownership of the underlying asset. A lessor should not derecognize the asset underlying the lease. The lease receivable should be measured at the present value of lease payments expected to

be received during the lease term. The deferred inflow of resources should be measured at the value of the lease receivable plus any payments received at or before the commencement of the lease term that relate to future periods.

A lessor should recognize interest revenue on the lease receivable and an inflow of resources (for example, revenue) from the deferred inflows of resources in a systematic and rational manner over the term of the lease. The notes to financial statements should include a description of leasing arrangements and the total amount of inflows of resources recognized from leases.

### Entries for Lessor

- Lease receivable
  - Present value of lease payments, including fixed, certain variable, residual value guarantee, and lease incentives
  - Not including portion of variable payment that is based on performance
  - Discounted using interest rate in the lease (implicit or explicit)
  - Should be remeasured if changes occur to the contract or an event occurs resulting in a variable component becoming fixed
- Deferred inflow of resources
- Other Items:
  - Initial direct costs – current period expense
  - Recognition of both lease revenue and interest revenue
  - Continue to account to the underlying asset (depreciation and impairment)

## **Disposal of Equipment and Other Fixed Assets**

### Sale of Surplus Equipment

Obsolete equipment or items worn beyond repair can be classified as surplus. The Department Head or designee must complete the “Equipment Disposition Form” and Board action is required to declare any equipment surplus. Once the Board has declared an item surplus, it is advertised for sale with an indication of the location/hours/days it can be seen and the deadline date for submission of bids. (The advertisement will also stipulate that the District reserves the right to reject any or all bids and that the equipment is sold AS IS.) The District uses GOVDEALS to advertise and sell surplus items.

### Value of Property

It is the responsibility of each department to appraise items designated as surplus. If it is determined that the property sold as a unit has a market value of more than \$5,000, the property must be disposed of by a bid process in accordance with District purchasing guidelines. The bid process will be coordinated in conjunction with each respective department and the General Manager. The General Manager is authorized to advertise such surplus property for sale to the public. If it is determined that the property sold as a unit has a value less than \$5,000, the property may be disposed of in a manner approved by the Board.

### Disposal Process

Prior to the disposal of any surplus property, each department is required to complete an

"Equipment Disposition Form" (see Exhibit D) and return it to the General Manager for approval and to Administration for processing. Upon retirement/disposal of the asset, Business Services Manager will remove the item from the Fixed Asset Module.

### Sale of Real Estate

Board action is required to declare any property surplus. The Board will authorize and grant authority to District staff to obtain an appraisal of surplus property.

In accordance with State law, surplus property is first offered to public agencies at the appraised price. If the property is not purchased by a public agency, it is then advertised in the newspaper with a request that sealed bids be submitted to the District. The Board will review the bids at the next regular Board Meeting and decide to accept or reject the highest bid. Bidders are then notified of the Board's action.

Proceeds from the disposal of surplus property will be allocated to the District's General Fund unless the property was originally purchased with monies from a specific District Fund, in which case, the proceeds will be returned to that specific fund.

### **Deprecation**

Depreciable capital assets include all capital assets except land and construction-in-progress. Depreciation is calculated using the straight-line method over the applicable useful life.

Depreciation is computed from the beginning of the month it is placed in service if it was acquired by the 15th of the month. If the Capital Asset is acquired after the 15th of the month, it is depreciated from the beginning of the next month. Similarly, depreciation for the month of disposition is computed for that month if it is disposed of after the 15th.

### **Non-Capital Expenditures**

Expenditures for repairs, maintenance or replacement of components parts or accessories, which do not extend the unit's original estimated useful life, significantly enhance its net value, or significantly improve its efficiency are noncapital expenditures.

1. For example, assume an automobile has a useful life of five years. In the third year the engine is rebuilt so that the original life expectancy can be realized. The rebuilding of the engine is not a capital even if the total cost exceeds the \$5,000 threshold, because the expected useful life of the automobile has not been extended beyond the original life expectancy.
2. Expenditures incurred in demolishing or dismantling equipment including those expenditures related to the replacement of units or systems are non-capital expenditures.
3. Expenditures incurred in connection with the rearrangement, transfer, or moving capitalized items from one location to another, including expenditures incurred in dismantling, transporting, reassembling and reinstalling such items in a new location are non-capital expenditures.

## Physical Inventory

The District will conduct a physical inventory of capital assets equipment annually. The inventory team will be comprised of staff from the Administration Department and Department Supervisors. All movable fixed assets such as machinery, equipment, and office furniture (not land, buildings, or other immovable fixed assets) will be inventoried.

Moveable fixed assets will be subject to inventory control if they meet at least one (1) of the following criteria:

1. The original cost of the fixed asset is equal to or greater than \$5,000.
2. Any asset that cost less than \$5,000 that a department requests to be subject to inventory control. This may include certain machinery and equipment that, due to portability, value outside of the office, or character, are susceptible to theft or loss. It may also include an asset that has been requested by a department to be controlled to satisfy an internal (operational) or external requirement. For example, Information Systems may wish to inventory all computer hardware and software to establish replacement and upgrade requirements for both hardware and software.
3. Any asset required to be controlled and separately reported pursuant to grant conditions or other externally imposed reporting requirement. For example, a grant program that has funded the acquisition of a fixed asset may impose a requirement that the fixed asset be tracked and identified as a grant-funded asset.

## Inventory Process

1. The inventory team will use the fixed asset inventory log by department to verify the asset's location. Assets are tagged with property control numbers and these numbers must check back to the fixed asset inventory log by department.
2. Inventory teams will tag all fixed asset items and enter the property control number and other available information on fixed asset inventory log if items were not previously tagged and/or identified.
3. Any information necessary for the fixed asset inventory log that is not available on site will be investigated by the Business Services Manager.
4. Updated information will be entered into the fixed assets log and fixed assets module.
5. Assets not found during the inventory process will be evaluated by the Business Services Manager and Department Supervisor for actual or pending disposal. Assets pending disposal are assets not found during the current inventory. Disposal of these assets will occur only within a one-year period in an effort to confirm nonexistence.

## Budgeting

The General Manager is responsible for the oversight of the Capital Improvement Program (CIP) and the development of the Budget. The General Manager may delegate responsibility to various Department Heads 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:

## Fixed Assets Accounting Policy

1. Need is identified - either a new asset is needed, or an asset needs replacement or major repair.
2. Manager who is responsible for operating the asset submits a Budget Request or Capital Project Request form during the budget process.
3. Funding source for the project is identified.
4. Projects are reviewed by the General Manager & Department Heads.
5. Project funding is granted through approval of the Annual Operating and Capital Budget by the Board of Directors.
6. 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 Administration 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 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 District's 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.

### 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:

- 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.
- Debt - this source can be used to fund large projects, with useful lives of 20 years or more, with Board Approval.
- Reserves - this source may only be used with Board approval.
- 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.

### Accounting

A permanent fixed asset inventory log or database is to be maintained by the Business Services Manager for all fixed assets purchased by Valley Sanitary District. The log should contain the following information:

- Date of purchase.
- Description of item purchased.
- Received by donation or purchased.
- Cost or fair market value on the date of receipt.
- Donor or funding source, if applicable.
- Funding-source restrictions on use or disposition.
- Identification/serial number (if appropriate).
- Depreciation period.
- Vendor name and address.
- Warranty period.
- Number of the Valley Sanitary District check used to pay for the equipment.

Project numbers will be utilized to facilitate tracking of purchases, budgets, and assets in the computerized accounting system.

The Business Services Manager is to be informed, in writing, via an interoffice memorandum of any material changes in the status of property and equipment. This includes changes in location, sale of, scrapping of, and/or obsolescence of items and any purchase or sale of real estate.

At least annually, a physical inspection and inventory should be taken of all Valley Sanitary District fixed assets and reconciled to the general ledger balances. Adjustments for dispositions should be made.

### Forms

1. Equipment Disposition Form
2. Lessee Inventory Template
3. Lessee Journal Entries
4. Lessor Inventory Template
5. Lessor Journal Entries

RESOLUTION NO. 2013-1040

**A RESOLUTION OF THE BOARD OF DIRECTORS OF VALLEY SANITARY DISTRICT  
STATING THE DISTRICT'S POLICY REGARDING DISTRICT RESERVE POLICY.**

**WHEREAS**, the Valley Sanitary District is a governmental agency that is responsible for providing sanitary services and maintaining a sewer collection system; and

**WHEREAS**, the purpose of the Valley Sanitary District's (VSD) Financial Reserves Policy is to ensure that the District continues to have sufficient funding available to meet its operating, non-operating, capital and debt service obligations; and

**WHEREAS**, adequate reserves and sound financial policies maintain VSD's bond ratings in the capital markets, provide financing flexibility and sustain debt covenant compliance; and

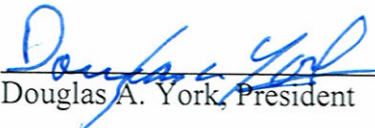
**WHEREAS**, the Financial Reserve Policy recommends establishing various reserve categories, defines the purpose and use of these funds and identifies target levels and priority funding of the reserves.

**NOW, THEREFORE**, the Board of Directors of Valley Sanitary District **HEREBY RESOLVES** as follows:

- Section 1: The Financial Reserve Policy is attached hereto as Exhibit "A"
- Section 2: On an annual basis, the Board of Directors shall review the funding options and target levels of the Financial Reserve Policy.
- Section 3: This Financial Reserve Policy shall be effective July 1, 2013.

**PASSED, APPROVED, and ADOPTED** this 9th day of April, 2013, by the following roll call vote:

AYES:  
NAYES:  
ABSENT:  
ABSTAIN:

  
\_\_\_\_\_  
Douglas A. York, President

ATTEST:  
  
\_\_\_\_\_  
Merritt Wiseman, Secretary-Treasurer

# EXHIBIT A: VALLEY SANITARY DISTRICT FINANCIAL RESERVE POLICY

## PURPOSE

Prudent financial planning and fiscal responsibility includes anticipating and preparing for future funding requirements as well as unforeseen and unexpected emergencies, disasters, and other events. The Valley Sanitary District has established reserve funds for its long term organizational and operational stability and the reserve funds enable the District to minimize significant rate fluctuations due to unforeseen and expected cash flow requirements. This Reserve Fund Policy is to ensure that the District accumulates, manages, maintains, and uses certain financial resources only for specific purposes.

## TYPES OF RESERVE FUNDS

The District maintains two types of funds:

1. **Restricted Reserves.** Restricted reserves are reserves that are restricted by an outside source, such as by statute, court, or contract.
2. **Designated Reserves.** Designated reserves are reserves that are established and set aside to be used only for a specific, designated purpose.

## SPECIFIC RESERVE FUNDS

The District maintains the following reserve funds:

1. ***Capital Replacement Reserve Fund*** - The Capital Replacement Reserve Fund (Fund 12) is a designated reserve to be used to fund the capital improvement program and for unforeseen capital projects that are necessary to meet regulatory requirements, system reliability, repair and replacement of District Assets. It is the goal of the District to ***fund*** on an annual basis the Capital Replacement Reserve at forty (40) percent of the annual Operations & Maintenance budget (Fund 11).
2. ***Capital Improvement Reserve Fund*** - The Capital Improvement Reserve Fund (Fund 13) is a designated reserve to be used to fund the capital improvements that are required due to growth and new users in the system. It is primarily funded by developer impact fees, special developer agreements and capacity connection charges.
3. ***Debt Service Reserve Fund*** - The Debt Service Reserve Fund is a restricted reserve that is governed by legal bond covenants and is to be used if the District is unable to meet the required debt service obligation. The bond covenants require that the Debt Service Reserve be maintained at a level sufficient to fund the maximum annual debt service payments.
4. ***Emergency Reserve Fund*** - The Emergency Reserve Fund is to be used only to cover cash flow shortages caused by an unexpected event, such as a natural disaster, water shortage situation, or other unforeseen expense. It is the goal of the District to



*maintain* the Emergency Reserve at five (5) percent of the annual Operations & Maintenance budget (Fund 11).

5. *Operating Reserve Fund* - The Operating Reserve Fund is a designated reserve to be used only to cover cash flow shortages caused by a short-term, unexpected disruption of anticipated revenue or when expenses become due before the anticipated revenue to pay those expenses is received. It is the goal of the District to *maintain* the Operating Reserve in excess of fifty (50) percent, or six months, of the annual Operations & Maintenance budget.
6. *Vehicle & Equipment Replacement Reserve Fund* - The Vehicle & Equipment Replacement Reserve Fund is a designated reserve that is designated to adequately fund replacement of major vehicles and equipment by the District. This fund shall be *funded* on an annual basis and the by amount established annually in the District Operations & Maintenance budget.

## MANAGEMENT OF RESERVE FUNDS

The Board of Directors, in consultation with the General Manager, will be responsible for managing the reserve funds. The Board of Directors must authorize the expenditure of money from all of the District's reserve funds. The Board annually will review the balance of the reserve funds, work collaboratively with the General Manager to ensure the accuracy of the annual report, and evaluate the goals and purpose of each reserve fund and recommend adjustments as may be necessary or desirable.

In accordance with the District's Investment Policy, financial reserves may be invested or otherwise held in District financial accounts, as deemed appropriate by the Board of Directors, in carrying out their fiduciary responsibilities.

<b>FUND</b>	<b>UNAUDITED FUND BALANCE AS OF 10/31/2021</b>	
OPERATING FUND (FUND 11)	\$	18,425,809
SPECIAL REVENUE FUND (FUND 11 AND FUND 6)		1,092,677
FIDUCIARY FUND (FUND 4)		228,324
CAPITAL IMPROVEMENT FUND (FUND 13)		7,288,694
RESTRICTED CIP FUND (FUND 12)		27,040,509
<b>TOTAL</b>	<b>\$</b>	<b>54,076,013</b>