

**DISCOVERY CLEAN WATER ALLIANCE**

**RESOLUTION NO. 2019 – 02**

**A RESOLUTION OF DISCOVERY CLEAN WATER ALLIANCE, ADOPTING THE CAPITAL ASSETS POLICY AND REPEALING RESOLUTION 2016-01, FOR THE DISCOVERY CLEAN WATER ALLIANCE.**

**WHEREAS**, the Board of Directors has determined after various meetings that it is in the best interest of the Alliance to approve the Capital Assets Policy and repeal Resolution 2016-01, as proposed; now, therefore

**BE IT RESOLVED** by the Board of Directors of the Discovery Clean Water Alliance as follows:

1. The Capital Assets Policy attached to this Resolution is hereby approved and adopted.
2. Resolution 2016-01 is repealed.

**ADOPTED** by the Board of Directors of Discovery Clean Water Alliance at a regular meeting held on June 21, 2019.

**DISCOVERY CLEAN WATER ALLIANCE**

A handwritten signature in black ink, appearing to read "Ron Oster", written over a horizontal line.

Chair, Board of Directors



Discovery Clean  
Water Alliance

# Capital Assets Policy

Resolution #2019-02

Effective: 6/21/2019

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## **PURPOSE**

The Alliance has a significant investment in capital assets, such as buildings and infrastructure. This policy communicates the Alliance's capital assets system and is designed to comply with all statutory requirements and increase control and reporting accuracy over those capital assets for which the Alliance has stewardship responsibilities.

## **DEFINITIONS**

**Betterment/improvement:** An addition made to, or change made in, a capital asset, other than repair or maintenance, to prolong its useful life or to increase its efficiency or capacity. The cost of the addition or change is added to the book value of the asset.

**Book value:** The recorded cost of a capital asset less accumulated depreciation.

**Capital assets:** Tangible or intangible assets and other real or personal properties that are used in operations and have initial useful lives extending beyond a single reporting period.

**Capital assets system:** The system used to track and manage the Alliance's capital assets described by this set of policies and procedures. The system is intended to satisfy accounting/reporting requirements and demonstrate accountability for the Alliance's capital assets. The Alliance uses a software system to track capital assets by location and ongoing maintenance for all infrastructure, buildings and structures.

**Capitalization threshold:** The dollar value at which the Alliance elects to capitalize capital assets.

**Componentization:** Separating an asset into various components to better reflect useful lives of discrete elements.

**Cost:** The total acquisition price of a purchase or total project expenditures, including sales tax, as well as ancillary charges (shipping, installation, etc.) necessary to place an asset into its intended location and for its intended use.

**Group depreciation:** Pooling essentially similar assets and applying an average depreciation rate to the group as a whole.

**Impairment:** The immediate recognition of permanent decreases in the production capacity of assets that are expected to remain in service.

**Intangible assets:** An intangible asset lacks physical substance and is nonfinancial in nature.

**Mass quantity:** The input of quantities (each, linear feet, etc.) to enable Finance staff to match repair and replacement of sections of new assets to existing assets for removal from the capital assets system at the time the asset is replaced. The Alliance will input mass quantity for new infrastructure assets (as appropriate).

**Small and attractive assets:** Assets valued at less than \$5,000 that are at a high risk for theft and normally are not consumed within one year. These assets may have one or more of the following characteristics:

1. Are portable and marketable, either alone or as a component unit;
2. Can be utilized for personal gain; and/or
3. Are often reported as lost or stolen.

**Tangible assets:** A tangible asset has physical substance and includes, without limitation: land, improvements to land, easements, buildings, building improvements, vehicles, machinery, equipment, works of art and historical treasures, infrastructure, and all other real and personal property that has physical form.

## **REQUIREMENTS**

The State of Washington Office of State Auditor BARS (Budgeting, Accounting and Reporting System) Manual for Cities, Counties and Special Purpose Districts (GAAP) entities, Capital Assets System Requirements (Chapter 3) states, in part;

The duty to make certain that public property is adequately protected and that its true use is properly managed is one of the fundamental responsibilities of public officials. Public officials have broad responsibilities with respect to Capital Assets; these are custody, insurance, maintenance and planning.

- Custody – what is owned, where is it located, what condition is it in, how is it protected from improper or unauthorized use
- Insurance – is adequate insurance provided
- Maintenance and repair – the stewardship of public property
- Planning – capital budgeting and utilization

## **SCOPE OF CAPITAL ASSETS POLICY**

This policy applies to capital assets owned by the Alliance with a cost of \$5,000 or more that the Alliance intends to use or keep for more than one year. These include (but are not limited to) the following:

- Land
- Capitalized costs associated with construction-in-progress
- Infrastructure
- Buildings
- Furnishings and fixtures
- Sewer lines
- Pump stations
- Machinery
- Equipment
- Tools
- Vehicles
- Intangible assets (including software)

This policy also applies to small and attractive assets owned by the Alliance that the Alliance intends to use or keep for more than one year.

### **CAPITALIZATION THRESHOLD**

The Alliance capitalizes all tangible assets with a value of \$5,000 or more with an expected useful life of more than one year.

### **TIMING**

The Alliance determines when a project should be capitalized based on physical completion forms. Physical completion forms are completed for all projects by a Capital Programs Engineer. These forms indicate when a constructed asset is substantially complete and has begun to be used, even if the entire project is not yet deemed to be complete and/or retainage has not been released.

### **REPAIR AND MAINTENANCE COSTS**

Expenditures that retain the value of an existing asset are classified as repair and maintenance expenditures. In most cases, the Alliance repairs or replaces components of an individual capital asset in order to maintain its original useful life. Any outlay that does no more than return a capital asset to its original condition, regardless of amount, is classified as repair and maintenance. The Alliance expenses routine repair and maintenance costs. These costs are not capitalized.

### **BETTERMENTS / IMPROVEMENTS**

When subsequent additions, such as betterments or improvements occur (unlike routine repairs and maintenance), the Alliance evaluates these and treats them in accordance with BARS guidance, as follows:

- If the project replaces part of an existing capital asset and the cost associated with the part replaced cannot be calculated and removed, outlays are expensed, not capitalized.
- If the project replaces part of an existing capital asset and the cost associated with the part replaced can be calculated and removed, the cost of the component of the asset being replaced will be disposed of, along with associated accumulated depreciation, and the cost of the replacement will be capitalized as a separate asset. Finance staff will identify the existing asset or component of the asset using historical records and disposal will be based on a standard mass quantity.
- If the distinction between replacement and betterment/improvement is not easily determinable, the Alliance expenses the entire cost of the project.

### **DEPRECIATION METHOD AND EXPECTED USEFUL LIFE OF ASSETS**

The Alliance uses the straight-line method of depreciation for all capital assets. Professional judgement will be used to determine the remaining life of any existing capital assets.

At management's discretion, the Alliance may pool essentially similar assets and apply group depreciation to that entire group of assets. An average depreciation rate is applied to the group as a whole. When using group depreciation, all assets are presumed to be

fully depreciated at the time of disposal. The Alliance uses group depreciation for all wastewater mains. The useful lives of frequent Alliance capital assets are assigned as follows:

<b>Asset Category</b>	<b>Useful Life (Years)</b>
Buildings	50
Office Equipment electrical	5
Office Furniture, Fixtures and Equipment non-electrical	10
Pump Station Controls	10
Pump Station Electrical & Mechanical	20
Pump Station Odor Control	10
Pump Station Site & Structures	50
Shop Tools	10
Software	5
Telemetry/SCADA	10
Vehicles	10
Wastewater Cast Iron, Ductile Iron & Concrete Mains	75
Wastewater PVC Mains	75

Land is always tracked separately even though it may be related to another capital asset. Land normally has an indefinite useful life.

An intangible asset is considered to have an indefinite useful life if there are no legal, contractual, regulatory, technological or other factors that limit the useful life of the asset. Intangible assets having an indefinite benefit period are not amortized as long as the benefit of the asset has not been compromised.

Intangible assets with limited useful lives (e.g. by legal or contractual provisions) are amortized over their estimated useful lives. Renewals or extensions may be considered in determining useful life of the intangible asset if the Alliance can reasonably anticipate exercising the renewal option and incurring any anticipated outlays as part of achieving the renewal.

### **REVISION OF EXPECTED USEFUL LIFE**

The Alliance may revise the useful life of a capital asset if the original life assigned is no longer representative of the remaining useful life. When needed, the useful life will be recalculated based on the remaining useful life at the time of the revision. The Alliance applies the new useful life in the present and future accounting periods. No changes are made to financial records of previous years.

### **IMPAIRMENT**

Impairment of a capital asset is a permanent decrease in the productive capacity of a capital asset. Indicators of impairment may include:

- Evidence of physical damage
- Changes in legal or environmental factors
- Technological changes or obsolescence

- Changes in manner or duration of use
- Construction stoppage (unable to complete project)

The Alliance may use the restoration cost, service unit or deflated depreciation replacement cost approach when measuring the impairment. The method used will depend upon the indicators giving rise to the impairment.

When impairment of a capital asset occurs, the Alliance decreases the book value of the asset on its financial statements and recognizes a loss which is presented either as a program expense, extraordinary item, or special item depending on the nature and magnitude of the impairment.

### **NEW ASSETS**

All capital assets and small and attractive assets are recorded on asset listings maintained by the Alliance Treasurer. Asset listings include make, model, serial number or similar descriptions, depending on the nature of the asset. For all new capital assets, a mass quantity will be identified (where applicable) for purposes of future identification by segment.

### **EXISTING CAPITAL ASSET RECORDS**

For assets placed in service prior to 2018, Finance staff will add further detail and systematically assign mass quantities (where applicable) either using historical records or a consistent method of estimation.

### **DISPOSAL OF SURPLUS ITEMS**

Before a capital asset or small and attractive asset is sold or otherwise disposed, the Alliance shall first determine if the asset was originally purchased with grant monies. If this is the case, the Alliance shall review the grant agreement and follow prescribed procedures for disposition.

For any capital asset or small and attractive asset with a value of \$5,000 or less, the Administrative Lead must first declare the asset to be surplus before it may be sold or disposed in any manner.

For any capital asset with a value of \$5,000 or more, the Board of Directors must first declare the asset to be surplus before it may be sold or disposed in any manner.

If the asset is to be sold, the Administrative Lead or the assigned Operator for the asset shall sell the asset in accordance with applicable state law. The Administrative Lead and the assigned Operator shall complete an asset sale or disposal form and remit the form and any proceeds from the sale to the Alliance Treasurer.

If the asset is to be disposed, the Administrative Lead and the assigned Operator for the asset shall review the asset and determine that the asset is no longer in working order, cannot reasonably be repaired for resale or otherwise is not anticipated to have a market value greater than scrap materials value. The Administrative Lead or the assigned Operator shall dispose of the asset in accordance with applicable state law. The Administrative Lead and the assigned Alliance Operator shall complete an asset sale or

disposal form and remit the form and any proceeds from the sale to the Alliance Treasurer.

### **LOST, STOLEN, OR MISSING PROPERTY**

When suspected or known losses of capital assets or small and attractive assets occur, the Administrative Lead staff shall be notified. The appropriate Operator staff shall notify the Administrative Lead's General Manager and the Alliance Treasurer, and if it is determined that the asset has been stolen, the appropriate authorities shall be notified.

### **PHYSICAL INVENTORY PLAN**

The Alliance Treasurer shall coordinate with the Administrative Lead and the Operators to complete a physical inventory of both capital assets and small and attractive assets every two to four years.

Current physical inventory records shall be kept until the State Audit for the respective inventory years is complete. The records shall note the following information:

1. Assets have been physically located and verified
2. Missing assets have been noted and explained
3. Incorrect and/or incomplete information has been corrected
4. Any new items located but not on the list have been added, with proper serial numbers, locations, and other required information