

Monterey Regional Water Pollution Control Agency

Capital Asset Policy and Procedures

POLICY:

It is the Policy of Monterey Regional Water Pollution Control Agency to safeguard Agency assets and properly report them according to Generally Accepted Accounting Principles.

PURPOSE:

1. Provide Agency employees with the procedures for accounting for Capital Assets
2. Report capital assets in financial reports issued to external reporting agencies, granting agencies and the public by establishing procedures for recording the purchase and disposition of its assets.

DEFINITIONS:

Acquisition Costs: Costs incurred to purchase, construct, or develop a capital asset. This could include design costs, legal fees; appraisal and negotiation fees; land preparation costs; demolition costs; transportation charges.

Capital Assets: Assets which are used in operations and have initial lives extending beyond one year. Examples include land, building, building improvements, machinery, vehicles, and computer networks. Structures can include clarifiers, chlorine contact basins, etc.

Construction in Progress: Capitalized costs related to a tangible capital asset that is not yet substantially ready to be placed in service.

Controlled Assets: All items that do not meet the technical definition of capital assets; however should be controlled based on the following criteria: (1) Requires special attention to ensure legal compliance, contractual, or grant provisions (2) Items that could pose a risk to public safety or potential liability (3) Assets of value that are both easily transportable and readily marketable or easily diverted to personal use.

Depreciation: The recognition of the cost of a capital asset throughout its useful life. The method the Agency uses is straight-line, with depreciation recorded at the end of each fiscal year.

Disposal: Includes surplus, sale, and destruction of assets. Reasons could include obsolescence, failure, and cost of maintenance exceeds the value of asset.

Easement: A legal right given to another person or entity to use land or property that person or entity does not own, for a specific limited purpose. Mains, drains, and water pipes are usually covered by an easement. Rights to access are intangible even though they may attach to other tangible assets, such as land. An easement may be in the form an agreement, deed, restriction or covenant.

Impairment: A significant and unexpected decrease in the service utility of a capital asset that will continue to be used in operations. Examples include physical damage where action would

Monterey Regional Water Pollution Control Agency Capital Asset Policy and Procedures

be needed to restore lost service utility; changes in laws, regulations, or other environmental factors that negatively affect service utility; technological developments that negatively affect service utility, or evidence of obsolescence; a change in the manner or duration of use of a capital asset that negatively affects its service utility; stoppage of construction; or stoppage of development for internally generated intangible assets.

Improvements/Betterments: Costs which provide additional value by improving the operation of, and extending the expected useful life of an asset. An improvement enhances the asset's functionality through effectiveness or efficiency. These costs are normally treated as direct additions to the cost of the item improved, and capitalized.

Infrastructure: Includes pipes, manholes, collection and treatment distribution systems. Most Capital Improvement Program (CIP) projects for MRWPCA fall into this category. All costs associated with the purchase or construction should be considered, including ancillary costs such as design, engineering, construction management, inspection, permits, insurance, freight and transportation charges, professional fees and legal costs directly attributable to asset acquisition.

Intangible Assets: Assets which lack physical substance and have reasonable evidence of future benefits. Examples include right-of-way easements, other types of easements, patents, copyrights, trademarks, and software. Note: Software training and maintenance should not be included in the capital cost of software. These costs should be expensed.

Project: A major cost that typically includes outside contractors, design costs, construction, and multiple vendors. A project may be defined as "*Capital*" if it meets the definition of capital or betterment/improvement. A project may also be defined as "*Non-Capital*" if the work is classified as maintenance.

Repairs: Costs which return an asset to a useful state and retain value, but do not extend the useful life of the assets. These costs are not capitalized.

Retirement: Assets permanently removed from service.

GENERAL CAPITAL ASSET INFORMATION:

Classifying a Capital Asset

A. Criteria

Assets that meet all the following criteria are capitalized:

1. The asset is used in the Agency's operations.
2. Life expectancy is greater than one year.
3. The asset has a minimum value of \$5,000

Assets acquired for the purpose of sale or investments do not qualify as capital assets because they are not used in operations. All machinery, equipment, and furnishings that are below the capitalization threshold are controlled by the responsible department.

**Monterey Regional Water Pollution Control Agency
Capital Asset Policy and Procedures**

B. Determining Ownership

MRWPCA partners with several agencies on joint capital projects. Determining the capital assets ownership is critical when considering which entity should retain the asset on their books. Generally accepted accounting principles require that a single asset can only be reported on the financial statements of one government entity.

Ownership can be determined by the government that has the ultimate control over the assets use and enjoyment. Legal title normally is sufficient to determine ownership. However, if the government holds title; however does not exercise ultimate control over an asset's use and enjoyment, it is the government that exercises control over the asset, rather than the government that holds legal title that is considered the owner. If ownership cannot be determined, responsibility for managing the asset can serve as a substitute for ownership.

C. Classifications

The Agency maintains a listing of all assets that meet the capitalization policy. Assets are separated in the following major classifications:

- Land
- Buildings - Structures and Improvements, interim facilities
- Infrastructure - Wastewater Systems
- Machinery and equipment
- Intangibles
- Construction-in-progress

Exhibit A contains additional details on assets that fit within each class.

D. Improvement/Betterment or Maintenance

The Agency often expends resources on existing capital assets. Most often, these expenses simply preserve the asset's utility. Any outlay that does no more than return a capital asset to its original condition, regardless of the amount, should be classified as a maintenance or repair expense. These types of maintenance items, along with their schedules are typically included in the manufacturer's product information materials.

The Agency also expends resources on existing capital assets that either (1) increase their utility through increased capacity or serviceability (2) extend their total estimated useful life. Such improvements add new value; therefore their costs should be capitalized as part of the cost of the underlying asset.

For complex, long-lived assets, it is sometimes more difficult to distinguish between an improvement/betterment and maintenance. Maintenance and Repairs maintain the "predetermined" service potential of a tangible asset for a given useful life. A sample decision tree and chart are provided in Exhibits B and C to assist in identifying whether an item should be considered a betterment/improvement.

Monterey Regional Water Pollution Control Agency Capital Asset Policy and Procedures

The capital asset accountant will work with the Engineering Manager or the Preventive Maintenance Coordinator on the appropriate classification for items that aren't readily identifiable as an improvement/betterment or maintenance.

D. Discrete components of larger capital assets

The Agency typically records component units of larger assets as separate capital assets. An overview of an Agency capital asset record which identifies screw press related assets by location and major component are included in Exhibit D.

While most capital assets have been segregated into components, there are times when it is difficult to identify costs of component units at the time of capitalization. As part of the capital asset process, the capital asset accountant will work with the Engineering Manager or Preventive Maintenance Coordinator to identify discrete components and appropriately update any historical capital asset records. Whenever feasible, as major components are replaced, the Agency will record these assets as a discrete component unit by appropriately reducing the unamortized value of any master asset and recording the new asset. This will assist in identifying maintenance and replacement schedules.

E. Individual versus Grouped Assets

The Agency may purchase several similar assets on the same purchase order. When determining whether the asset should be classified as a capital asset, the cost of the individual unit, rather than the group of items should be considered. For example, the Agency could order ten desks at \$1,000 each. The total value of all assets is \$10,000. The value of the individual asset should be referenced in decision making. In this case, the desks would not be capitalized.

Valuing an Asset

Capital assets are typically recorded based on one of the following methods.

1. **Historical cost:** The original cost incurred to purchase, construct, or develop a capital asset. This could include costs such as design, engineering, construction management, demolition, inspection, permits, insurance, freight and transportation charges, professional fees and legal costs that are directly attributable to asset acquisition. Administrative costs or overhead, costs associated with studies for site selection, or feasibility studies are typically not considered as a capital cost.

The following examples are items that are typically considered capital in nature

- a. **Land:** Costs in addition to the purchase price, may include legal and title fees, closing costs, survey fees, appraisal and negotiation fees, damage payments, site preparation costs (clearing, filling and leveling), and demolition of unwanted structures.
- b. **Facility and Infrastructure:** Costs may include purchase or construction costs; professional fees for architects, attorneys, appraisers, financial advisors, etc.; payment of damage claims; cost of fixtures attached to the building or other

Monterey Regional Water Pollution Control Agency Capital Asset Policy and Procedures

structure; interest and related costs incurred during the period of construction; and other expenditures necessary to put the building or structure in use.

2. Trade-In: If an asset is used in the process of purchasing another similar asset, the second asset should be recorded at an amount equal to the book value of the asset that was surrendered, plus any monetary consideration provided to the seller.
3. Donation: Donated assets should be reported at their estimated fair value at the time of acquisition, plus any ancillary charges. The fair value is determined by what the Agency would have had to pay to acquire the asset on its own (the “buy” price), not the amount for which the donated asset might be resold. The Finance Department will review any current indexes, vendors pricing, and the acquiring department manager to arrive at a fair value for the asset.

Classifying Assets for Financial Statement Purposes

Assets that meet the capitalization threshold shall be reported in the Agency’s Comprehensive Annual Financial Report based on major classification and in accordance with this policy.

Asset Identification and Control

The Agency uses Property and Instrumentation Diagrams (P & ID) and the Agency’s financial system’s capital asset database to identify capital assets. Periodic inventories are conducted to confirm and control assets.

Depreciation of Assets

All assets that are recorded in the Agency’s financial accounting system are assigned an estimated useful life based on Exhibit A. When there is a range of values associated with an asset, the acquiring department will indicate the estimated life on the *Capitalized Equipment Form* or on the *Project Close-Out Worksheet*. These assets are depreciated using the straight line method of depreciation which allocates an equal amount of depreciation over the assets estimated life. Depreciation is calculated based on the date the asset is placed into service. If an asset is disposed of during the middle of the year, the asset is depreciated through the complete month of the sale date. Depreciation is typically recorded at the end of the fiscal year.

Deletion/Transfer of Assets

Asset disposals are recorded on the *Property Control Form*, with all related backup and required authorizations. All assets are disposed of in accordance with the Agency’s Surplus Property Policy. Gains or losses are recorded on the disposal of all assets.

Movement of assets between locations should be documented on the *Property Control Form*. This will assist with any inventory reconciliations.

Grant-Funded Assets

If a capital asset is purchased with grant funds, a copy of the grant shall be forwarded to the Finance Department. This document will be used to ensure the appropriate financial reporting

Monterey Regional Water Pollution Control Agency Capital Asset Policy and Procedures

requirements are in place, along with identifying any future restrictions on the disposal or sale of the asset.

Controlled Assets

Department Managers are typically responsible for safeguarding and inventorying controlled assets. They may assign responsibility for different groups of controlled assets to one or more specific individuals. Assigned individuals should be prepared to provide a list of these controlled assets, along with any explanations for annual changes. The Accounting Department may periodically audit or review a listing of all controlled-type items.

Examples of controlled assets include computers and monitors; equipment or tools assigned to individuals; stores inventory; or surplus assets pending disposal or sale.

PROCEDURE:

The following procedure should be followed when budgeting, adding, or deleting a capital asset. A form overview, sample workflow, and sample forms are provided in Exhibits E, F, and G.

Asset Acquisition

All capital assets are recorded in the Agency's financial system, using the following procedure:

1. Capital asset requests are approved as part of the Agency's Budget Process. Projects are selected from the Agency's ten-year Capital Improvement Plan and equipment requests are approved by Department Heads. These requests are processed on the *Capital Improvement and Major O & M Project Request Form* and the *Capitalized Equipment Form*. Capital asset requests are also reviewed during the budget process to determine whether they are classified as a betterment/improvement or maintenance.
2. Capital Projects are approved as part of the annual budget process and are listed in the Agency's annual budget and assigned a project number. All capital projects begin with "CP" followed by a number. All maintenance projects begin with "NC" followed by a number.
3. Departments are responsible for completing the *Project Creation Form* for all new Capital Projects once the budget is approved. This form provides the Finance Department with the appropriate information for recording the project in the Agency's financial system, recording force labor charges, and identifying the project manager and staff assigned to the project.
4. Requisitions must be completed for each vendor assigned to the Capital Project or the Capital Equipment Purchase. If the Department has completed a *Capitalized Equipment Request Form* or a *Capital Improvement and Major O & M Form*, only the vendor, pricing information, and authorizing signature are needed. The Procurement Specialist will confirm that the project is identified within the Annual Budget and confirm sufficient funds are available.

**Monterey Regional Water Pollution Control Agency
Capital Asset Policy and Procedures**

5. In processing invoices, departments should take care in referencing the appropriate project number, any purchase order, and the related account coding. This will ensure that costs are correctly charged for capitalization and potential grant reporting purposes.
6. At no time, shall a purchase order issued for a specific project be used to fund alternate projects or expenditures. A new requisition must be created for the additional task.

Placing a Project into Service

The Engineering Manager will complete the *Capital Project Close-Out Worksheet* for capital and maintenance projects. This worksheet will allocate project costs to components based on actual invoice or an estimated percent, and include the asset's estimated life. The capital asset accountant will compare the worksheet to actual project expenditures, and adjust the allocation of components, if invoice details provide an actual distribution of costs.

Disposal of Assets

Disposal of all Agency assets shall be in accordance with the Agency's Surplus Property Policy.

Conducting Physical Inventories

Periodically, the capital asset accountant will forward a list of assets to the appropriate managing department. The Department Head is responsible for assigning staff and validating the assets listed in the Inventory Worksheet are accurate. If there are any additions/deletions, the exception information should be identified on the Worksheet. The Assistant General Manager will be responsible for certifying that all asset inventories at the Regional Treatment Plant are accurate by signing and returning the list to the Finance Department.

Reporting Lost, Stolen, or Missing Property

When suspected or known losses of capital assets or controlled assets occur, staff should conduct a search for the missing property. If the missing property is not found, the following steps should be taken:

- Notify the Assistant General Manager and the Chief Financial Officer
- Request that the primary individual responsible for the asset, as well as that individual's supervisor, complete and sign a statement, which includes a description of events surrounding the disappearance of the property, who was notified of the loss, and steps taken to locate the property.
- Forward the completed statement to the Assistant General Manager and the Chief Financial Officer for review. This supporting information will be used to support any capital asset disposals, as well as assist in loss investigations.

Exhibits

Note: Exhibits B - F were excluded from the copy placed in the Budget Document due to the increased number of pages. The complete document can be obtained by request from the Accounting Department.

Asset Structure and Class

Classification	Financial Statement / Major Classification	Eden Account	Estimated Useful Life (in Years)
Land			
Land	Land	1703	Non-depreciable
Land - Harris Court	Land	1704	Non-depreciable
Land - Miscellaneous Assets	Land	1706	Non-depreciable
Land - Pump Stations	Land	1709	Non-depreciable
Structures and Improvements			
Structures and Improvements	Structures & Improvements		
Land Improvements		1712	50
Pavement		1712	15
Lagoons, reservoirs		1712	50
Buildings			
Brick, mortar, and steel, includes pump stations and lift stations		1712	40
Interim Facilities	Structures & Improvements	1758	1-3
Wastewater Systems			
Outfall Sewer Line	Wastewater Systems	1715	75
Interceptor Mains	Wastewater Systems	1718	50
Sanitary Sewer Lines and Storm Sewers			
Reinforced concrete pipe			40
Ductile Iron and Cast Iron			40
Concrete lines, not reinforced			40
Manholes and Storm Drains			40
Ditch / Trench			40
Water Mains			50
Ductile Iron and Cast Iron			40
Concrete lines, not reinforced			40
Useful life of underground system could vary depending on the diameter of the pipe			
Equipment			
Electric Pumping Equipment	Equipment	1721	10-20
Diesel Pumping Equipment	Equipment	1724	10-20
Testing Equipment	Equipment	1727	5-10
Receiving Wells	Equipment	1730	40
Transport Equipment	Equipment	1733	5-10
Office Equipment	Equipment	1736	5-15
Information Systems	Equipment	1739	5-10
Maintenance Equipment	Equipment	1770	10-20
Operations Equipment	Equipment	1771	15-25
RTP - Power Generation Plant	Equipment	1772	10-40
Co-Generation Equipment	Equipment	1773	10-40
SVRP Equipment	Equipment	1774	20
Safety Equipment	Equipment	1775	10
Construction in Progress			
Construction in Progress	Construction in Progress	Various	Non-depreciable