

Manheim Area Water and Sewer Authority's Capital Assets Policy

1. Purpose

This policy is established to provide guidelines to ensure adequate stewardship over Manheim Area Water and Sewer Authority's (Authority) resources through control and accountability of capital assets, and to collect and maintain complete and accurate capital assets information required for preparation of financial statements in accordance with generally accepted accounting principles.

2. Definitions

Fixed Assets

Fixed assets are tangible, non-consumable items including, but not limited to: land, buildings, machinery, equipment, and vehicles owned by the Authority valued at \$5,000 or more with a life expectancy of over two years. The value of the fixed asset includes the purchase price as well as any legal and engineering fees, all costs to acquire (shipping and handling), installation, and preparation of the item for its intended use. The original purchase of a software program is considered a fixed asset if it meets the \$5,000 threshold established above. Improvements to an existing asset that extends the life of the asset or significantly improve its utility are capitalized and depreciated over the remaining useful life of the related asset.

Donated capital assets, such as those obtained through deeds of dedication, are valued at estimated acquisition value on the date of donation. Acquisition value is defined as the price that would be paid to purchase a similar asset in an orderly transaction.

Intangible assets, such as rights-of-way and easements, are also capitalized subject to the criteria in the first paragraph of this section. Costs of intangible assets are amortized over the life of the underlying agreement. Agreements in perpetuity are not amortized.

Small & Attractive Assets

Assets valued at less than \$5,000 that are defined as high risk for theft. These assets are not normally consumed within one year. These assets may include items in one or more of the following categories:

- a. Portable and marketable, either alone or as a component unit.
- b. Assets that can be utilized for personal gain.
- c. Assets repeatedly reported as lost and/or stolen within the industry and society.

3. Requirements

Capital Assets Management System:

A capital assets management system is the set of policies and procedures used to control the Authority's capital assets. The system should satisfy accounting/reporting requirements and should demonstrate accountability for the capital assets.

Physical Inventory:

A physical inventory of the capital assets is necessary to verify that the assets still exist; it also provides updates on the condition of the assets. This information demonstrates that the Authority is exercising its custodial responsibility for the asset. It is also beneficial for establishing an insurance claim, because it substantiates both the existence and the condition of the asset near the time of loss or damage.

4. Capitalization Threshold

All assets with a cost of \$5,000 or more shall be capitalized. Although Small & Attractive Assets (assets costing less than \$5,000) do not meet the Authority's capitalization threshold, they are considered assets for purposes of marking and identification, recordkeeping, and tracking.

5. Improvement/Repair/Maintenance Expenses

Routine and/or emergency repair and maintenance costs will be expensed as they are incurred and will not be capitalized. Major repairs will be capitalized if they result in betterments/improvements to the Authority's capital assets.

A major repair does one or more of the following:

- Improves system performance
- Extends life expectancy
- Increases value of existing

6. Depreciation Method and Expected Useful Life of Assets

All assets are depreciated using the straight line method of depreciation. The Authority shall use the IRS Publication 946 Table of Class Lives and Recovery Periods or as such publication is updated, modified, or amended, to determine the life of acquired assets. The estimated lives of acquired assets are assigned in the following manner:

Lift & Booster Station Electrical & Mechanical – 20 years
Lift & Booster Station Structures – 30 years
Material Handling Equipment – 20 years
Office Equipment Electrical – 5 years
Office Furniture, Fixtures, and Equipment non-electrical – 10 years
Reservoir Structures and Improvements – 100 years
Shop Tools – 10 years
Software programs – 5 years
Telemetry/SCADA – 10 years
Treatment Plant Electrical & Mechanical – 20 years
Treatment Plant Structures – 50 years
Vehicles – 8 years
Wastewater Services – 50 years
Wastewater Mains – 50 years
Water Mains – 50 years
Water Pump Equipment – 40 years
Water Services – 50 years

7. Revision of Expected Useful Life

As the Authority uses its capital assets, it may need to revise the expected useful life. The rate of any such change should be recalculated based on the remaining useful life at the time of the revision, and the new rate should be applied in the present and future accounting

periods. No changes should be made to financial records of previous years for revised estimates.

8. Tagging New Assets

All assets fitting the description of a fixed asset, small and attractive asset, and/or high-risk asset (other than infrastructure and small tools) shall be recorded on asset listings maintained by the Authority.

All assets that are surpluses, or traded-in, shall be removed from the fixed asset inventory and the tag listing.

9. Disposal of Surplus Items

Before an asset is sold, or otherwise disposed of, it must first be determined if the asset had originally been purchased with grant monies. If this is the case, the Authority must refer to the grant agreement and follow prescribed procedures for disposition.

The Board must first declare an asset surplus before it can be sold, or otherwise disposed of. If the asset is to be sold, it will then be sold in accordance with applicable state law. If the asset is no longer in working order and cannot reasonably be repaired for re-sale, the department manager, along with one other member of the management team will properly dispose of the asset. The department manager and witness will sign an Affidavit of Destruction/Disposition. The Affidavit of Destruction/Disposition will be retained by the Financial Comptroller, who shall remove the asset from any listings and cease depreciation where applicable.

10. Lost, Stolen, or Missing Property

When suspected or known losses of capital assets or small and attractive items occur, staff should conduct a search for the missing property. If the missing property is not found:

- Notify the Authority Manager and Financial Comptroller
- Have the individual deemed to be primarily responsible for the asset, as well as that individual's supervisor, complete and sign a statement to include a description of events surrounding the disappearance of the property, who was notified of the loss, and steps taken to locate the property.
- The Authority Manager shall report known or suspected losses of capital assets, and a copy of the report shall be provided to the local Police Department as well as the Authority Board of Directors.

Date: 2/8/2017

Adopted at February 9, 2017 MAWSA Board Meeting

Capital Assets Policy Procedure

Meter Purchasing

Background:

MAWSA adopted a Capital Assets Policy on February 9, 2017 to outline the capitalization procedures for assets. The policy needs clarity in defining a grouping of similar items, such as meters, as well as an estimated useful life for meters. The purpose of this policy procedure is to clearly define how the purchase of replacement meters should be recognized in our budget and therefore, shown on our financial reports.

Discussion:

The system-wide meter replacement program done in 2009-2010 has recently presented the issue of meter failures. The meter failures began to appear in 2017 with a failure rate that has risen and fallen on a monthly basis, making the failure rate unpredictable. This unpredictable pattern does not warrant a system-wide replacement, rather individual replacements as they occur. The individual meter cost is less than \$200.00 and, therefore, does not qualify as a capital purchase with the purchase threshold in MAWSA's Capital Assets Policy of \$5,000.00. Due to the fact that we are seeing failures occur, it is advantageous of MAWSA to purchase a cluster, or group, of meters to obtain optimum pricing.

Objective:

Implementation of the following procedure shall occur on an annual basis for meter purchases:

- Operations & Maintenance (O&M) budget and funds will be used for meter replacements/purchases for up to 8% of the total customer base due to meter failures
- Capital budget and funds will be used for meter replacements, due to failures, greater than 8% of the total customer base, with Capital funds reimbursing O&M for initial 8%
- The useful life for meters purchased with Capital funds is 10 years

Date: 5/9/2018

Adopted at May 10, 2018 MAWSA Board Meeting