

CAPITAL ASSETS

Section 1. PURPOSE

The Bedford Regional Water Authority (“Authority”) has prepared this policy to define the methods by which capital assets are accounted for at the Authority. Capital assets, both tangible and intangible, are acquired for the use of operations that will benefit more than a single fiscal period. Capital assets are comprised of both equipment and projects that are distinguishable from regular operating expenses based on their higher cost and longer useful life.

Section 2. POLICY

- A. Vehicles and equipment having a value of less than \$1,000 are not capitalized, except as defined below.
- B. Facilities and infrastructure, part of a water or wastewater system, are grouped into classes of assets. Therefore, meters having a value of less than \$1,000 each are still capitalized when they are part of a wholesale change-out program. Meters replaced or installed for new services are still treated as an expense when incurred.
- C. A capital project is defined as a project of a nonrecurring nature that has an estimated life of greater than ten (10) years. This would exclude routine maintenance costs, such as resealing a parking lot but would include repaving a parking lot. Also, the patching of a roof would not be included; whereas a replacement roof would be included. Additionally, a capital project may be comprised of a number of individual items whose replacement costs do not meet the capitalization threshold as long as it is presented as a single project.
- D. Repair and maintenance projects can be difficult to categorize. If they are routine, relatively inexpensive, and focus on only one (1) designated section of pipe or other component of the water/wastewater system, then they should be considered operational expenses.
- E. The cost of Engineering services are capitalized when they relate to a public improvement, even if the project is intangible in nature such as water modeling or exploration and developing a master capital plan, which benefit a variety of projects.
- F. Land acquisitions, including easements, are capitalized separate from the related infrastructure asset.

Section 3. REPORTING

- A. Capital assets are only reported on the Authority’s records when ownership has been transferred to and/or accepted by the Authority. They are reported on the Authority’s financial records at their actual or estimated historical cost. Assets that are donated by parties outside of the Authority are reported at their fair value on the date the donation is legally transferred to the Authority.
- B. Construction project costs are accumulated and held in the Construction in Progress asset accounts until the asset is placed into service, or becomes operational regardless of whether final

CAPITAL ASSETS

payment has been made. Once this has happened, the asset is reclassified into various fixed asset categories (land, buildings, fixed equipment, movable equipment, associated legal costs, and capitalized interest, etc.). Moveable equipment, included in projects, is only capitalized if the individual unit cost exceeds the capitalization threshold.

- C. Infrastructure and facilities that are donated by developers or other outside parties are assigned a value based on the actual construction costs incurred for the utilities by the developer. This information is included on the Bill of Sale and Quitclaim Deed which the developer completes upon completion of the project and prior to a Certificate of Completion being issued by the Authority's Engineering, Operations, Customer Service and Maintenance Departments.
- D. The historical cost of a capital asset includes freight and installation charges and any capitalized interest, as well as any subsequent additions or improvements (not including repairs that do not extend the life of the asset or enhance its operational value).
- E. All capital assets, except for Land and Construction in Progress, are depreciated on a straight-line basis using useful lives of a class of assets estimated by the Finance Department. However, these lives are subject to periodic review by comparing the estimated life with the Authority's actual experience. Changes in the life of a class of assets may occur because of a change in the quality of materials used, the assets' intended use, the regulatory environment, and the Authority's maintenance and replacement program.
- F. The sale, disposal, or destruction of any capital asset should be reported, along with any insurance recovery or sale amount, to the Authority's Finance Department as soon as possible so that the item can be appropriately removed from the financial records (and other related inventory or insurance lists).
- G. Capital assets can be "impaired" or lose their operational value to the Authority. Capital assets that are permanently removed from service (although still operational) or permanently (and unexpectedly) lose a significant portion of their service utility should be reported to the Authority's Finance department for their review. This unexpected loss of service utility may be due to physical damage, changes in legal or environmental factors, technological changes or obsolescence, permanent construction stoppage, or significant changes in the manner or duration of use. The Finance Department, along with the independent auditors will determine the appropriate "loss" to be recorded on the financial statements for the year of impairment, generally to bring the impaired asset down to the lower of carrying cost or fair value. Similarly, studies and other expenses related to a project that is abandoned should have their costs written off in the fiscal year the project is abandoned.
- H. Physical inventory of all equipment will be performed simultaneously or on a rotating basis at least once every two (2) years. As part of the physical inventory the existence, condition, and accuracy of the Authority's records will be verified. Each asset will be assigned an asset tag, if an asset is not able to be tagged due to location or the nature of the equipment, a note will be made in the capital asset records that indicate this. The asset ID that is assigned in the fixed asset module and the asset label number will not match, due to the amount of assets that are

CAPITAL ASSETS

“untaggable,” but will both be documented in the fixed asset module for record keeping purposes. If discrepancies are found during the inventory process they will be researched and updated or removed from the system, as appropriate.

Section 4. REVISIONS

- A. This policy was approved and adopted by the Authority’s Board of Directors on March 26, 2013, effective July 1, 2013
- B. This policy was modified with the following amendments:
 - 1. Approved April 21, 2015, effective April 22, 2015:
 - a. Section 3.C modified to include the Customer Service department