

SOUTHEAST METRO STORMWATER AUTHORITY
Acting by and through
SEMSWA WATER ACTIVITY ENTERPRISE

RESOLUTION NO. 08-41
(Establishment of Capitalization Threshold for Capital Assets)

WHEREAS, Section 29-1-506(1), C.R.S. states as follows: *The governing body of each local government shall make or cause to be made an annual inventory of property, both real and personal, belonging to such political subdivision; except that an inventory shall be required only with respect to items of property having an original cost that equals or exceeds an amount established by the governing body of each local government, unless such items having a value of less than the amount established by such governing body are required to be inventoried by directive of the state auditor. In no event shall the amount established by the governing body of any local government pursuant to this subsection (1) exceed the amount specified in rules promulgated by the state controller pursuant to section 24-30-202, C.R.S., regarding inventory accounts for items of state property; and*

WHEREAS, Chapter 9, Section 1.2 of the Fiscal Procedures Manual published by the Office of the State Controller states the following with regard to the definition of Capital Assets: *Capital assets are long-lived assets, owned by the state, that are held primarily for use in an agency's operations and programs. Examples of such assets include land, improvements to land, buildings, leasehold improvements, equipment (including furniture, fixtures, machinery, equipment, vehicles, and computer software), library books, works of art, historical treasures, and infrastructure. These assets result from either expenditures made by the agency or donations made to the agency from an external source. Capital assets have a useful life greater than one year and must be capitalized if they meet cost thresholds established in this section; and*

WHEREAS, Chapter 9, Section 1.4.1 of the Fiscal Procedures Manual states the following with regard to dollar thresholds for the capitalization of purchased or constructed assets: *For the purchase or construction of new assets, the following dollar thresholds should be used by agencies to determine if the asset should be capitalized. A state agency may select a lower minimum dollar threshold to capitalize the purchase of an asset, but an agency may not choose a higher dollar threshold.*

| <u>Type of Asset</u> | <u>Capitalization Threshold</u> |
|-------------------------|---|
| Land | All purchases are capitalized, regardless of cost |
| Land Improvements | \$50,000 |
| Building | \$50,000 |
| Leasehold Improvements | \$50,000 |
| Infrastructure | \$500,000 |
| Furniture and Equipment | \$5,000 per item |

| | |
|--|--|
| <i>Software (purchased)</i> | <i>\$5,000</i> |
| <i>Software (internally developed)</i> | <i>\$50,000</i> |
| <i>Library Materials and Collections</i> | <i>All purchases are capitalized, regardless of cost</i> |
| <i>Works of Art and Historical Treasures</i> | <i>\$5,000 per item/collection</i> |

For expenditures related to repair, remodeling, or expansion of an existing capital asset, the agency must determine if the expenditure increased the capacity, operating efficiency or extended the useful life of the asset. If so, such expenditures are capitalized as part of the costs of the asset. Agencies should use the thresholds identified above to capitalize repair, remodeling, or expansion expenditures. Expenditures that only serve to restore a capital asset to a working condition or do not enhance or extend the useful life should be recorded as repair and maintenance expense and should not be capitalized. A state agency must maintain appropriate documentation to support what constitutes an enhancement or useful life extension. Software purchases should be assessed for capitalization at the system purchase level; the assessment should not be done based on individual disbursements or on a per unit basis, such as, cost per license; and

WHEREAS, in its Report to Governance dated April 12, 2008, SEMSWA's auditor, Bondi & Co., recommended that SEMSWA establish a formal capitalization threshold to encourage uniformity and strengthen the accounting policies and procedures for fixed assets; and

WHEREAS, upon the recommendation of Bondi & Co., the Executive Director and the Director of Finance and Administration, it is the desire of the Board to establish a capitalization threshold for SEMSWA consistent with state statutes and the Fiscal Procedures Manual.

NOW, THEREFORE, BE IT RESOLVED THAT:

1. The Board of Directors of the Southeast Metro Stormwater Authority acting by and through SEMSWA Water Activity Enterprise approves and adopts the capitalization threshold guidelines set forth in Chapter 9, Section 1.4.1 of the Fiscal Procedures Manual promulgated by the State Controller. For this purpose, drainage improvements shall be deemed to be land improvements, and, consistent with the State Controller's guidelines, such improvements costing \$50,000 or more shall be capitalized.
2. Future changes in the Fiscal Procedures Manual with regard to the asset capitalization threshold shall automatically take effect for SEMSWA as of the date such change is authorized to go into effect by the State Controller unless the SEMSWA Board takes action to the contrary.

SOUTHEAST METRO STORMWATER AUTHORITY
acting by and through
SEMSWA WATER ACTIVITY ENTERPRISE

Date: _____

ATTEST:

Secretary

Chairperson

APPROVED AS TO FORM:

Attorney for
Southeast Metro Stormwater Authority

By: _____
Edward J. Krisor