COON CREEK WATERSHED DISTRICT
Request for Board Action

MEETING DATE: January 27, 2020
AGENDA NUMBER: 6
ITEM: Adopt Capitalization Policy

AGENDA: Policy

ACTION REQUESTED
Adopt capitalization policy

BACKGROUND
On January 13, 2020 the Board briefly reviewed a Draft policy defining and addressing capital items owned by the District. In addition to being a sound management practice, the policy is a response to requests/suggestions from both the Minnesota State Auditor and Anoka County to ensure understanding and consistency in defining and clarifying the economic useful lives of physical assets and their depreciation.

At the January 13 meeting, staff recommended tabling the draft policy pending final review and edit internally and formatting. The policy is attached

ISSUES/CONCERNS
None

PRIOR DECISIONS
1/13/20: Board moved to forward the draft capitalization policy to the 1/27/20 meeting for adoption

OPTIONS
1. Adopt

2. Table with clarifications or corrections

RECOMMENDATION
Adopt Capitalization policy
COONCREEK WATERSHED DISTRICT
POLICY AND PROCEEDURE
DEFINITION AND CAPITALIZATION OF ASSETS

AUTHORITY
MINNESOTA STATUTE 103D.351 ANNUAL REPORT.
(a) The managers must prepare a yearly report of the financial conditions of the watershed district, the status of all projects, the business transacted by the watershed district, other matters affecting the interests of the watershed district, and a discussion of the managers' plans for the succeeding year.
(b) Copies of the report must be transmitted to the Board of Water and Soil Resources, the commissioner, and the director within a reasonable time.

MINNESOTA STATUTE 103D.355 ANNUAL AUDIT.
Subdivision 1. Requirement. The managers must have an annual audit completed of the books and accounts of the watershed district. The annual audit may be made by a private certified public accountant or by the state auditor.
Subd. 2. Audit by state auditor. (a) An audit by the state auditor may be initiated by a petition of the resident owners of the watershed district or resolution of the managers of the watershed district. The petition must request an annual audit pursuant to the authority granted municipalities under sections 6.54 and 6.55. The state auditor may conduct such examinations of accounts and records as the state auditor may deem the public interest to demand.
(b) If the audit or examination is made by the state auditor, the watershed district receiving the examination must pay the state the total cost and expenses of the examination, including the salaries paid to the examiners while actually engaged in making the examination. The general fund must be credited with all collections made for examinations under this subdivision.
Subd. 3. Reports for state auditor. The managers must make and submit reports demanded by the state auditor.


OBJECTIVES
To establish the minimum cost (capitalization amount) that shall be used to determine the capital assets that are to be recorded in the Coon Creek Watershed District’s annual financial statements (or books)

POLICY
1. $5,000 is the minimum threshold amount for capitalization, AND
2. An economic useful life of 12 months or greater is the minimum threshold
Any items whose cost is below the amount should be expensed in the Coon creek Watershed District’s financial statements (or books)

RESPONSIBILITY

**Board of Managers:**
It is the responsibility of the Board of Managers to:
1. To review and approve responses to final audit reports prior to sending them to the State Board of Water and Soil Resources and Minnesota Department of Natural Resources
2. Sign letters of response to the draft Audit reports on behalf of the Department for audits conducted on the Watershed District or where the District has been named the lead agency.

**District Administrator:**
It is the responsibility of the District Administrator to:
1. Oversee the District Accountant and Audit process.
2. Ensure appropriate agency management is held accountable for audit follow-up responsibilities.
3. Ensure internal control deficiencies cited in the annual audit reports are considered when evaluating the effectiveness of internal controls and identifying material deficiencies as required by the State Auditor.
4. Review and develop Statement of Actions (SOA) and letters prepared in response to draft audit before sending them to the Board of Managers for concurrence and/or signature.
5. Meets with the audit liaison to briefly discuss the findings and recommendations and the Agency response to the report and recommendations.

**District Accountant:**
It is the responsibility of the District Accountant to:
1. Maintain a current inventory of District assets and their condition
2. Serve as the technical expert and primary point-of-contact for questions concerning District assets
3. Participate in entrance conferences to discuss details of audit. Participate in exit conferences to confirm that critical facts and information contained in the Statement of Facts are current, correct, and complete.
4. Ensure that recommendations to the Board of Managers and District Administrator are resolved.

**PROCEDURES**
1. All capital assets are recorded at the cost as of the date acquired

2. Tangible costing below the defined thresholds are recorded as an expense for Coon Creek Watershed district’s annual financial statements.
3. Assets with an economic useful life of less than 12 months are required to be expensed for financial statement purposes, regardless of the acquisition or production cost.

4. Invoices substantiating the acquisition cost of each unit shall be retained for a minimum of four years.

DEFINITIONS

**Capital Asset**: A unit of property that:

1. Has an economic useful life that extends beyond 12 months; **and**
2. Was acquired or produced at a cost of $5,000 or more

**Estimated Useful Life**: The estimated number of months or years that an asset will be used for the purpose for which it was purchased.

### Policy History

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