SAN BERNARDINO MUNICIPAL WATER DEPARTMENT

POLICIES & PROCEDURES MANUAL

POLICY 51.050 - FIXED ASSETS

Date: September 24, 2024

Revision No: 4

Supersedes: July 2022 First Adopted: May 16, 2000

POLICY:

It is the policy of this Department to properly utilize and account for the fixed assets acquired by this Department. Accountability begins when the fixed asset is acquired and continues until the asset is properly disposed of.

RESPONSIBILITY:

Division Directors shall be responsible for all fixed assets assigned to their divisions.

PROCEDURES:

Part I - Definition of a Fixed Asset

- 1. Property having a value of \$25,000 or more (not including tax and shipping) and a life expectancy of three years or more shall be accounted for as fixed assets. The capitalization threshold is generally applied to individual items. However, the amount capitalized can include the purchase price including applicable sales tax and shipping, as well as the cost of any ancillary work that must be done to prepare the asset to be placed in service. This could include special wiring, concrete slabs, air vents, etc. A purchase of a group of similar items that are individually less than \$25,000 may be capitalized at the discretion of the Director of Finance.
- 2. Meters and service connections are always capitalized and are not subject to the capitalization threshold. Meters and service connections during the fiscal year are recorded as a single asset by fund at the time of year-end closing
- 3. Natural component units, such as a monitor for a computer

that may not meet the dollar limitation alone will be accounted for with the principal unit. Another example is a telephone within a telephone system.

- 4. At least annually, the construction in progress will be reviewed and all assets that are substantially complete will be capitalized.
- 5. Subsequent changes to an existing asset:
 - a. Additions or Improvements An addition or improvement is a cost incurred in connection with an existing capital asset that meets the capitalization threshold and <u>at</u> least one of the following criteria:
 - i. Increases the service capacity of the asset(i.e., effectiveness or efficiency).
 - ii. Extends the estimated useful life of the asset beyond its original life expectancy.

Additions or Improvements should be treated as direct adjustments to the related capital asset.

- b. Replacement/Refurbishment A replacement is when an existing asset is substituted with a similar capital asset, or portion thereof, for another capital asset (may be new or not). A replacement always involves a replacement of facilities or component. A refurbishment may involve the replacement or partial replacement and/or modification of components that restores the working asset to good condition. а replacements/refurbishments to existing capital assets should be capitalized as long as the asset meets the criteria discussed in the preceding section, Additions or Improvements.
 - If the existing capital asset's book value is determinable, then the existing asset should be removed from the books at the time the replacement/refurbishment is recorded. If the existing asset is not separately identifiable, then the replacement/refurbishment should still be capitalized, and the existing asset's book value is estimated using the time value of money and should be appropriately removed from the books at the time of replacement/refurbishment.

c. Repairs and Maintenance - Expenditures for repairs and maintenance, including parts and labor, are not capitalized. Maintenance is defined as an expenditure incurred to ensure that a fixed asset continues to provide its predetermined service capacity, quality, and estimated useful life.

Maintenance includes regular routine maintenance and major periodic planned maintenance. Routine maintenance of a regular and on-going nature is treated as an expense. Major periodic maintenance may be material in monetary terms (meeting the capitalization threshold) but are cyclical in nature and are incurred under a periodic maintenance plan and are treated as an expense.

Repairs due to leaks are generally not capitalized and are charged to operating expense unless it becomes a replacement or refurbishment subject to the criteria discussed under Replacement/Refurbishment.

6. Contributed assets, such as water main extensions from developers, will be capitalized at the fair market value at the date of donation. The developer's cost for infrastructure would be an acceptable estimate of fair value.

Part II - Depreciation

- 1. All depreciable assets will be depreciated in accordance with generally accepted accounting principles.
- 2. Assets will be depreciated on the basis of half-year convention. Assets purchased during the year will be depreciated for six months regardless of when purchased and assets disposed of during the year will be depreciated for six months regardless of when disposed of.
- 3. Depreciation guidelines will be created by the Finance Director to guide in the assignment of fixed asset useful life estimates and assignment to an asset class. Exceptions, which occur due to extreme usage or that are subject to abnormal circumstances, will be dealt with on a case-by-case basis.
- 4. The Department will depreciate fixed assets using the "straight line" method of depreciation.

- 5. A depreciation schedule will be maintained by asset by location indicating the date acquired/contributed, asset class, life, capitalized value, accumulated depreciation at the start of the period, current year depreciation and accumulated depreciation at period end.
- 6. The depreciation schedule will be reconciled to the general ledger on a periodic basis but not less than at year-end.

Part III - Asset Identification

- 1. The Finance Division, with the assistance of each division Director, will be responsible for the tagging and identification of assets within their division. Asset tags will be assigned and accounted for in a numerical sequence.
- 2. The Department recognizes that tagging assets:
 - Provides accountability for the assets, ensuring the asset assigned to a division is controlled and accounted for by a specific division/person.
 - Assists in physical inventory control.
 - > Helps determine asset replacement cost and life.
 - > Assists in meeting requirements of accountability for federally purchased fix assets.
- 3. All assets meeting the fixed asset definition, if physically possible, will be tagged. Specific attention will be paid to assets that are subject to theft. Assets that are component units will be separately tagged due to the nature of the ability of the asset to be reassigned to another asset grouping or may be borrowed by another division.

Part IV - Purchasing Fixed Assets (Capital Equipment)

- 1. Capital equipment (exclusive of components of capital improvement projects) should be included in the approved budget.
- 2. Unbudgeted capital equipment will be considered for appropriate action by the Water Board for approval.
- 3. Fixed assets, when acquired, will include the location (specific building or vehicle that will contain the asset when applicable) and whether or not it is possible to tag the asset.
- 4. All purchased capital equipment shall follow the purchasing guidelines as outlined in the Department's purchasing policy.

Part V - Purchasing Fixed Assets (Capital Improvement Projects)

- 1. Capital improvement projects or components thereof, should be included in the approved budget.
- 2. Unbudgeted capital improvement projects or components will be considered for appropriate action by the Water Board.
- 3. Capital improvement projects are defined as assets purchased that may span more than one year, require more than one component, require installation, require specified electrical or construction, or that generally do not fit the capital equipment category, or that when considered as a fixed asset would be a project as opposed to purchase of a specific item.
- 4. All purchases associated with capital improvement projects shall follow the purchasing guidelines as outlined in the Department's purchasing policy.

5.

Part VI - Transferring Assets to Another Division/Location

- 1. All transfers of fixed assets will be recorded in an appropriate manner to enable the Department to account for the location of fixed assets.
- 2. Division Directors will be responsible for approving the transfer of fixed assets within and outside of their divisions.
- 3. An "Asset Transfer" sheet will be utilized to record the transfer of the fixed asset.
- 4. The "Asset Transfer" sheet will be prepared prior to the physical move of the asset and all data included in the form will be verified for accuracy.

Part VII - Disposing of Assets/Surplus Property

Surplus property, defined as items that are obsolete, worn out, no longer used, or are unsuitable for use, shall be disposed of in a manner which will best serve the interests of the Department. These interests include maximizing the Department's economic return and maximizing the re-use and recycling of surplus property.

- 1. Fixed assets and other items owned by the Department that are considered obsolete or no longer usable may be declared surplus.
- 2. The Division Directors will determine when assets are no

longer useful, need to be disposed of, or have been discarded or abandoned.

- 3. Surplus equipment will be identified, and a Surplus Property Transfer Form will be completed and submitted to the Finance Division. The Finance Division will evaluate the item(s) that are surplus and determine the most economical means of disposing of the equipment. Assets will be evaluated for useful value and in terms of needs of other governmental entities. The Water Board must approve a surplus assets' disposal, or the donation to another entity, when the net book value is in excess of \$1,000.
- 4. Surplus property may be offered for sale. All surplus property is for sale "as is" and "where is", with no warranty, guarantee, or representation of any kind, expressed or implied, as to the condition, utility or usability or the property offered for sale. Surplus property may not be sold to Department employees unless the general public is given the same opportunity; therefore, Department employees may only obtain surplus property through public sale. Appropriate methods of sale are as follows:
 - a. Public Auction Surplus property may be sold at public auction. Public Auctions may be conducted by Department staff, or the Department may contract with a professional auctioneer including professional auction services.
 - b. Sealed Bids Sealed bids may be solicited for the sale of surplus property. Surplus property disposed of in this manner shall be sold to the highest responsible bidder.
 - c. Selling for Scrap Surplus property may be sold as scrap if the Department Manager deems that the value of the raw material exceeds the value of the property as a whole.
- 5. Surplus items may be donated to another government agency, school and other district, volunteer fire departments, or nonprofit organizations in lieu of being than sold, upon approval from the General Manager (for items valued at \$10,000 or less) and/or the Water Board (for items valued at more than \$10,000). Under no circumstances will surplus property be donated to Department employees.
- 6. Surplus items that have no resale value must be disposed of in one of the following ways:
 - a. Donate usable items to a nonprofit agency within the City limits.
 - b. Donate items that non-profits can't sell, such as wooden

desks, to Goodwill.

- c. Dispose of items that are broken at the City's landfill.
- 7. Surplus property may be transferred between Department divisions. Divisions wishing to transfer surplus property to or from another division shall complete a memo to document the request and submit it to the Director of Finance for approval. All transfers of items require approval of the Division Director from each department affected by the transfer. If items are transferred to another division of the Department are then no longer considered surplus.
- 8. Sale of land, buildings or real estate requires the approval of the Water Board to begin and complete negotiations.
- 9. Proceeds from the sale or trade-in of surplus property shall be recorded in the Gain/Loss On Sale account in the related fund. Proceeds from the sale of scrap will be recorded in the Miscellaneous Revenue account. Proceeds from the sale of surplus property or scrap may not be used to offset departmental operating expenses.

Policy Review

Board approved:	5/16/2000
Revision Board approved:	3/22/2005
Minor changes (HR) GM approved:	7/2021
Revision Board approved:	8/23/2022
No changes (HR):	7/2023
Revision Board approved:	9/24/2024