

SAN BERNARDINO MUNICIPAL WATER DEPARTMENT

POLICIES & PROCEDURES MANUAL

POLICY 51.050 - FIXED ASSETS

Date: July 2021
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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 \$5,000 or more (not including tax and shipping) and a life expectancy of three years or more shall be accounted for as fixed assets. The amount capitalized shall be 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.
2. Designated property with lives greater than three years, such as meters, will also be accounted for as fixed assets. Although these items normally do not exceed the individual item value threshold, these items are bought in large quantities requiring significant expenditure of Department funds and/or by their very nature are so critical to Department operations that they too shall be designated as fixed assets.
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. For those assets that are self constructed, or are accounted for in construction in progress, interest costs during the construction process prior to capitalization shall be computed in accordance with generally accepted accounting principles and shall be capitalized as an integral part of the fixed asset being capitalized.
5. For those assets that are self-constructed, direct costs of the Department will be included in the cost of the asset and an overhead allocation for those indirect costs that are necessary to the construction of the asset will be computed and included in the capitalization of the asset. The Finance Director will review the indirect cost rate at least every two years to ensure that it continues to be adequate for the Department needs.
6. At least annually, the construction in progress will be reviewed and all assets that are substantially complete will be capitalized.
7. All fixed assets acquired through lease will be evaluated for capitalization based on the criteria set forth in generally accepted accounting principles.
8. For all significant repairs and maintenance, a determination will be made as to whether or not the repair or maintenance extended the remaining useful life of the asset. The cost of the repair and/or maintenance of the asset will be added to the cost of the asset and the remaining useful life of the asset will be extended based on the determination made above.
9. Contributed assets, such as water main extensions from developers, will be capitalized at the fair market value at the date of donation.

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 Finance Division 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.

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 Finance Division.
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.

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 Fixed Assets

1. The Division Directors will determine when assets are no longer useful, need to be disposed of, or have been discarded or abandoned.
2. 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.

3. When an asset is disposed of, an Equipment Disposition Form will be completed. This form will be reviewed and approved by the Division Director. If the asset has previously been declared surplus, the purchasing section will complete the form.
4. Equipment that is lost, stolen, destroyed, traded-in, or otherwise no longer considered an asset of the Department will be placed on an Equipment Disposition Form, approved by the Division Director, and the Finance Division will delete the record from the fixed asset inventory.
5. When an asset is traded-in, the asset net book value at trade-in will be considered in recording the acquisition of the new asset, in accordance with generally accepted accounting principles.
6. Assets that are no longer in use but will remain idle for some period of time, should be identified and segregated from fixed assets in operation and not depreciated during the time period they are idle.

Policy Review

Board Approved:

5/16/2000

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3/22/2005

Minor changes (HR) GM Approved:

7/2021