RESOLUTION NO. 22R-04

A STATEMENT OF THE BOARD OF DIRECTORS OF THE BIGHORN-DESERT VIEW WATER AGENCY ESTABLISHING A FIXED ASSET AND SURPLUS PROPERTY POLICY

The Board of Directors of the Bighorn-Desert View Water Agency desires to implement a policy establishing parameters for defining fixed assets and the disposal/transfer/sale of such.

WHEREAS, the Agency adopted a Fixed Asset and Surplus Property Policy on January 27, 2015.

WHEREAS, the Agency desires to revise the Fixed Asset ad Surplus Property Policy to remove the requirement to add all new Service Line and Meter Installations as Fixed Assets; and.

WHEREAS, the revised Fixed Asset and Surplus Property Policy which defines and describes a set of standard procedures and policies necessary to record and control the changes in the fixed asset system is presented herein; and

WHEREAS, the policy sets forth the procedures and policies in accordance with generally accepted accounting principles; and

WHEREAS, this Resolution No. 15R-01 is hereby rescinded in its entirety.

NOW, THEREFORE, BE IT RESOLVED, that the attached statement establishing A Fixed Asset and Surplus Property Policy is hereby adopted by the Bighorn-Desert View Water Agency.

PASSED, APPROVED, AND ADOPTED by the Board of Directors to Bighorn-Desert View Water Agency this 12th day of April 2022.

By ______________________
John Burkhart, President of the Board

ATTEST: ______________________
Megan Close-Dees, Secretary of the Board

BIGHORN-DESERT VIEW WATER AGENCY
CONSOLIDATED 1990
San Bernardino County
CALIFORNIA

Official Seal

AGENCY FIXED ASSET
AND
SURPLUS PROPERTY POLICY

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1.0 POLICY

The purpose and objective of this manual is to define and describe a set of standard procedures and policies necessary to record and control the changes in the fixed asset system in accordance with generally accepted accounting principles.

This policy is necessary to:

- Define what assets will be "fixed assets" and thus "capitalized"
- Ensure that the asset is adequately protected from loss, theft, etc.
- Provide necessary documentation for the effective use, maintenance, management and reporting of the asset
- Facilitate the calculation and recording of depreciation for each asset
- Provide necessary documentation for insurance purposes
- Provide for proper disposal of assets deemed surplus or obsolete

Fixed asset master files are maintained by the accounts payable personnel. It is the responsibility of Agency staff to ensure that proper budgeting and purchasing guidelines are followed and to ensure that fixed assets are adequately controlled and used for appropriate Agency purposes. The General Manager is ultimately responsible for adoption and implementation of policies and procedures in accordance with directives from the elected body. One goal of this policy is to establish continuity in the procedures for establishing, recording, maintaining and disposing of all fixed assets.

Because the Agency fixed asset inventory records are a mixture of paper records and computerized tools it is necessary to carefully manage the processes involved for maximum efficiency and effectiveness.

2.0 DEFINITIONS

2.1 Asset Identification:

The unique identification number assigned to each individual asset by the asset management software utilized by the Agency.

2.2 Asset Life:

The amount of time (reported in months) the Agency is expected to receive benefit from the asset. Asset life is generally determined by past practice. Whenever possible, an asset's established life will reflect management's best estimate of when that particular asset will be replaced. Therefore, similar assets may have different lives due to differing expectations with respect to the replacement time frame for that particular asset.

2.3 Depreciation:

Depreciation is, simply put, the charging of an asset's cost to the specific fiscal year's that are expected to benefit from that assets' use. It is the cost of the asset less any salvage value over its estimated useful life. It is an expense because it is matched against the revenue generated through the use of the same asset. Depreciation is usually spread over the economic useful life of an asset in an effort to assign the cost of an asset_to the operations that benefit from its use. As a result, depreciation expense is matched with the revenue that was generated by the use of the asset.

2.4 Depreciation Rate:

The depreciation rate is the amount that the asset is depreciated every period. The rate is determined by dividing the original cost (less estimated salvage value, if significant) by the asset life. Depreciation schedules are maintained and the calculations are retrieved from the asset management software used by the Agency. The General Manager will estimate the each asset's life based upon how long the Agency plans on using that particular asset.

2.5 Fixed Asset:

Generally, there are three types of fixed assets. They are:

I. Infrastructure Fixed Asset

As defined by the Government Accounting Standards Board (GASB) Standard No. 34, these are long-lived capital assets that normally are stationary in nature and normally can be preserved for a significantly greater number of years than most capital assets. As defined in this policy, new infrastructure assets, such as pipeline, or refurbishment of existing assets, such as reservoirs/tanks, with a cost greater than five thousand dollars ($5,000) and a useful life of at least three (3) years shall be capital assets.

Whenever federal funds are used for the acquisition of Infrastructure Fixed Assets, the capitalization threshold will be the then current federal minimum, currently five thousand dollars ($5,000).

In addition to having to meet the thresholds identified above, infrastructure projects will only be capitalized if they meet one of the following criteria:

i. The project is creating a new asset for the system; or

ii. The project significantly increases the functionality of the system or a component of the system; or

iii. The project significantly extends the useful life of an asset beyond what was originally established as the estimated useful life for that asset

Activities that exceed the capitalization thresholds but that are, in reality, maintenance or repair activities will not be capitalized. Accordingly, certain activities budgeted as capital projects will be expensed as repair and maintenance expenses if they meet any one of the following criteria:

i. The activity is performed on a regular recurring basis to keep Agency assets in their normal operating condition during their originally established useful life (eg. routine vehicle maintenance).

ii. A repair activity that restores an asset to its original condition without significantly extending the originally established useful life for that asset (eg. repair of pressure reducing valves).

II. General Fixed Assets

These are personal property assets that can generally be moved around and have a cost greater than five thousand dollars ($5,000) and a useful life of more than three (3) years (eg. vehicles).

III. Real Property

This includes land, structures, easements and any improvements to the land and the structures with a cost greater than five thousand dollars ($5,000) and a useful life of at least three (3) years. However, where federal funds are used for the acquisition of this type of asset the capitalization threshold will be the then current federal minimum, currently five thousand dollars ($5,000). Easements acquired with a lower cost value may be added to the total project cost in the Infrastructure Fixed Asset. Any property for which the Agency has "full title ownership" will be capitalized.

When assets are purchased in bulk, the acquired assets will be capitalized only if they individually exceed the capitalization threshold. For example, ten desks purchased through a single purchase order each costing $1,000 will not qualify for capitalization even though the total cost of $10,000 exceeds the capitalization threshold.

Contributed assets will be recorded at the estimated fair market value at the time of contribution.

2.6 Fixed Asset Categories:

The fixed asset categories of the Agency are defined as follows:

- Fuel: Above ground fuel tank existing at 622 S. Jemez Trail, Yucca Valley, CA
- Land: Vacant land parcels purchased for building sites, wells, reservoirs, parking lots or other Agency purposes.
- Office Buildings: Buildings or major improvements to existing buildings/facilities.
- Office Equipment: Copiers, office furniture, certain electronic equipment (e.g. mainframe computers), major building equipment (e.g. heaters, air conditioners), etc. inside office buildings.
- Shop: Tools and equipment assigned to operations staff and/or kept in the Agency "shop" (maintenance buildings).
- Vehicles: Motor vehicles (cars, trucks, dump truck, etc.), heavy equipment (e.g. backhoe, compressor, etc), generators, trailers.
- Water (System): Major infrastructure of the Agency including distribution mains and all appurtenances (fire hydrants, blowoffs, air vacs, etc.), reservoirs, wells, pump stations, pressure reducing stations, meter service lines, bulk stations, etc.
- Yards: Improvements outside of buildings such as asphalt, fencing, storage containers, etc.

2.7 Foreclosed/Forfeited Fixed Assets:

Items that come into the Agency's possession by a means other than purchase or an equal exchange of value; are to be retained; and otherwise meet fixed asset criteria – shall be treated in the same manner as a new asset being added to the system. Since there was no purchase or exchange basis, the General Manager will be responsible for assigning a fair market value that will become the basis for the asset. Any other known information regarding the asset will be recorded and maintained on the asset record.

2.8 Leased Asset:

Items purchased through a capital lease, which is actually an installment purchase in the form of a capital lease, shall be identified as an Agency asset at the onset of the lease and identified and treated in the same manner as any other asset owned by the Agency.

2.9 Construction-In-Progress (CIP):

Construction-In-Progress (CIP) in accounting identifies the value of construction and other "projects" which are currently being worked on by the Agency and which may become fixed assets upon their completion.

3.0 PROCEDURES

Assigned staff is to verify accurate use of capital expenditure accounts as defined by the Agency's Chart of Accounts, review expenditure accounts on capital purchase request (correct as necessary) and establish and maintain policies and procedures indentifying:

- Criteria for capitalizing costs associated with the construction or acquisition of assets
- Criteria for capitalizing alteration, renovation and renewal/replacement costs
- Methods for proper recording and classification of capital acquisitions
- Treatment of gifts/donations of property
- Categories of depreciable assets
- Useful life of depreciable assets
- Method(s) of depreciation

The determination of whether or not Agency property purchases are to be capitalized as fixed assets shall be the responsibility of the General Manager or his/her designated representative. Such determination will be made at the time that a purchase order or contract is approved and is based on the principles previously outlined in the Definitions portion of this policy.

In general, the following items are considered part of the cost when determining whether or not the purchase will require capitalization:

- Actual purchase cost (before trade-in allowances or discounts)
- If asset/project is constructed "in-house", actual costs incurred should be accounted for as well as reasonable estimate of labor and equipment involved in producing the asset
- Professional fees incurred in the acquisition (e.g. attorney, architects, engineers, consultants, etc.)
- Site preparation costs including cleaning, grading and demolition of existing structures

- Freight, shipping and installation charges as well as any additional costs which are incurred preparing the asset for its intended use

3.1 Asset Database:

At the time of payment for the fixed asset is complete, the invoice and related paperwork will be entered into the fixed asset excel spreadsheet to develop the total cost of the asset including overhead. Information retained for each asset will be: account number(s), purchase price, accessory items, description of the asset, check number(s), warranties, operation & maintenance manuals, vendor(s), date of purchase and asset identification number assigned by the asset management software utilized by the Agency.

3.2 Asset Inventory:

The volume of asset-related transactions is low but even the best controls cannot always capture every change. For that reason, prior to the end of each fiscal year staff will receive a listing of the fixed assets on record. The assigned employee will conduct an inventory of fixed assets, noting any additions, changes or deletions that need to be made.

For purposes of the annual asset inventory verification, the listing of infrastructure items that have become a part of the Agency's system will be reviewed by the General Manager to identify additions, replacements, and deletions to that system that have not been properly reflected in the listing.

That inventory form must be signed by the designated employee and returned to the General Manager no later than May 1st. It is recommended that a copy be retained in the inventory file. In the case of vehicles, the updated mileage should be recorded on the form next to each vehicle each year prior to the form's return to the General Manager.

3.3 Purchasing a General Fixed Asset:

When purchasing a General Fixed Asset, follow the procedures set forth in the Agency Purchasing Policy.

3.4 Declaration of Surplus General Fixed Assets:

Surplus General Fixed Assets can be sold, transferred, recycled, donated, or disposed of as junk. The term "Surplus Property" shall mean any General Fixed Asset that is no longer needed or useable by the holding department. Each department shall periodically review their equipment and inventory, and notify the General Manager of each fixed asset deemed surplus prior to scheduling its disposal via the methods outlined below. If another department is able to use an item that has been submitted as surplus, that asset will be transferred to that department, at value, and the item will no longer be considered surplus.

3.5 Disposal of a General Fixed Asset

The General Manager is responsible for the disposition of Agency surplus General Fixed Assets. Once the asset has been surplused, the General Manager shall determine which of the following methods of disposition to use; careful to avoid any conflict of interest. The priority for disposition shall be in the order listed below.

I. Trade In

Property declared as surplus may be offered as a trade-in for credit toward the acquisition of new property. All trade-in offers will be submitted for the review and approval of the General Manager. The amount charged against the expenditure account will be the value of the purchase before application of the trade-in credit.

II. Return to Manufacturer

Surplus property may, when possible, be returned to the manufacturer for buy-back or credit toward the purchase of new property. Forward all documentation to the General Manager.

III. Donation

The Agency may donate usable items with a minimal fair market value (such as outdated computer equipment and furniture) to a registered charitable organization or community organization, for use within the Agency's service area. A letter from the organization, acknowledging receipt of the asset(s), is required.

IV. Sale

The Agency may offer surplus property 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 of the property offered for sale. State law prohibits public employees from purchasing surplus personal property from their employer (Government Code Section 1090).

A receipt or other proof of disposal, from the outright sale, the contracted auctioneer, licensed scrap dealer, individual buyer, etc. is required and is to be forwarded to the General Manager.

Appropriate methods of sale are as follows:

i **Public Auction –** Surplus property may be sold at public auction. The Agency may contract with a professional auctioneer.

ii **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.

iii **Selling for Scrap –** Surplus property may be sold as scrap if it is deemed that the value of the raw material exceeds the value of the property as a whole.

iv **Negotiated Sale –** Surplus property may be sold outright if it is determined that only one known buyer is available or interested in acquiring the property. Advertisement of the sale must be published in a newspaper of local circulation at least two times prior to the negotiated sale to ensure no other interested buyers are available.

V. Disposal

When the cost of locating a buyer exceeds the estimated sale price of surplus property, the property may be recycled, destroyed or disposed of as junk.

VI. Proceeds

The buyer shall pay the Agency by certified check, money order, or cash. The General Manager shall be authorized to sign bills of sale and any other documents evidencing the transfer of title, by and on behalf of the Agency. Revenue from the sale or trade-in of surplus property shall be returned to the appropriate fund, as determined by the General Manager.

3.6 INFRASTRUCTURE FIXED ASSETS

I. Recording Infrastructure Fixed Assets

Infrastructure Fixed Asset accounting is much different than the purchase of a General Fixed Asset in that the building of infrastructure requires many sources in the designing and building of the asset. All costs associated with the purchase or construction of the infrastructure asset is to be considered when determining whether it meets the capitalization threshold. Associated costs include, but are not limited to, freight and transportation charges, site preparation expenditures, installation charges, professional fees, direct labor, legal costs and overhead directly attributable to the asset acquisition.

When purchasing items for Infrastructure Fixed Assets, follow the procedures set forth in the Purchasing Policy. Include on the purchase order/requisition as much detail as possible about the project including the project number. Project numbers will be assigned and included in the annual budget. All associated personnel costs will be recorded when entering an employee timesheet.

The requested asset should have already been included in the current year's budget and should be verified prior to purchase. While it is necessary to record certain costs prior to Board approval, such as staff time in preparing bid documents, surveying, legal fees, etc., such costs shall be limited to only those costs necessary to prepare for presentation to the full Board for approval to proceed with the project where the project cost will exceed the General Manager's spending authority as outlined in the purchasing policy.

If the Infrastructure Fixed Asset is not in the budget, you must contact Finance to determine the appropriate action that may be necessary to ensure adequate funding for the project.

II. Replacement of Infrastructure Fixed Assets

When infrastructure Fixed Assets are replaced, the original asset will be removed from the Fixed Asset system. If only a portion of the Infrastructure Fixed Asset is replaced, a prorated amount will be removed from the Fixed Asset system. Whenever possible, an estimate will be made as to the portion of the asset's original cost associated with the removed item. Only in cases, where this is particularly difficult will the following alternative procedure be used: Where a reasonable estimate cannot be made for a prorated portion of the total asset's original cost, the value to be removed from the Fixed Asset system will be calculated as follows:

New infrastructure cost X NPV factor at 2% or;

$PV = 1/(1+.02)^n$, where .02 is the discount rate and n equals the number of years since the original fixed asset being replaced was first installed.

Example: A water pipeline was installed and capitalized in 1970 at a total cost of $1 million, however the Fixed Asset System does not identify the number of lineal feet installed. In 2005, a portion of the pipeline is replaced at a total cost of $300,000.

To determine the amount to remove from the original asset, the calculation would be:

$\$300,000 \text{ X } 1/(1.02)^{35} = \$150,008$

The formula in Excel is $300,000*1/(1.02)^35

A discount rate of 2% is used since it closely approximates the long-term inflation rate of the cost of infrastructure assets. If an asset is less than 20 years old, this rate may need to be modified based on historical inflation rates for the greater Los Angeles/Riverside/San Bernardino area then comparing that rate to known factors, such as the known actual cost of an asset both currently and historically.

3.7 REAL PROPERTY

I. Recording Infrastructure Fixed Assets

Real property will be recorded at historical cost and tracked through the project management system in a manner consistent with the recording of Infrastructure Fixed Assets (see 3.6 above). All deed and easement paperwork will be filed with the asset information in a secure/fireproof location.

II. Disposal of Real Property

This policy does not address the disposition of real property. The sale of any real property will be handled in accordance with Government Code Section 54220 *et seq.*